**PRELIMINARY OFFICIAL STATEMENT**
**Dated April 24, 2018**



**Ratings:**
**Fitch: "AA+"**
**S&P: "AA+"**
**PSF Guaranteed**
**See ("OTHER INFORMATION - Ratings" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein)**

**NEW ISSUE - Book-Entry-Only**

In the opinion of Bond Counsel, under existing law the interest on the Bonds is excludable from gross income for federal income tax purposes and the Bonds are not "private activity bonds". See "TAX MATTERS - Tax Exemption" herein for a discussion of the opinion of Bond Counsel.

# $141,860,000*
# FORT BEND INDEPENDENT SCHOOL DISTRICT
## (A Political Subdivision of the State of Texas, located within Fort Bend County, Texas)
# UNLIMITED TAX REFUNDING BONDS, SERIES 2018

**Dated: May 1, 2018** | **Due: August 15, as shown on the next page**
**Interest to Accrue from Date of Delivery**

**PAYMENT TERMS** . . . The Fort Bend Independent School District (the "District" or the "Issuer") is issuing its $141,860,000* Fort Bend Independent School District Unlimited Tax Refunding Bonds, Series 2018 (the "Bonds"). Interest on the Bonds will accrue from their date of initial delivery to the underwriters listed below (the "Underwriters"), will be payable on August 15 and February 15 of each year commencing August 15, 2018, until stated maturity or prior redemption. Interest accruing on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in principal denominations of $5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the owners thereof.** Debt service on the Bonds will be payable by the Paying Agent/Registrar (as defined below) to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS - Book-Entry-Only System" herein). The initial Paying Agent/Registrar is Wilmington Trust, National Association, Dallas, Texas (see "THE BONDS - Paying Agent/Registrar").

**AUTHORITY FOR ISSUANCE** . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including Chapter 45, Texas Education Code, as amended, Chapters 1207 and 1371, Texas Government Code, as amended, and the order (the "Bond Order") approved by the Board of Trustees (the "Board") of the District on January 22, 2018 authorizing the issuance of the Bonds. In the Bond Order, the Board has delegated to certain officers of the District the authority to complete the sale of the Bonds through the execution of a pricing certificate (the "Pricing Certificate" and, together with the Bond Order, the "Order"). The Bonds constitute direct obligations of the District, payable from a continuing direct ad valorem tax levied, without legal limit as to rate or amount, on all taxable property located within the District, as provided in the Order (see "THE BONDS - Authority for Issuance"). **The District has received conditional approval from, the Texas Education Agency for the payment of the principal of, and interest on the Bonds to be guaranteed by the Permanent School Fund Guarantee Program of the State of Texas (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").**

**PURPOSE** . . . Proceeds from the sale of the Bonds will be utilized to (i) refund certain maturities of the District's currently outstanding indebtedness as disclosed in Schedule I hereto (the "Refunded Bonds") in order to achieve debt service savings, (ii) refund the obligations designated on Schedule II hereto (the "Refunded Notes" and, together with the Refunded Bonds, the "Refunded Obligations"), in order to provide permanent financing for projects initially funded through the District's Commercial Paper Program (defined herein), and (iii) pay the costs of issuance of the Bonds (see "PLAN OF FINANCING - Purpose").

**CUSIP PREFIX: 346843**
**MATURITY SCHEDULE, INTEREST RATES, PRICES**
**OR YIELDS & 9 DIGIT CUSIP NUMBERS**
**See Schedule on Page 2**

**LEGALITY** . . . The Bonds are offered for delivery when, as and if issued and received by the Underwriters and subject to the approving opinion of the Attorney General of Texas and the opinion of Bracewell LLP, Houston, Texas, Bond Counsel (see APPENDIX C - "FORM OF BOND COUNSEL'S OPINION"). Certain legal matters will be passed upon for the Underwriters by Orrick, Herrington & Sutcliffe LLP, Houston, Texas, as Underwriters' Counsel.

**DELIVERY** . . . It is expected that the Bonds will be available for delivery through the DTC on Wednesday, May 30, 2018.

**PIPER JAFFRAY & CO.**

**BOK FINANCIAL SECURITIES, INC.** | **FTN FINANCIAL CAPITAL MARKETS**

**RAYMOND JAMES**

* Preliminary, subject to change.

**MATURITY SCHEDULE***

**FORT BEND INDEPENDENT SCHOOL DISTRICT**
**UNLIMITED TAX REFUNDING BONDS,**
**SERIES 2018**
**CUSIP No. Prefix: 346843[(1)]**

| Principal Amount | Maturity (August 15) | Interest Rate | Initial Yield [(2)] | CUSIP Suffix[(1)] | Principal Amount | Maturity (August 15) | Interest Rate | Initial Yield [(2)] | CUSIP Suffix[(1)] |
|---|---|---|---|---|---|---|---|---|---|
| $ 1,200,000 | 2019 | | | | $ 9,010,000 | 2032 | | | |
| 1,260,000 | 2020 | | | | 9,370,000 | 2033 | | | |
| 1,325,000 | 2021 | | | | 9,745,000 | 2034 | | | |
| 1,390,000 | 2022 | | | | 2,545,000 | 2035 | | | |
| 1,460,000 | 2023 | | | | 2,645,000 | 2036 | | | |
| 1,530,000 | 2024 | | | | 2,755,000 | 2037 | | | |
| 1,610,000 | 2025 | | | | 2,865,000 | 2038 | | | |
| 1,690,000 | 2026 | | | | 2,980,000 | 2039 | | | |
| 1,775,000 | 2027 | | | | 3,095,000 | 2040 | | | |
| 19,620,000 | 2028 | | | | 3,220,000 | 2041 | | | |
| 22,145,000 | 2029 | | | | 3,350,000 | 2042 | | | |
| 23,210,000 | 2030 | | | | 3,485,000 | 2043 | | | |
| 8,580,000 | 2031 | | | | | | | | |

**(Interest accrues from the date of initial delivery)**

**REDEMPTION** . . . The District reserves the right, at its option, to redeem the Bonds having stated maturities on and after August 15, ____, in whole at any time or from time to time in part in principal amounts of $5,000 or any integral multiple thereof, on August 15, ____, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. See "THE BONDS – Optional Redemption."

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* Preliminary, subject to change.

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of The American Bankers Association and are included solely for convenience of the registered owners of the Bonds. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the District, the Financial Advisor, nor the Underwriters is responsible for the selection or correctness of the CUSIP Numbers set forth herein.

(2) The initial yields will be established by and are the sole responsibility of the Underwriters, and may subsequently be changed.

*[The remainder of this page intentionally left blank.]*

## USE OF INFORMATION

*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 a Preliminary 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.*

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

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

*Certain information set forth herein has been provided by sources other than the District that the District believes are reliable, but the District makes no representation as to the accuracy of such information. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the District's undertaking to provide certain information on a continuing basis.*

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

*In connection with this offering, the Underwriters may over-allot or effect transactions which stabilize the market price of the 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 NOR THE UNDERWRITERS MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS PRELIMINARY OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM OR THE AFFAIRS OF THE TEXAS EDUCATION AGENCY DESCRIBED UNDER "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM."*

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

*The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in the 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 Underwriters do not guarantee the accuracy or completeness of such information.*

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

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, the Rule.

## TABLE OF CONTENTS



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

## OFFICIAL STATEMENT SUMMARY

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

**THE DISTRICT**............................. The Fort Bend Independent School District (the "District") is a political subdivision located in Fort Bend County, Texas. The District is approximately 169.62 square miles in area (see "INTRODUCTION - Description of the District").

**THE BONDS**................................. The District is issuing its $141,860,000* Fort Bend Independent School District Unlimited Tax Refunding Bonds, Series 2018 (the "Bonds"). The Bonds mature on August 15 in each of the years identified in the table appearing on page 2 hereof, unless the Underwriters designate two or more consecutive maturities as term bonds (see "THE BONDS - Description of the Bonds").

**PAYMENT OF INTEREST** ............... Interest on the Bonds accrues from their date of initial delivery to the Underwriters, and is payable initially on August 15, 2018 and on each February 15 and August 15 thereafter until stated maturity or prior redemption (see "THE BONDS - Description of the Bonds" and "THE BONDS – Optional Redemption").

**AUTHORITY FOR ISSUANCE**......... The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including Chapter 45, Texas Education Code, as amended, Chapters 1207 and 1371, Texas Government Code, as amended, and an order (the "Bond Order") passed by the Board of Trustees of the District (the "Board") on January 22, 2018, authorizing the Bonds (see "THE BONDS - Authority for Issuance"). In the Bond Order, the Board has delegated to certain officers of the District the authority to complete the sale of the Bonds through the execution of a pricing certificate (the "Pricing Certificate" and, together with the Bond Order, the "Order").

**SECURITY FOR THE BONDS** .......... The Bonds constitute direct obligations of the District, payable from a continuing direct annual ad valorem tax levied, without legal limit as to rate or amount, on all taxable property within the District.

**PERMANENT SCHOOL FUND GUARANTEE**................................. The District has received conditional approval from the Texas Education Agency (the "TEA") for the payment of the principal of, and interest on, the Bonds to be guaranteed by the corpus of the Permanent School Fund of the State of Texas (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

**REDEMPTION** .............................. The District reserves the right, at its option, to redeem the Bonds having stated maturities on and after August 15, ____, in whole at any time or from time to time in part in principal amounts of $5,000 or any integral multiple thereof, on August 15, ____, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. See "THE BONDS – Optional Redemption." If the Underwriters designate two or more consecutive maturities of the Bonds as "Term Bonds," those Term Bonds will also be subject to mandatory sinking fund redemption (see "THE BONDS – Mandatory Sinking Fund Redemption").

**TAX EXEMPTION**........................... In the opinion of Bond Counsel, under existing law, the interest on the Bonds is excludable from gross income for federal income tax purposes and the Bonds are not "private activity bonds". See "TAX MATTERS - Tax Exemption" for a discussion of the opinion of Bond Counsel.

**USE OF PROCEEDS** ....................... Proceeds from the sale of the Bonds will be utilized to (i) refund certain maturities of the District's currently outstanding indebtedness as disclosed in Schedule I hereto (the "Refunded Bonds") in order to achieve debt service savings, (ii) refund the obligations designated on Schedule II hereto (the "Refunded Notes" and, together with the Refunded Bonds, the "Refunded Obligations"), in order to provide permanent financing for projects initially funded through the District's Commercial Paper Program (defined herein), and (iii) pay the costs of issuance of the Bonds (see "PLAN OF FINANCING – Purpose").

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* Preliminary, subject to change.

**RATINGS** ..................................... The Bonds and the presently outstanding unenhanced tax-supported debt of the District are rated "AA+" by Fitch Ratings ("Fitch") and "AA+" by S&P Global Ratings, a division of Standard & Poor's Financial Services LLC ("S&P"). The District also has thirteen issues outstanding which are rated "AAA" by Fitch and "AAA" by S&P by virtue of the guarantee of the Permanent School Fund of the State of Texas. The District has two issues that are not subject to the Permanent School Fund Guarantee and one issue that is not rated (see "OTHER INFORMATION - Ratings"). The District has received conditional approval from the TEA for the payment of the principal of, and interest on, the Bonds to be guaranteed by the corpus of the Permanent School Fund of the State of Texas.

**BOOK-ENTRY-ONLY SYSTEM**...... The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in principal denominations of $5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS - Book-Entry-Only System").

**PAYMENT RECORD** ..................... The District has never defaulted in payment of its tax supported debt.

**SELECTED FINANCIAL INFORMATION**

| Fiscal Year Ended 6/30 | Estimated District Population(1) | Taxable Assessed Valuation(2) | Per Capita Taxable Assessed Valuation | Tax Supported Debt Outstanding at End of Year(3) | Per Capita Tax Supported Debt | Ratio of Tax Supported Debt to Taxable Assessed Valuation | % of Total Tax Collections |
|---|---|---|---|---|---|---|---|
| 2014 | 343,620 | $ 26,075,772,753 | $ 75,885 | $ 858,781,189 | $ 2,499 | 3.29% | 99.95% |
| 2015 | 349,684 | 28,767,499,392 | 82,267 | 932,953,660 | 2,668 | 3.24% | 99.86% |
| 2016 | 356,306 | 31,907,114,041 | 89,550 | 860,700,329 | 2,416 | 2.70% | 100.12% |
| 2017 | 360,397 | 35,492,088,415 | 98,481 | 887,331,941 | 2,462 | 2.50% | 100.19% |
| 2018 | 364,601 | 37,616,839,503 | 103,173 | 972,693,552 (4) | 2,668 (4) | 2.59% (4) | 102.50% (5) |

(1) Source: The Municipal Advisory Council of Texas.

(2) Source: District Comprehensive Annual Financial Reports for fiscal years ending June 30, 2014 through 2017 and Fort Bend Central Appraisal District's Certified and Supplemental Totals for fiscal year ending June 30, 2018. Values are subject to change as contested values are resolved.

(3) Excludes the District's Commercial Paper Notes. The Commercial Paper Notes may be issued from time to time up to an aggregate principal amount of $100,000,000 outstanding at any time.

(4) Includes the Bonds and excludes the Refunded Bonds. Upon the issuance of the Bonds and refunding of the Refunded Notes with proceeds thereof, the capacity to issue Commercial Paper Notes under the Commercial Paper Program will be fully restored to $100,000,000. Preliminary, subject to change.

(5) Collections through February 28, 2018.

*[The remainder of this page intentionally left blank.]*

### CHANGES IN NET ASSETS CONSOLIDATED STATEMENT SUMMARY

| | Fiscal Year Ended June 30, | | | | |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| Beginning Net Assets | $ 236,796,017 | $ 244,804,499 | $ 310,534,529 | $ 271,504,878 | $ 260,960,161 (1) |
| Total Revenue | 773,689,074 | 776,445,429 | 694,934,794 | 668,059,706 | 615,223,212 |
| Total Expenditures | (804,063,881) | (784,453,911) | (690,628,935) | (629,030,055) | (604,678,495) |
| Prior Period Adjustment | - | - | (70,035,889) | - | - |
| Ending Net Assets | $ 206,421,210 (2) | $ 236,796,017 | $ 244,804,499 (3) | $ 310,534,529 | $ 271,504,878 |

*Source: The District's Annual Financial Reports.*

(1) Restated. As a result of implementing GASB Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and No. 65, *Items Previously Reported as Assets and Liabilities*, the District has restated the beginning net position in the government-wide Statement of Activities, effectively decreasing the net position as of July 1, 2012 by $6,402,008 from $267,362,169 to $260,960,161. The decrease results from no longer deferring and amortizing bond issuance costs.

(2) The District's Net Assets decreased from $236.8 million to $206.4 million from June 30, 2016 to June 30, 2017 mainly due to net investments in capital assets decreasing by $21.1 million and unrestricted assets decreasing by $14.3 million. The decrease in net investment in capital assets is attributable to implementation of the 2014 Bond projects which were financed by bonded debt. Unrestricted assets decreased primarily due to the District's portion of deferred inflow relating to pension activities increasing by $14.1 million.

(3) The District has implemented the Governmental Accounting Standards Board Statement No. 68 *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27* for the year ending June 30, 2015. As a result the beginning net position of the District's governmental activities has been restated on the Statement of Activities to reflect the net pension liability and deferred outflows of resources relating to pension contributions made after the prior measurement date of the plan.

### GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

| | For Fiscal Year Ended June 30, | | | | |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| Beginning Balance | $ 182,463,050 | $ 170,234,694 | $ 170,431,092 | $ 170,457,889 | $ 154,049,535 |
| Total Revenue | 596,913,710 | 594,530,693 | 557,846,130 | 536,078,047 | 486,864,078 |
| Total Expenditures | (595,008,292) | (576,388,106) | (559,652,088) | (507,016,533) | (470,560,046) |
| Net Funds Available | 1,905,418 | 18,142,587 | (1,805,958) | 29,061,514 | 16,304,032 |
| Other Resources | 886,558 | (5,914,231) | 1,609,560 | (29,088,311) | 104,322 |
| Special Item | - | - | - | - | - |
| Ending Balance | $ 185,255,026 | $ 182,463,050 | $ 170,234,694 | $ 170,431,092 | $ 170,457,889 |

*Source: The District's Annual Financial Reports.*

For additional information regarding the District, please contact:

Steven J. Bassett, CPA
Chief Financial Officer
Fort Bend Independent School District
16431 Lexington Boulevard
Sugar Land, Texas 77479
(281) 634-1163
(281) 327-1052 Fax
steven.bassett@fortbendisd.com

or

Raul Villaseñor
Managing Director
Hilltop Securities Inc.
70 Northeast Loop 410, Suite 710
San Antonio, Texas 78216
(210) 308-2200
(210) 349-7585 Fax
raul.villaseñor@hilltopsecurities.com

## DISTRICT OFFICIALS, STAFF AND CONSULTANTS

### THE BOARD OF TRUSTEES

| Board of Trustees | Length of Service | Term Expires | Occupation |
|---|---|---|---|
| Kristin K. Tassin<br>President, Position 4 | 3 Years,<br>9 Months | May 2020 | Attorney |
| Jason Burdine<br>Vice President, Position 1 | 3 Years,<br>9 Months | May 2020 | Independent Contractor |
| Addie Heyliger<br>Secretary, Position 6 | 2 Years,<br>9 Months | May 2021 | Project Manager |
| KP George,<br>Trustee, Position 5 | 3 Years,<br>9 Months | May 2020 | Self-Employed Financial Planner |
| Grayle James<br>Trustee, Position 2 | 5 Years,<br>9 Months | May 2021 | Engineer |
| Jim Rice<br>Trustee, Position 3 | 7 Years,<br>9 Months | May 2019 | Engineer |
| Dave Rosenthal<br>Trustee, Position 7 | 5 Years,<br>9 Months | May 2019 | Geophysicist |

### APPOINTED OFFICIALS

| ADMINISTRATIVE OFFICERS | POSITION |
|---|---|

**Superintendent**

Charles E. Dupre, Ed.D. ............ Superintendent of Schools

**Executive Leadership Team**

Steven J. Bassett, CPA ............ Chief Financial Officer
Beth Martinez ............ Chief of Staff and Strategic Planning
Oscar Perez ............ Chief Operations Officer
Long Pham ............ Chief Information Officer
Joe Rodriguez, Ed.D. ............ Chief of Schools
Diana Sayavedra ............ Chief Academic Officer
Veronica Sopher ............ Chief Communications Officer
Kermit Spears ............ Chief Human Resource Officer

### CONSULTANTS AND ADVISORS

Independent Auditors ............ Whitley Penn LLP
Certified Public Accountants
Houston, Texas

Bond Counsel ............ Bracewell LLP
Houston, Texas

Financial Advisor ............ Hilltop Securities Inc.
San Antonio, Texas

**PRELIMINARY OFFICIAL STATEMENT**

**RELATING TO**

**$141,860,000***
**FORT BEND INDEPENDENT SCHOOL DISTRICT**
**(A Political Subdivision of the State of Texas, located within Fort Bend County, Texas)**
**UNLIMITED TAX REFUNDING BONDS, SERIES 2018**

## INTRODUCTION

This Official Statement, which includes the schedule and Appendices A and B hereto, provides certain information regarding the issuance of the $141,860,000* Fort Bend Independent School District Unlimited Tax Refunding Bonds, Series 2018 (the "Bonds"). Except as otherwise indicated herein, capitalized terms used in this Official Statement have the same meanings assigned to such terms in an order, approved by the Board of Trustees of the District on January 22, 2018 (the "Bond Order"), authorizing the issuance of the Bonds, and a pricing certificate (the "Pricing Certificate") executed pursuant to the Bond Order. The Bond Order and the Pricing Certificate are referred to herein collectively as the "Order."

There follows in this Official Statement descriptions of the Bonds and certain information regarding the Fort Bend Independent School District (the "District") and its finances and the Texas Permanent School Fund and Guarantee Program. 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 from the District's Financial Advisor, Hilltop Securities Inc. ("HilltopSecurities"), San Antonio, Texas, upon payment of reasonable copying, handling and delivery charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the Final Official Statement pertaining to the Bonds will be filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) system. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the District's undertaking to provide certain information on a continuing basis.

**DESCRIPTION OF THE DISTRICT** . . . The District is a political subdivision of the State of Texas (the "State") located in Fort Bend County, Texas. The District is governed by a seven-member Board of Trustees (the "Board") who serve staggered three-year terms with elections being held in May of each year. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of the District who is the chief administrative officer of the District. Support services are supplied by consultants and advisors. The District covers approximately 169.62 square miles in Fort Bend County.

**EFFECTS OF HURRICANE HARVEY** . . . On August 25, 2017, Hurricane Harvey, characterized as a Category 4 hurricane at its peak, made landfall on the Texas coast before stalling over the Houston-Galveston region (the "Region") and producing significant flooding. Many residences and commercial and industrial properties in the Region sustained damage, some of which was severe.

As a result of Hurricane Harvey and the related flooding, Juan Seguin Elementary School experienced extensive flood damage. The school will remain closed for remainder of the 2017-2018 school year to undergo reconstruction. Students from Juan Seguin Elementary School were directed to other District campuses in the area that have available capacity.

The District is currently utilizing the District's general fund balance to cover Hurricane Harvey related expenses, and will seek reimbursement from the Federal Emergency Management Agency (FEMA) for eligible disaster-related expenses. As of February 28, 2018, the District estimates that it has incurred total losses of approximately $14.1 million. The District has filed insurance claims to cover eligible losses at sites that sustained damage and estimates insurance proceeds of approximately $11.5 million. The District anticipates seeking reimbursement for the remaining losses of approximately $2.6 million that it will receive from FEMA. As of February 28, 2018, the District has received insurance proceeds of $5.1 million and has spent $6.0 million related to damages. Additionally, the State of Texas has a program under section 41.0931 of the Texas Education Code and section 61.1014 of the Texas Administrative Code that enables coverage of losses from Harvey that the school district does not anticipate recovering through insurance proceeds, federal disaster relief payments, or another similar source of reimbursement. During the two-year period following the date of the Governor's initial proclamation or executive order declaring a state of disaster, an eligible district may submit an application for disaster aid assistance in remediation of costs paid by the district. The District intends to pursue reimbursement under this provision to the extent it has unreimbursed losses.

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* Preliminary, subject to change.

Section 23.02 of the Texas Tax Code authorizes the governing body of a taxing unit located partly or entirely inside a region declared to be a disaster area by the Governor to request reappraisal of all property damaged in the disaster at its market value immediately after the disaster. At the November 13, 2017 Board meeting, the Board approved a resolution requesting the reappraisal of homes and businesses located within the District damaged during Hurricane Harvey. The Fort Bend County Chief Appraiser has informed the District that as of February 15, 2018, over 2,980 homes were damaged with an estimated total value loss of approximately $97.1 million within the District. The District estimates that its tax collections will be reduced by approximately $1.3 million for tax year 2017. The Texas Education Agency has indicated that they are exploring options for reducing the financial impact on districts that experience drops in appraised value based on damage from Hurricane Harvey, but a formal plan for doing so neither has been adopted nor is there any guarantee that one will be adopted. The District does not expect the impact from Hurricane Harvey to have a material adverse effect on its ability to pay debt service on the Bonds.

## PLAN OF FINANCING

**PURPOSE** . . . Proceeds from the sale of the Bonds will be utilized to (i) refund certain maturities of the District's currently outstanding indebtedness as disclosed in Schedule I hereto (the "Refunded Bonds") in order to achieve debt service savings, (ii) refund the obligations designated on Schedule II hereto (the "Refunded Notes" and, together with the Refunded Bonds, the "Refunded Obligations"), in order to provide permanent financing for projects initially funded through the District's Commercial Paper Program (defined herein), and (iii) pay the costs of issuance of the Bonds.

**REFUNDED OBLIGATIONS** . . . The Refunded Obligations, and interest due thereon, are to be paid on their scheduled redemption dates or maturity dates from funds to be deposited with Amegy Bank, a division of ZB, National Association, Houston, Texas (the "Escrow Agent") pursuant to an escrow agreement (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 to accomplish the discharge and final payment of the Refunded Obligations. Such funds will be held by the Escrow Agent in two separate escrow accounts, one for the Refunded Bonds (the "Refunded Bonds Escrow Fund"), and one for the Refunded Notes (the "Refunded Notes Escrow Fund," and, together with the Refunded Bonds Escrow Fund, the "Escrow Funds"), containing sufficient funds to accomplish the discharge and final payment of the Refunded Bonds and the Refunded Notes, respectively. The funds held by the Escrow Agent in the Refunded Bonds Escrow Fund will be used to purchase a portfolio of securities authorized under Section 1207.062, Texas Government Code, including direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by the United States. The funds held by the Escrow Agent in the Refunded Notes Escrow Fund may be held uninvested in cash or invested by the Escrow Agent in certain direct/non-callable obligations of the United States of America (including obligations unconditionally guaranteed by the United States of America). Under the Escrow Agreement, the Refunded Bonds Escrow Fund is irrevocably pledged to the payment of principal of and interest of the Refunded Bonds, and the Refunded Notes Escrow Fund is irrevocably pledged to the payment of principal of and interest of the Refunded Notes.

Grant Thornton LLP, Certified Public Accountants, (the "Verification Agent") will verify at the time of delivery of the Bonds to the Underwriters that the Escrowed Securities deposited under the Escrow Agreement will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Funds established under each Escrow Agreement, will be sufficient to pay, when due, the principal of and interest on the Refunded Obligations addressed by such Escrow Agreement on their respective scheduled redemption dates and maturity dates. Such maturing principal of and interest on the Escrowed Securities will not be available to pay the debt service on the Bonds. See "VERIFICATION OF ARITHMETICAL COMPUTATIONS."

By the deposit of the Escrowed Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of the Refunded Obligations pursuant to the terms of Chapter 1207, Texas Government Code, as amended, and the orders authorizing the issuance of the Refunded Obligations. As a result of such defeasance, the Refunded Obligations will be outstanding only for the purpose of receiving payments from the Escrowed Securities and/or cash held for such purpose by the Escrow Agent, and the Refunded Obligations will not be deemed as being outstanding obligations of the District. Upon defeasance of the Refunded Bonds, the payment of such Refunded Bonds will no longer be guaranteed by the Permanent School Fund.

It is the opinion of Bond Counsel that as a result of such deposit and in reliance upon the report of Verification Agent, firm banking arrangements will have been made for the discharge and final payment of the Refunded Obligations, and such Refunded Obligations will be deemed to be fully paid and no longer outstanding except for the purpose of being paid from funds provided therefor, in the Escrow Agreement.

*[The remainder of this page intentionally left blank.]*

## THE BONDS

**DESCRIPTION OF THE BONDS** . . . The Bonds are dated May 1, 2018, and mature on August 15 in each of the years and in the principal amounts shown on page 2 hereof. Interest will be computed on the basis of a 360-day year of twelve 30-day months, will accrue from the date of delivery to the Underwriters and will be payable on August 15 and February 15 of each year, commencing August 15, 2018 until stated maturity or prior redemption. The Bonds will be issued only in fully registered form in any integral multiple of $5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York, ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein.

**AUTHORITY FOR ISSUANCE** . . . The Bonds are issued pursuant to the Constitution and the laws of the State, including Chapter 45, Texas Education Code, as amended, Chapters 1207 and 1371, Texas Government Code, as amended, and the Order.

**SECURITY AND SOURCE OF PAYMENT** . . . The Bonds are direct obligations of the District and are payable as to principal amount and interest from an annual ad valorem tax levied, without legal limit as to rate or amount, on all taxable property within the District, as provided in the Order. Additionally, the District has received conditional approval for the payment of the principal of, and interest on, the Bonds to be guaranteed by the corpus of the Permanent School Fund of Texas. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM", "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" herein). In the event the District defeases any of the Bonds, the payment of such Bonds will cease to be guaranteed by the Permanent School Fund of the State of Texas.

**OPTIONAL REDEMPTION** . . . The District reserves the right, at its option, to redeem the Bonds having stated maturities on and after August 15, ____, in whole or from time to time in part in principal amounts of $5,000 or any integral multiple thereof, on August 15, ____, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the District may select the maturities (or mandatory sinking fund redemption payments in the case of Term Bonds (hereinafter defined)) of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot or any other customary random selection method the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed), shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

**MANDATORY SINKING FUND REDEMPTION** . . . If the Underwriters designate two or more consecutive maturities of the Bonds as "Term Bonds", those Term Bonds will be subject to mandatory sinking fund redemption prior to their scheduled maturity commencing on August 15 of the first year which has been combined to form such term bond and continuing on August 15 in each year thereafter until the stated maturity date of that term bond. The Paying Agent/Registrar will select by lot or by any other customary method that results in a random selection the specific term bonds (or with respect to term bonds having a denomination in excess of $5,000, each $5,000 portion thereof) to be redeemed by mandatory redemption. The principal amount of term bonds required to be redeemed on any redemption date shall be reduced, at the option of the District, by the principal amount of any term bonds which, at least forty-five (45) days prior to the mandatory sinking fund redemption date (i) shall have been acquired by the District at a price not exceeding the principal amount of such term bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, or (ii) shall have been redeemed pursuant to the optional redemption provisions of the Order and not previously credited to a mandatory sinking fund redemption.

**NOTICE OF REDEMPTION** . . . Not less than thirty (30) days prior to a redemption date for the Bonds, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds ("Owner(s))" to be redeemed at the address of the Owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. The notice shall state the redemption date, the redemption price, the place at which the Bonds are to be surrendered for payment, and, if less than all the Bonds outstanding are to be redeemed, an identification of the Bonds or portions thereof to be redeemed.

In the Order, the District reserves the right, in the case of an optional redemption, to give notice of its election or direction to redeem Bonds conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date, or (ii) that the District retains the right to rescind such notice at any time on or prior to the scheduled redemption date if the District delivers a certificate of the District to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any Bonds subject to conditional redemption where redemption has been rescinded shall remain outstanding.

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

**DEFEASANCE** . . . The District reserves the right to defease, refund or discharge the Bonds in any manner now or hereafter permitted by law. District officials are authorized to limit the manner of permitted defeasance of the Bonds in connection with the pricing of the Bonds. Upon defeasance of the Bonds, the Bonds will no longer be guaranteed by the Permanent School Fund of the State of Texas.

**PERMANENT SCHOOL FUND GUARANTEE** . . . In connection with the sale of the Bonds, the District has received from the TEA conditional approval for guarantee of the Bonds under the Guarantee Program for School District Bonds (Chapter 45, Subchapter C, of the Texas Education Code). Subject to meeting certain conditions discussed under the heading "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein, the principal of, and interest on, the Bonds will be guaranteed by the corpus of the Permanent School Fund of the State of Texas in accordance with the terms of the Guarantee Program for School District Bonds. In the event of default, registered owners will receive all payments due from the corpus of the Permanent School Fund.

**BOOK-ENTRY-ONLY SYSTEM** . . . *This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, 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 Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.*

*The District cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the 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 or maturity amount, as applicable, 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 companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a S&P Global Ratings' rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices for the Bonds shall be sent to DTC. If less than all of the Bonds of 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).

Principal and interest and redemption 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 of the Bonds, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar of each series, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or Paying Agent/Registrar of each series, 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, Bonds are required to be printed and delivered.

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

*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.

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the District, the Financial Advisor, or the Underwriters.

*Effect of Termination of Book-Entry-Only System* . . . In the event that the Book-Entry-Only System of the Bonds is discontinued, printed Bonds will be issued to the DTC Participants or the holder, as the case may be, and such Bonds will be subject to transfer, exchange and registration provisions as set forth in the Order and summarized under "THE BONDS - Transfer, Exchange and Registration" below.

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

**TRANSFER, EXCHANGE AND REGISTRATION** . . . In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange will 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, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New 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 mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, 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 any integral multiple of $5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "THE BONDS - Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. Neither the District nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

**RECORD DATE FOR INTEREST PAYMENT** . . . The record date ("Record Date") for determining the person to whom the interest is payable on the Bonds on any interest payment date means the close of business on the last business day of the month next preceding the interest payment date.

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

**REPLACEMENT BONDS** . . . If any Bond is mutilated, destroyed, stolen or lost, a new Bond in the same principal amount as the Bond so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Bond, such new Bond will be delivered only upon surrender and cancellation of such mutilated Bond. In the case of any Bond issued in lieu of and 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 of satisfactory evidence to the effect that such Bond has been destroyed, stolen or lost and proof of the ownership thereof, (b) upon furnishing the District and the Paying Agent/Registrar with indemnity satisfactory to them, (c) upon paying all expenses and charges in connection therewith and (d) upon satisfying any other reasonable requirements imposed by the District and the Paying Agent/Registrar. The person requesting the authentication and delivery of a new Bond must pay such expenses as the Paying Agent/Registrar may incur in connection therewith and satisfy any other reasonable requirements imposed by the District and the Paying Agent/Registrar.

**BONDHOLDERS' REMEDIES** . . . The Order does not provide for the appointment of a trustee to represent the interests of the Bond holders upon any failure of the District to perform in accordance with the terms of the Order or upon any other condition and, in the event of any such failure to perform, the registered owners would be responsible for the initiation and cost of any legal action to enforce performance of the Order. Furthermore, the Order does not establish specific events of default with respect to the Bonds and, under State law, there is no right to the acceleration of maturity of the Bonds upon the failure of the District to observe any covenant under the Order. A registered owner of Bonds could seek a judgment against the District if a default occurred in the payment of principal of or interest on any such Bonds; however, such judgment could not be satisfied by execution against any property of the District and a suit for monetary damages could be vulnerable to the defense of sovereign immunity. A registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the District to levy, assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Bonds as it becomes due or perform other material terms and covenants contained in the Order. In general, Texas courts have held that a writ of mandamus may be issued to require a public official to perform legally imposed ministerial duties necessary for the performance of a valid contract, and Texas law provides that, following their approval by the Attorney General and issuance, the Bonds are valid and binding obligations for all purposes according to their terms. However, the enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis.

In addition, the enforcement of a claim for the payment of a Bond would be subject to the applicable provisions of Federal bankruptcy laws and any other statutes affecting the rights of creditors of political subdivisions and may be limited by general principles of equity.

See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due. Initially, the only registered owner of the Bonds will be The Depository Trust Company. See "Book-Entry-Only System" herein for a description of the duties of DTC with regard to ownership of Bonds.

**SOURCES AND USES OF PROCEEDS** . . . The proceeds from the sale of the Bonds and contributions from available funds of the District will be applied approximately as follows:

| | |
|---|---|
| Sources of Funds: | |
| Par Amount of the Bonds | $ |
| Premium | |
| District Contribution | |
| Total Sources of Funds | $ - |
| | |
| Uses of Funds: | |
| Deposit to the Refunded Bonds Escrow Fund | $ |
| Deposit to the Refunded Notes Escrow Fund | |
| Underwriters' Discount | |
| Costs of Issuance(1) | |
| Total Uses of Funds | $ - |

_______________

(1) Includes legal fees of the District, financial advisory fees, rating agency fees, fees of the Paying Agent/Registrar, and other costs of issuance, including contingency.

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**THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM**

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

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

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

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

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

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

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

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

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

"Capacity Limits for the Guarantee Program"). The Charter District Bond Guarantee Program as enacted by State law has not been reviewed by any court, nor has the Texas Attorney General been requested to issue an opinion, with respect to its constitutional validity.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**2017 LEGISLATIVE CHANGES TO THE CHARTER DISTRICT BOND GUARANTEE PROGRAM** . . . The 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, the SBOE voted to authorize the full 20% increase in the amount of charter district bonds that may be guaranteed for fiscal year 2018, which increases the relative capacity of the Charter District Bond Guarantee Program to the School District Bond Guarantee Program for that fiscal year.

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

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

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

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

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

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

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

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

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

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

**RATINGS OF BONDS GUARANTEED UNDER THE GUARANTEE PROGRAM** . . . Moody's Investors Service, S&P Global Ratings and Fitch Ratings rate bonds guaranteed by the PSF "Aaa," "AAA" and "AAA," respectively. Not all districts apply for multiple ratings on their bonds, however. See "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 January 31, 2018, the PSF had a book value of $32,415,438,326 and a market value of $43,741,388,620. January 31, 2018 values are based on unaudited data, which is subject to adjustment.

**Permanent School Fund Guaranteed Bonds**

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

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

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

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**Permanent School Fund Guaranteed Bonds by Category**[1]

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

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

On May 13, 2016, the Court issued its opinion in the most recent school finance litigation, *Morath, 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 Court, violated article VII, section 1 and article VIII, section 1-e of the Texas Constitution. In its opinion, the Court held that "[d]espite the imperfections of the current school funding regime, it meets minimum constitutional requirements." The Court also noted that:

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

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

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

## CURRENT PUBLIC SCHOOL FINANCE SYSTEM

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

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

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

**LOCAL FUNDING FOR SCHOOL DISTRICTS** . . . The primary source of local funding for school districts is collections from ad valorem taxes levied against taxable property located in each school district. Prior to reform legislation that became effective during the 2006-2007 fiscal year (the "Reform Legislation"), the maximum M&O tax rate for most school districts was generally limited to $1.50 per $100 of taxable value. At the time the Reform Legislation was enacted, the majority of school districts were levying an M&O tax rate of $1.50 per $100 of taxable value. The Reform Legislation required each school district to "compress" its tax rate by an amount equal to the "State Compression Percentage." For fiscal years 2007–2008 through 2017–2018, 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. The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. 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 "TAX INFORMATION – 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 and an Instructional Facilities Allotment ("IFA") to subsidize debt service on newly issued bonds. IFA primarily addresses the debt service needs of property-poor school districts. A New Instructional Facilities Allotment ("NIFA") also is available to help pay operational expenses associated with the opening of a new instructional facility; however, NIFA awards were not funded by the Legislature for either the 2012–2013 or the 2014-2015 State fiscal biennium. In 2017, the 85th Texas Legislature, regular session, did appropriate funds in the amount of $1,378,500,000 for the 2018-2019 State fiscal biennium for an increase in the Basic Allotment, EDA, IFA, and NIFA support, as further described below.

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 2014–2015 fiscal biennium or the 2015-2016 school year 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. For the 2018-2019 state biennium, the Texas Legislature has appropriated approximately $284,650,000 for IFA allotments.

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 fiscal years 2016-2017 and 2017-2018, 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 and district-size adjustments 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 $1.01 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") for the fiscal year 2017-2018 and fiscal year 2018-2019, 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 the 2018-2019 State fiscal biennium. Property-wealthy school districts that have an M&O tax rate that exceeds the district's compressed tax rate plus six cents are subject to recapture above this tax rate level at the equivalent wealth per student of $319,500 (see "Wealth Transfer Provisions" below).

A district with a compressed tax rate below $1.00 per $100 of taxable value (known as a "fractionally funded district") receives a Basic Allotment that is reduced proportionately to the degree that the district's compressed tax rate falls short of $1.00. Beginning in the 2017-18 fiscal year, the compressed tax rate of a fractionally funded district now includes the portion of such district's current M&O tax rate in excess of the first six cents above the district's compressed tax rate until the district's compressed tax rate is equal to the state maximum compressed tax rate of $1.00. Thus, for fractionally funded districts, each eligible one cent of M&O tax levy above the district's compressed tax rate plus six cents will have a guaranteed yield based on Tier One funding instead of the $31.95 Tier Two yield, thereby reducing the penalty against the Basic Allotment.

In addition to the operations funding components of the Foundation School Program discussed above, the Foundation School Program provides a facilities funding component consisting of the Instructional Facilities Allotment (IFA) program and the Existing Debt Allotment (EDA) program. These programs assist school districts in funding facilities by, generally, equalizing a district's I&S tax effort. The IFA guarantees each awarded school district a specified amount per student (the "IFA Guaranteed Yield") in State and local funds for each cent of tax effort to pay the principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. The guaranteed yield per cent of local tax effort per student in ADA has been $35 since this program first began in 1997. The 85th State Legislature did not appropriate any funds for new IFA awards for the 2018-19 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 2017-18 fiscal year is estimated to be less than $37. The portion of a district's local debt service rate that qualifies for EDA assistance is limited to the first 29 cents of debt service tax (or a greater amount for any year provided by appropriation by the Texas Legislature). In general, a district's bonds are eligible for EDA assistance if (i) the district made payments on the bonds during the final fiscal year of the preceding State fiscal biennium, or (ii) the district levied taxes to pay the principal of and interest on the bonds for that fiscal year. Each biennium, access to EDA funding is determined by the debt service taxes collected in the final year of the preceding biennium. A district may not receive EDA funding for the principal and interest on a series of otherwise eligible bonds for which the district receives IFA funding.

A district may also qualify for a NIFA allotment, which provides assistance to districts for operational expenses associated with opening new instructional facilities. For the 2012-2013 and 2014-2015 State fiscal biennia, no funds were appropriated by the Texas Legislature for new NIFA allotments. The 85th Texas Legislature, regular session, did appropriate funds in the amount of $23,750,000 for each year in the 2018-2019 biennium.

**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. Under the Target Revenue system, each school district is generally entitled to receive the same amount of revenue per student as it did in either the 2005–2006 or 2006–2007 fiscal year (under existing laws prior to the enactment of the Reform Legislation), as long as the district adopted an M&O tax rate that was at least equal to its compressed rate. The reduction in local M&O taxes resulting from the mandatory compression of M&O tax rates under the Reform Legislation, by itself, would have significantly reduced the amount of local revenue available to fund the Finance System. To make up for this shortfall, the Reform Legislation authorized Additional State Aid for Tax Reduction ("ASATR") for each school district in an amount equal to the difference between the amount that each district would receive under the Foundation School Program and the amount of each district's Target Revenue funding level. However, in subsequent legislative sessions, the Texas Legislature has gradually reduced the reliance on ASATR by increasing the funding formulas. This phase-out of ASATR began with actions adopted by the 83rd Texas Legislature. Beginning with the 2017-2018 school year, the statutes authorizing ASATR are repealed.

**2017 LEGISLATION** . . . The 85th Texas Legislature, including the regular session which concluded on May 29, 2017 and the special session which concluded on August 15, 2017, did not enact substantive changes to the Finance System. However, certain bills during the regular session and House Bill 21, which was passed during the special session and signed by the Governor on August 16, 2017, revised certain aspects of the formulas used to determine school district entitlements under the Finance System. The District has not made a comprehensive review of such legislation to determine what, if any, impact such changes would have on the District's finances.

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

**WEALTH TRANSFER PROVISIONS** . . . Some districts have sufficient property wealth per student in WADA ("wealth per student") to generate their statutory level of funding through collections of local property taxes alone. Districts whose wealth per student generates local property tax collections in excess of their statutory level of funding are referred to as "Chapter 41" districts because they are subject to the wealth equalization provisions contained in Chapter 41 of the Texas Education Code. Chapter 41 districts may receive State funds for certain competitive grants and a few programs that remain outside the Foundation School Program, as well as receiving ASATR until their overall funding meets or exceeds their Target Revenue level of funding. 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 2018-19 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 2017-2018 is above the lower equalized wealth level of $319,500 but below the higher equalized wealth level of $514,000 per WADA. Because the Districts M&O tax rate does not exceed $1.06 (the compressed rate plus six pennies), the District is not subject to recapture. Current District projections estimate that the higher equalized wealth level would not be realized until fiscal year 2028.

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.

In connection with the adoption of its 2017-2018 budget, the District utilized an M&O tax rate of $1.06, representing a two-cent increase in the M&O component of its tax rate over the prior year. On July 14, 2017, the Attorney General issued a non-binding opinion (Op. Tex. Att'y Gen No. KP-0154 (2017)) stating that the District's adoption of the proposed increase in the M&O component of the tax rate would require a tax ratification election. Based on the District's independent review of the applicable law and consultation with its outside general counsel, the District determined that a tax ratification election was not required when the proposed tax rate was below the rollback rate, as calculated in accordance with the plain language of the Tax Code and related guidelines of the Texas Comptroller. As a result, the District determined that it was authorized to proceed with setting its M&O tax rate at $1.06 and reducing its I&S tax rate by four cents to $0.26, without an election. On September 18, 2017, the District's Board of Trustees adopted a tax rate of $1.32, which included an M&O component of $1.06 and an I&S component of $0.26. The adopted tax rate represented a two-cent reduction in the District's total tax rate from the prior year. The two-cent increase in the M&O portion of the tax rate generated between $17 million and $19 million of additional M&O tax revenue for the District, and the District determined the adopted I&S tax rate was sufficient to allow it to pay debt service on its outstanding obligations. In the event of a legal challenge with respect to the adopted M&O tax rate, if a court were to determine that the District was not entitled to adopt the $1.06 M&O portion of the tax rate without an election or the District otherwise had to reset the M&O portion of its tax rate, the District does not believe that such a determination would have a material adverse effect with respect to its ability to levy and collect I&S taxes or its ability to pay debt service on the Bonds or its other debt obligations.

Section 26.08 of the Texas Tax Code also provides an exception to the tax ratification election requirement for the year following the year in which a disaster occurs when a district is required to increase expenditures to respond to a disaster, including a tornado, hurricane, flood, or other calamity and the governor has requested federal disaster assistance for the area in which the district is located. See "INTRODUCTION-Effects of Hurricane Harvey." The District believes that such the provision would also allow for the two-cent increase in the District's M&O portion of the tax rate without an election.

## TAX RATE LIMITATIONS

A school district is authorized to levy maintenance and operation taxes ("M&O Tax") subject to approval of a proposition submitted to district voters. The maximum M&O Tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the next succeeding paragraph. The maximum voted M&O Tax rate for the District is $1.50 per $100 of assessed valuation as approved by the voters at an election held on March 9, 1963 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 2.59% of the District's current taxable assessed valuation of property (see "TAX INFORMATION – Table 1 Valuation, Exemptions and Tax Supported Debt" herein).

The maximum M&O tax rate per $100 of assessed valuation that may be adopted by the District may not exceed the lesser of (A) $1.50, or such lower rate as described in the preceding paragraph, and (B) the sum of (1) the rate of $0.17, and (2) the product of the "State Compression Percentage" multiplied by $1.50. The State Compression Percentage has been set, and will remain, at 66.67% for fiscal years 2007–2008 through 2017–2018. 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 "TAX INFORMATION – 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 and Source of Payment").

Section 45.0031, Texas Education Code, as amended ("Section 45.0031"), requires a district to demonstrate to the Texas Attorney General that it has the prospective ability to pay its maximum annual debt service on a proposed issue of bonds and all previously issued bonds, other than bonds approved by district voters at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds, collectively, "exempt bonds"), from a tax levied at a rate of $0.50 per $100 of assessed valuation before bonds may be issued. In demonstrating the ability to pay debt service at a rate of $0.50, a district may take into account EDA and IFA allotments to the district, which effectively reduces the district's local share of debt service, and may also take into account Tier One funds allotted to the district. The District is required to deposit any State allotments provided solely for payment of debt service into the District's interest and sinking fund upon receipt of such amounts. In addition, the District must, prior to levying an interest and sinking fund tax rate that exceeds $0.50 per $100 of assessed valuation, credit to the interest and sinking fund other State assistance, including Tier One funds that may be used for either operating purposes or for payment of debt service, in an amount equal to the amount needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Once the prospective ability to pay such tax has been shown and the bonds are issued, a district may levy an unlimited tax to pay debt service. Taxes levied to pay refunding bonds issued pursuant to Chapter 1207, Texas Government Code (except refunding bonds issued to refund commercial paper notes), 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 but are issued to refund commercial paper notes previously issued by the District and are, therefore, subject to the threshold tax rate test. Under current law, a district may demonstrate its ability to comply with the $0.50 threshold tax rate test by applying the $0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a district uses projected future taxable values to meet the $0.50 threshold tax rate test and subsequently imposes a tax at a rate greater than $0.50 per $100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Attorney General must find that the district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the $0.50 threshold tax rate test from a tax rate of $0.45 per $100 of valuation. The District has not used State assistance other than EDA or IFA allotment funding or projected property values to satisfy this threshold test.

## TAX INFORMATION

**AD VALOREM TAX LAW** . . . The appraisal of property within the District is the responsibility of the Fort Bend Central Appraisal District (the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under the Property Tax Code (as defined below) to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining 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. State law further limits the appraised value of a residence homestead for a tax year to an amount that would not exceed the lesser of (1) the property's market value in the most recent tax year in which the market value was determined by the Appraisal District or (2) the sum of (a) 10% of the property's appraised value in the preceding tax year, plus (b) the property's appraised value the preceding tax year, plus (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of three members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The District may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the District by petition filed with the Appraisal Review Board.

Reference is made to Title I of the Texas Tax Code (the "Property Tax Code"), for identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem taxation purposes; and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Article VIII of the State Constitution ("Article VIII") and State law provide for certain exemptions from property taxes, the valuation of agricultural and open-space lands at productivity value, and the exemption of certain personal property from ad valorem taxation.

Certain residence homestead exemptions from ad valorem taxes for public school purposes are mandated by Section 1-b, Article VIII, and State law and apply to the market value of residence homesteads in the following sequence:

$25,000 (pursuant to a constitutional amendment approved by the voters at an election held on November 3, 2015); and an additional

$10,000 for those 65 years of age or older, or the disabled. A person over 65 and disabled may receive only one $10,000 exemption, and only one such exemption may be received per family, per residence homestead. State law also mandates a freeze on taxes paid on residence homesteads of persons 65 years of age or older which receive the $10,000 exemption. Such residence homesteads shall be appraised and taxes calculated as on any other property, but taxes shall never exceed the amount imposed in the first year in which the property received the $10,000 exemption. The 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. If improvements (other than maintenance, repairs or improvements required by governmental requirements) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes imposed is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following years. Effective January 1, 2004, the freeze on taxes paid on residence homesteads of persons 65 years of age and older was extended to include the resident homesteads of "disabled" persons, including the right to transfer the freeze to a different residence homestead. A "disabled" person is one who is "under a disability for purposes of payment of disability insurance benefits under the Federal Old Age, Survivors and Disability Insurance." Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as the property is the homestead of the surviving spouse and the spouse is at least 55 years of age at the time of the death of the individual's spouse. Pursuant to a constitutional amendment approved by the voters on May 12, 2007, legislation was enacted to reduce the school property tax limitation imposed by the freeze on taxes paid on residence homesteads of persons 65 years of age or over or of disabled persons to correspond to reductions in local school district tax rates from the 2005 tax year to the 2006 tax year and from the 2006 tax year to the 2007 tax year (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - General" herein). The school property tax limitation provided by the constitutional amendment and enabling legislation apply to the 2007 and subsequent tax years.

In addition, under Section 1-b, Article VIII, and State law, the governing body of a political subdivision, at its option, may grant:

(i) An exemption of not less than $3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision;

(ii) An exemption of up to 20% of the market value of residence homesteads; minimum exemption $5,000.

In the case of residence homestead exemptions granted under Section 1-b, Article VIII, ad valorem taxes may continue to be levied against the value of homesteads exempted where ad valorem taxes have previously been pledged for the payment of debt if cessation of the levy would impair the obligation of the contract by which the debt was created.

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from $5,000 to a maximum of $12,000; provided, however, that beginning in the 2009 tax year, a disabled veteran who receives from the from the United States Department of Veterans Affairs or its successor 100 percent disability compensation due to a service-connected disability and a rating of 100 percent disabled or of individual unemployability or the surviving spouse is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. A partially disabled veteran or the surviving spouse of partially disabled veterans is entitled to an exemption from taxation in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. Effective January 1, 2018, this exemption will also apply to a residence homestead that was donated by a charitable organization at some cost to such veterans. The surviving spouse of a member of the armed force s who was killed in action is entitled to an exemption of the total appraised value of the 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 may be transferred to a subsequent residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

Also effective January 1, 2018, the surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to an exemption of the total appraised value of the 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 would be transferred to a subsequent residence homestead 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 freeze on taxes paid on residence homesteads of persons 65 years of age and older was extended to include the resident homesteads of "disabled" persons, including the right to transfer the freeze to a different residence homestead. A "disabled" person is one who is "under a disability for purposes of payment of disability insurance benefits under the Federal Old Age, Survivors and Disability Insurance".

Article VIII provides that eligible owners of both agricultural land (Section l-d) and open-space land (Section l-d-l), including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified under both Section 1-d and 1-d-1.

The 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.

Tangible personal property not producing income, except for manufactured homes, is exempt from ad valorem taxation. In addition, an individual is entitled to an exemption from taxation of one passenger car or light truck used in the course of the individual's occupation or profession if it is also used for personal activities that do not produce income.

Section 1-j, Article VIII provides for "freeport property" to be exempted from ad valorem taxation. Freeport property is defined as goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Notwithstanding such exemption, counties, school districts, junior college districts and cities may tax such tangible personal property provided official action to tax the same was taken before April 1, 1990. Decisions to continue to tax may be reversed in the future; decisions to exempt freeport property are not subject to reversal.

Section 1-n, Article VIII provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit" is defined by Section 11.253 of the Property Tax Code as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. The Property Tax Code provision permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods-in- transit during the following tax year. A taxpayer may receive only one of the freeport exemptions or the goods-in-transit exemptions for items of personal property.

A city or county may create a tax increment financing district ("TIF") within the city or county with defined boundaries and establish a base value of taxable property in the TIF at the time of its creation. Overlapping taxing units, including school districts, may agree with the city or county to contribute all or part of future ad valorem taxes levied and collected against the "incremental value" (taxable value in excess of the base value) of taxable real property in the TIF to pay or finance the costs of certain public improvements in the TIF, and such taxes levied and collected for and on behalf of the TIF are not available for general use by such contributing taxing units. Prior to September 1, 2001, school districts were allowed to enter into tax abatement agreements to encourage economic development. Under such agreements, a property owner agrees to construct certain improvements on its property. The school district in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years. School districts have been prohibited from entering into new tax abatement agreements since September 1, 2001. Notwithstanding the foregoing, in 2001 the Legislature enacted legislation known as the Texas Economic Development Act, which provides incentives for school districts to grant limitations on appraised property values and provide ad valorem tax credits to certain corporations and limited liability companies to encourage economic development within the district. Generally, for the ten-year term of a tax limitation agreement, the school district may only levy and collect ad valorem taxes for maintenance and operation purposes on the agreed-to limited appraised property value. In determining a district's property value wealth per student, the Commissioner of Education will not take into account (1) the appraised value, in excess of the "frozen" value, of property that is located in a tax increment financing zone created after May 31, 1999 (except in certain limited circumstances where the municipality creating the tax increment financing zone gave notice prior to May 31, 1999 to all other taxing units that levy ad valorem taxes in the zone of its intention to create the zone and the zone is created and has its final project and financing plan approved by the municipality prior to August 31, 1999), or (2) for the loss of value of abated property under any abatement agreement entered into after May 31, 1993.

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

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

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

**PROPERTY ASSESSMENT AND TAX PAYMENT** . . . Property within the District is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first installment due on February 1 of each year and the final installment due on August 1.

**PENALTIES AND INTEREST** . . . Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

| Month | Cumulative Penalty | Cumulative Interest[(b)] | Total |
|---|---|---|---|
| February | 6% | 1% | 7% |
| March | 7 | 2 | 9 |
| April | 8 | 3 | 11 |
| May | 9 | 4 | 13 |
| June | 10 | 5 | 15 |
| July | 27[(a)] | 6 | 33 |

(a) Includes additional penalty of up to 20% assessed after July 1 in order to defray attorney collection expenses.
(b) Interest continues to accrue after July 1 at the rate of 1% per month until paid.

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 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 attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.**

**DISTRICT APPLICATION OF TAX CODE** . . . The District grants an exemption to the market value of the residence homestead of persons 65 years of age or older of $10,000 and the disabled are also granted an exemption of $10,000.

Other principal categories of exempt property include tangible personal property not held or used for production of income; solar and wind-powered energy devices; most individually owned automobiles; $10,000 exemption to residential homesteads of disabled persons or persons ages 65 or over; up to $12,000 exemption for real or personal property of disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; $25,000 in market value for all residential homesteads; and certain classes of intangible property.

The District has not granted an additional exemption of 20% of the market value of residence homesteads; minimum exemption of $5,000.

See Table 1 for a listing of the amounts of the exemptions described above.

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 nonbusiness personal property; and Fort Bend County collects taxes for the District.

The District does not permit split payments, and discounts are not allowed.

The District does not tax freeport property.

The District does tax goods-in-transit.

The District has not adopted a tax abatement policy.

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**TABLE 1 - VALUATION, EXEMPTIONS AND TAX SUPPORTED DEBT**

| | | |
|---|---|---|
| 2017/2018 Market Valuation Established by Fort Bend Central Appraisal District (excluding totally exempt property)[1] | | $ 41,290,444,539 |
| Less Exemptions/Reductions at 100% Market Value: | | |
| Disabled Persons (Local and State) | $ 16,656,044 | |
| Residential Homestead Exemption (State Mandated) | 2,196,802,862 | |
| Residential Homestead Over 65 Exemption (State Mandated) | 194,627,055 | |
| Productivity Loss | 315,880,801 | |
| Homestead Cap Adjustment | 321,648,924 | |
| Disabled Veteran Exemption | 143,469,974 | |
| Pollution Exemption | 19,628,240 | |
| Prorated Exempt Property | 2,676,644 | |
| House Bill 366 | 18,610 | |
| Freeport | 272,306,009 | |
| Charity Donated | 187,710 | |
| Lease Vehicles Exemption | 189,614,042 | |
| Solar | 88,120 | 3,673,605,036 |
| 2017/2018 Taxable Assessed Valuation | | $ 37,616,839,503 |
| Existing Debt Payable from Ad Valorem Taxes (as of 2/28/2018)[2] | $ 830,833,552 | |
| The Bonds[3] | 141,860,000 | |
| Total Debt Payable from Ad Valorem Taxes | | $ 972,693,552 |
| Interest and Sinking Fund (as of 2/28/2018) | | $ 74,428,631 |
| Ratio Tax Supported Debt to Taxable Assessed Valuation | | 2.59% |

2018 Estimated Population - 364,601
Per Capita Taxable Assessed Valuation - $103,173
Per Capita Debt Payable from Ad Valorem Taxes - $2,668

Enrollment 2017/18 - 75,719
Per Student Direct Debt - $12,846
Per Student 2017/18 Assessed Valuation - $496,795

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(1) Source: Fort Bend Central Appraisal District Certified and Supplemental totals for the fiscal year ending June 30, 2018. Values are subject to change as contested values are resolved.

(2) Excludes the Refunded Bonds and the District's Commercial Paper Notes. The Commercial Paper Notes may be issued from time to time up to an aggregate principal amount of $100,000,000 outstanding at any time. Upon the issuance of the Bonds and refunding of the Refunded Notes with proceeds thereof, the capacity to issue Commercial Paper Notes under the Commercial Paper Program will be fully restored to $100,000,000. Preliminary, subject to change.

(3) Preliminary, subject to change.

*[The remainder of this page intentionally left blank.]*

**TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY**

| | Taxable Appraised Value for Fiscal Year Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | 2017 | | 2016 | |
| Category | Amount | % of Total | Amount | % of Total | Amount | % of Total |
| Real, Residential, Single-Family | $ 31,580,133,534 | 76.48% | $ 30,238,617,317 | 76.57% | $ 27,479,646,271 | 75.61% |
| Real, Residential, Multi-Family | 890,729,995 | 2.16% | 841,077,831 | 2.13% | 803,915,718 | 2.21% |
| Real, Vacant Lots/Tracts | 497,478,302 | 1.20% | 389,969,480 | 0.99% | 398,609,283 | 1.10% |
| Real, Acreage (Land Only) | 376,237,917 | 0.91% | 392,965,232 | 1.00% | 408,291,311 | 1.12% |
| Real, Farm and Ranch Improvement | 22,068,734 | 0.05% | 21,405,660 | 0.05% | 19,991,475 | 0.06% |
| Real, Commercial/Industrial | 4,558,872,043 | 11.04% | 4,363,016,983 | 11.05% | 3,946,526,682 | 10.86% |
| Oil, Gas, Minerals | 5,654,980 | 0.01% | 7,155,000 | 0.02% | 23,045,450 | 0.06% |
| Real and Tangible Personal, Utilities | 369,211,640 | 0.89% | 343,388,199 | 0.87% | 351,182,976 | 0.97% |
| Tangible Personal, Commercial/Industrial | 2,389,189,226 | 5.79% | 2,229,232,918 | 5.65% | 2,356,014,546 | 6.48% |
| Mobile Homes | 23,010,383 | 0.06% | 21,412,030 | 0.05% | 20,728,030 | 0.06% |
| Residential Inventory | 521,729,827 | 1.26% | 567,337,236 | 1.44% | 483,686,200 | 1.33% |
| Exempt | 9,939,748 | 0.02% | 31,458,760 | 0.08% | 9,388,040 | 0.03% |
| Special Inventory | 46,188,210 | 0.11% | 42,958,700 | 0.11% | 42,725,470 | 0.12% |
| Total Appraised Value Before Exemptions | $ 41,290,444,539 | 100.00% | $ 39,489,995,346 | 100.00% | $ 36,343,751,452 | 100.00% |
| Adjustments | - | | (160,065,855) | | (217,148,892) | |
| Less: Total Exemptions/Reductions | (3,673,605,036) | | (3,837,841,076) | | (4,219,488,519) | |
| Taxable Assessed Value | $ 37,616,839,503 | | $ 35,492,088,415 | | $ 31,907,114,041 | |

| | Taxable Appraised Value for Fiscal Year Ended June 30, | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| Category | Amount | % of Total | Amount | % of Total |
| Real, Residential, Single-Family | $ 23,054,432,322 | 73.46% | $ 20,481,299,245 | 72.00% |
| Real, Residential, Multi-Family | 679,122,978 | 2.16% | 623,386,549 | 2.19% |
| Real, Vacant Lots/Tracts | 402,006,380 | 1.28% | 475,969,888 | 1.67% |
| Real, Acreage (Land Only) | 439,386,221 | 1.40% | 432,758,188 | 1.52% |
| Real, Farm and Ranch Improvement | 17,235,905 | 0.05% | 17,717,654 | 0.06% |
| Real, Commercial/Industrial | 3,683,665,007 | 11.74% | 3,501,217,280 | 12.31% |
| Oil, Gas, Minerals | 79,436,460 | 0.25% | 58,447,731 | 0.21% |
| Real and Tangible Personal, Utilities | 345,657,056 | 1.10% | 355,193,449 | 1.25% |
| Tangible Personal, Commercial/Industrial | 2,187,191,692 | 6.97% | 2,082,337,336 | 7.32% |
| Mobile Homes | 18,995,560 | 0.06% | 19,474,489 | 0.07% |
| Exempt | - | 0.00% | - | 0.00% |
| Residential Inventory | 439,672,540 | 1.40% | 366,898,251 | 1.29% |
| Special Inventory | 35,435,650 | 0.11% | 32,607,468 | 0.11% |
| Total Appraised Value Before Exemptions | $ 31,382,237,771 | 100.00% | $ 28,447,307,528 | 100.00% |
| Adjustments | (114,953,097) | | (12,081,354) | |
| Less: Total Exemptions/Reductions | (2,499,785,282) | | (2,359,453,421) | |
| Taxable Assessed Value | $ 28,767,499,392 | | $ 26,075,772,753 | |

NOTE: Valuations shown are certified taxable assessed values reported by the Fort Bend Central Appraisal District. Certified values are subject to change as contested values are resolved and the appraisal district updates their records.

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**TABLE 3 - VALUATION AND TAX SUPPORTED DEBT HISTORY**

| Fiscal Year Ended 6/30 | Estimated Population[(1)] | Taxable Assessed Valuation[(2)] | Taxable Assessed Valuation Per Capita | Tax Supported Debt Outstanding at End of Year [(3)] | Ratio of Tax Supported Debt to Taxable Assessed Valuation | Tax Supported Debt Per Capita |
|---|---|---|---|---|---|---|
| 2014 | 343,620 | $ 26,075,772,753 | $ 75,885 | $ 858,781,189 | 3.29% | 2,499 |
| 2015 | 349,684 | 28,767,499,392 | 82,267 | 932,953,660 | 3.24% | 2,668 |
| 2016 | 356,306 | 31,907,114,041 | 89,550 | 860,700,329 | 2.70% | 2,416 |
| 2017 | 360,397 | 35,492,088,415 | 98,481 | 887,331,941 | 2.50% | 2,462 |
| 2018 | 364,601 | 37,616,839,503 | 103,173 | 972,693,552 [(4)] | 2.59% [(4)] | 2,668 [(4)] |

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(1) Source: The Municipal Advisory Council of Texas.
(2) Source: District Comprehensive Annual Financial Reports for fiscal years ending June 30, 2014 through 2017 and Fort Bend Central Appraisal District's Certified and Supplement Totals for the fiscal years ending June 30, 2018. Values are subject to change as contested values are resolved.
(3) Excludes the District's Commercial Paper Notes. The Commercial Paper Notes may be issued from time to time up to an aggregate principal amount of $100,000,000 outstanding at any time.
(4) Includes the Bonds and excludes the Refunded Bonds. Upon the issuance of the Bonds and refunding of the Refunded Notes with proceeds thereof, the capacity to issue Commercial Paper Notes under the Commercial Paper Program will be fully restored to $100,000,000. Preliminary, subject to change.

**TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY**

| Fiscal Year Ended 6/30 | Tax Rate | Local Maintenance | Interest and Sinking Fund | Tax Levy | % Current Collections | % Total Collections |
|---|---|---|---|---|---|---|
| 2014 | $ 1.3400 | $ 1.0400 | $ 0.3000 | $ 343,724,160 | 98.78% | 99.95% |
| 2015 | 1.3400 | 1.0400 | 0.3000 | 378,084,546 | 98.77% | 99.86% |
| 2016 | 1.3400 | 1.0400 | 0.3000 | 416,743,069 | 98.90% | 100.12% |
| 2017 | 1.3400 | 1.0400 | 0.3000 | 461,552,338 | 98.84% | 99.64% |
| 2018 | 1.3200 [(1)] | 1.0600 | 0.2600 | 486,443,574 | 96.03% [(2)] | 102.50% [(2)] |

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(1) See "THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT" for a discussion of the adoption of the tax rate for the fiscal year ended June 30, 2018.
(2) Collections through February 28, 2018.

**TABLE 5 - TEN LARGEST TAXPAYERS[(1)]**

| Name of Taxpayer | Type of Property | 2017/18 Taxable Assessed Valuation | % of Total Taxable Assessed Valuation |
|---|---|---|---|
| Centerpoint Energy Electric | Electric Utility | $ 147,188,840 | 0.39% |
| LCFRE Sugar Land Town Square LLC | Commercial Business Office Building | 123,626,571 | 0.33% |
| Lakepointe Assets LLC | Engineering | 95,521,220 | 0.25% |
| First Colony Mall LLC | Commercial Mall Property | 86,162,840 | 0.23% |
| Sugar Creek/EPG LLC & Sugar Creek TIC Investors LLC | Commercial Real Estate | 63,541,650 | 0.17% |
| Ben E Keith Company | Wholesale Food Distribution | 63,313,840 | 0.17% |
| Weingarten Realty Investors & WRI/Post Oak Inc. | Commercial Shopping Center | 60,997,560 | 0.16% |
| API Realty LLC | Commercial Business Officie Building | 58,620,850 | 0.16% |
| AmerisourceBergen Drug Corporation | Pharmaceutical Distribution | 58,252,830 | 0.15% |
| Taylor Morrison of Texas Inc. | Homebuilder/Developer | 56,615,240 | 0.15% |
| | | $ 813,841,441 | 2.16% |

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(1) Source: Fort Bend County Tax Office.

**TABLE 6 - TAX ADEQUACY**

| | |
|---|---|
| Principal and Interest Requirements for the Period Ended August 31, 2018[1] | $ 83,430,363 |
| Plus: District Contribution for the Refunding of the Refunded Bonds | 11,000,000 |
| Less: Transfer from Debt Service Fund | (3,603,635) |
| Net Principal and Interest Requirements for the Period Ended August 31, 2018 | $ 90,826,728 |
| $0.2600 Interest and Sinking Fund Tax Rate @ 99.0% Collections[2] | $ 96,825,745 |

(1) Includes the Bonds and excludes the Refunded Bonds and the District's Commercial Paper Notes. The Commercial Paper Notes may be issued from time to time up to an aggregate principal amount of $100,000,000 outstanding at any time. Upon the issuance of the Bonds and refunding of the Refunded Notes with proceeds thereof, the capacity to issue Commercial Paper Notes under the Commercial Paper Program will be fully restored to $100,000,000. Preliminary, subject to change.

(2) Utilizes the $37,616,839,503 Net Taxable Value in Fiscal Year 2017-2018.

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**TABLE 7 - ESTIMATED OVERLAPPING DEBT**

Expenditures of the various taxing entities within the territory of the District are paid out of ad valorem taxes levied by such entities on properties within the District. Such entities are independent of the District and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax bonds ("Tax Debt") was developed from information contained in "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 may have issued additional bonds since the dates indicated below, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the District.

| Taxing Jurisdiction | 2017/2018 Taxable Assessed Value | 2017/2018 Tax Rate | Total Tax Supported Debt | Estimated % Applicable | District's Overlapping Tax Supported Debt As of 2/28/2018 | Authorized But Unissued Debt As Of 2/28/2018 (1) |
|---|---|---|---|---|---|---|
| Arcola, City of | $ 104,443,591 | $ 0.8400 | $ 3,280,000 | 100.00% | $ 3,280,000 | $ - |
| Big Oaks MUD | 408,702,063 | 0.7500 | 16,730,000 | 100.00% | 16,730,000 | 20,660,000 |
| Blue Ridge West MUD | 278,472,650 | 0.4050 | 2,380,000 | 100.00% | 2,380,000 | 42,000,000 |
| Brazoria County MUD #22 | 104,068,190 | 1.4000 | 14,700,000 | 0.68% | 99,960 | 189,005,000 |
| Brazoria-Fort Bend Co MUD #1 | 989,771,459 | 0.8480 | 83,215,000 | 42.98% | 35,765,807 | 96,795,000 |
| Burney Road MUD | 346,835,002 | 0.2300 | 9,445,000 | 100.00% | 9,445,000 | 24,994,576 |
| Chelford City MUD | 307,343,325 | 0.3900 | 7,925,000 | 55.18% | 4,373,015 | 11,625,000 |
| First Colony MUD #9 | 777,502,816 | 0.2400 | 9,525,000 | 100.00% | 9,525,000 | 16,660,000 |
| First Colony MUD #10 | 465,528,837 | 0.1900 | 13,575,000 | 100.00% | 13,575,000 | 16,785,000 |
| Fort Bend County | 62,792,875,776 | 0.4530 | 620,350,527 | 54.48% | 337,966,967 | 327,700,000 |
| Fort Bend County FWSD #1 | 325,601,513 | 1.0000 | 27,860,000 | 100.00% | 27,860,000 | 257,560,000 |
| Fort Bend County LID #2 | 5,000,219,005 | 0.1110 | 12,290,000 | 100.00% | 12,290,000 | 48,000,000 |
| Fort Bend County LID #7 | 1,600,021,640 | 0.3200 | 24,915,000 | 100.00% | 24,915,000 | 41,518,820 |
| Fort Bend County LID #12 | 2,201,556,711 | 0.0900 | 12,505,000 | 46.61% | 5,828,581 | 18,895,000 |
| Fort Bend County LID #14 | 631,791,445 | 0.1950 | 2,985,000 | 100.00% | 2,985,000 | 17,359,960 |
| Fort Bend County LID #15 | 1,756,301,815 | 0.6900 | 100,140,000 | 100.00% | 100,140,000 | 106,565,000 |
| Fort Bend County LID #17 | 1,846,938,408 | 0.5700 | 57,765,000 | 100.00% | 57,765,000 | 137,520,000 |
| Fort Bend County LID #19 | 695,342,253 | 0.6800 | 33,675,000 | 100.00% | 33,675,000 | 31,938,402 |
| Fort Bend County MUD #2 | 313,571,351 | 0.5600 | 14,735,000 | 100.00% | 14,735,000 | 12,800,000 |
| Fort Bend County MUD #23 | 741,632,770 | 0.8200 | 60,525,000 | 100.00% | 60,525,000 | 29,567,046 |
| Fort Bend County MUD #24 | 128,346,679 | 1.2600 | 13,940,000 | 100.00% | 13,940,000 | 115,310,000 |
| Fort Bend County MUD #25 | 1,085,557,805 | 0.8400 | 103,015,000 | 100.00% | 103,015,000 | 77,116,663 |
| Fort Bend County MUD #26 | 208,260,011 | 0.8025 | 10,725,000 | 100.00% | 10,725,000 | 19,056,131 |
| Fort Bend County MUD #30 | 816,322,038 | 0.8000 | 74,745,000 | 99.12% | 74,087,244 | 125,150,026 |
| Fort Bend County MUD #41 | 268,826,942 | 0.4900 | 1,635,000 | 100.00% | 1,635,000 | 19,365,000 |
| Fort Bend County MUD #42 | 391,420,746 | 0.3800 | 8,055,000 | 100.00% | 8,055,000 | 9,745,000 |
| Fort Bend County MUD #46 | 287,629,990 | 0.9000 | 11,310,000 | 100.00% | 11,310,000 | 8,255,000 |
| Fort Bend County MUD #47 | 140,587,576 | 0.9230 | 6,300,000 | 100.00% | 6,300,000 | 9,455,000 |
| Fort Bend County MUD #48 | 265,855,022 | 0.9600 | 15,830,000 | 100.00% | 15,830,000 | 33,595,000 |
| Fort Bend County MUD #49 | 68,215,340 | 0.6150 | 500,000 | 100.00% | 500,000 | 1,900,000 |
| Fort Bend County MUD #115 | 322,052,282 | 0.4400 | 9,575,000 | 100.00% | 9,575,000 | 37,040,062 |
| Fort Bend County MUD #118 | 444,391,970 | 0.6800 | 37,295,000 | 100.00% | 37,295,000 | 3,204,252 |
| Fort Bend County MUD #119 | 396,953,234 | 0.5700 | 15,760,000 | 100.00% | 15,760,000 | 44,455,000 |
| Fort Bend County MUD #128 | 1,316,948,328 | 0.6500 | 82,510,000 | 100.00% | 82,510,000 | 159,825,000 |
| Fort Bend County MUD #129 | 667,266,054 | 0.3400 | 19,970,000 | 100.00% | 19,970,000 | 76,710,674 |
| Fort Bend County MUD #131 | 44,382,160 | 1.0500 | 2,335,000 | 100.00% | 2,335,000 | 110,105,000 |
| Fort Bend County MUD #134B | 203,112,300 | 1.4500 | 35,750,000 | 100.00% | 35,750,000 | 320,625,000 |
| Fort Bend County MUD #134C | 763,251,660 | 1.2900 | 95,525,000 | 100.00% | 95,525,000 | 206,350,000 |
| Fort Bend County MUD #134D | 133,969,708 | 1.0000 | 19,950,000 | 100.00% | 19,950,000 | 186,050,000 |
| Fort Bend County MUD #136 | 92,073,494 | 0.4200 | 4,225,000 | 100.00% | 4,225,000 | 36,285,000 |
| Fort Bend County MUD #137 | 670,505,067 | 0.4150 | 29,270,000 | 100.00% | 29,270,000 | 122,551,589 |
| Fort Bend County MUD #138 | 810,248,503 | 0.4150 | 41,140,000 | 100.00% | 41,140,000 | 62,202,548 |
| Fort Bend County MUD #139 | 268,656,680 | 0.4100 | 13,570,000 | 100.00% | 13,570,000 | 108,769,000 |
| Fort Bend County MUD #143 | 311,883,377 | 1.2400 | 30,955,000 | 100.00% | 30,955,000 | 50,240,000 |
| Fort Bend County MUD #146 | 621,210,863 | 0.8500 | 44,585,000 | 27.09% | 12,078,077 | 102,675,000 |
| Fort Bend County MUD #149 | 468,261,573 | 0.5000 | 25,985,000 | 100.00% | 25,985,000 | 35,495,000 |
| Fort Bend County MUD #165 | 295,825,270 | 1.2500 | 34,095,000 | 100.00% | 34,095,000 | 4,895,000 |
| Fort Bend County Municipal Mgmt. Dist. No. 1 | 132,831,218 | 0.4500 | 11,595,000 | 100.00% | 11,595,000 | 362,645,000 |
| Fort Bend County WC&ID #2 | 3,640,993,388 | 0.2125 | 67,465,000 | 29.04% | 19,591,836 | 69,755,000 |

**TABLE 7 CONTINUED ON NEXT PAGE**

| Taxing Jurisdiction | 2017/2018 Taxable Assessed Value | 2017/2018 Tax Rate | Total Tax Supported Debt | Estimated % Applicable | District's Overlapping Tax Supported Debt As of 2/28/2018 | Authorized But Unissued Debt As Of 2/28/2018[(1)] |
|---|---|---|---|---|---|---|
| Grand Mission MUD #1 | 427,341,745 | 0.7700 | 34,915,000 | 100.00% | 34,915,000 | 25,465,982 |
| Grand Mission MUD #2 | 225,300,909 | 1.1500 | 26,050,000 | 100.00% | 26,050,000 | 112,890,000 |
| Harris County MUD #393 | 170,824,838 | 0.7300 | 10,205,000 | 100.00% | 10,205,000 | 91,000,000 |
| Houston Community College System | 193,339,074,426 | 0.1003 | 580,635,000 | 2.58% | 14,980,383 | - |
| Houston, City of | 229,905,751,340 | 0.5842 | 3,958,830,000 | 0.46% | 18,210,618 | 1,059,575,000 |
| Imperial Redevelopment District | 185,184,998 | 1.1000 | 14,635,000 | 100.00% | 14,635,000 | 695,832,000 |
| Kingsbridge MUD | 590,570,812 | 0.6000 | 21,285,000 | 90.26% | 19,211,841 | 66,609,074 |
| Meadows Place, City of | 343,568,372 | 0.8300 | 1,310,000 | 100.00% | 1,310,000 | 2,704,435 |
| Mission Bend MUD #1 | 356,568,372 | 0.2580 | 2,265,000 | 51.55% | 1,167,608 | 19,620,000 |
| Missouri City, City of | 6,348,161,078 | 0.6000 | 145,985,000 | 89.12% | 130,101,832 | 40,706,000 |
| North Mission Glen MUD | 459,641,478 | 0.5200 | 23,105,000 | 100.00% | 23,105,000 | 26,125,000 |
| Palmer Plantation MUD #2 | 200,190,663 | 0.4500 | 5,705,000 | 100.00% | 5,705,000 | 18,655,000 |
| Pecan Grove MUD | 1,074,332,668 | 0.6150 | 53,400,000 | 65.27% | 34,854,180 | 5,000,000 |
| Renn Road MUD | 195,636,244 | 0.7000 | 7,400,000 | 31.29% | 2,315,460 | 41,269,706 |
| Sienna Plantation LID | 3,365,501,988 | 0.4500 | 106,130,000 | 100.00% | 106,130,000 | 62,062,509 |
| Sienna Plantation Mgmt. Dist. | 192,316,414 | 1.0500 | 33,010,000 | 100.00% | 33,010,000 | 361,000,000 |
| Sienna Plantation MUD #2 | 577,496,175 | 0.5100 | 16,150,000 | 100.00% | 16,150,000 | 16,750,000 |
| Sienna Plantation MUD #3 | 820,515,392 | 0.5600 | 35,580,000 | 100.00% | 35,580,000 | 27,135,673 |
| Sienna Plantation MUD #4 | 229,636,705 | 0.4620 | 28,335,000 | 100.00% | 28,335,000 | 471,465,000 |
| Sienna Plantation MUD #10 | 637,155,735 | 0.8000 | 60,920,000 | 100.00% | 60,920,000 | 135,370,000 |
| Sienna Plantation MUD #12 | 609,036,157 | 0.8700 | 56,705,000 | 100.00% | 56,705,000 | 53,675,000 |
| Sugar Land, City of | 13,032,682,378 | 0.3176 | 320,232,067 | 100.00% | 320,232,067 | 10,260,000 |
| West Harris County MUD #4 | 97,317,848 | 1.0000 | 2,455,000 | (2) | - | 7,915,000 |
| Fort Bend Independent School District | 37,616,839,503 | 1.3200 | 972,693,552 | 100.00% | 972,693,552 (3) | 93,000,000 (4) |
| Total Direct and Overlapping Tax Supported Debt | | | | | $3,526,954,027 | |
| Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation | | | | | 9.38% | |
| Per Capita Overlapping Tax Supported Debt | | | | | $ 9,673 | |

(1) Includes new money and refunding authorizations.
(2) Less than 0.01%.
(3) Includes the Bonds and excludes the Refunded Bonds and the District's Commercial Paper Notes. The Commercial Paper Notes may be issued from time to time up to an aggregate principal amount of $100,000,000 outstanding at any time. Upon the issuance of the Bonds and refunding of the Refunded Notes with proceeds thereof, the capacity to issue Commercial Paper Notes under the Commercial Paper Program will be fully restored to $100,000,000. Preliminary, subject to change.
(4) See "Table 10 – Authorized but Unissued Unlimited Tax Bonds" herein.

*[The remainder of this page intentionally left blank.]*

## DEBT INFORMATION

**TABLE 8 - PRO FORMA TAX SUPPORTED DEBT SERVICE REQUIREMENTS(1)**

| Period Ending 8/31 | Outstanding Debt(2) Principal | Outstanding Debt(2) Interest | Outstanding Debt(2) Total | The Bonds(3) Principal | The Bonds(3) Interest | The Bonds(3) Total | Total Tax-Supported Debt Service | % of Principal Retired |
|---|---|---|---|---|---|---|---|---|
| 2018 | $ 42,723,388 | $ 39,343,985 | $ 82,067,373 | $ - | $ 1,362,990 | $ 1,362,990 | $ 83,430,363 | |
| 2019 | 44,163,388 | 34,224,233 | 78,387,621 | 1,200,000 | 6,542,350 | 7,742,350 | 86,129,971 | |
| 2020 | 40,283,388 | 40,354,193 | 80,637,581 | 1,260,000 | 6,482,350 | 7,742,350 | 88,379,931 | |
| 2021 | 48,158,388 | 34,892,768 | 83,051,156 | 1,325,000 | 6,419,350 | 7,744,350 | 90,795,506 | |
| 2022 | 50,468,388 | 35,060,808 | 85,529,196 | 1,390,000 | 6,353,100 | 7,743,100 | 93,272,296 | 23.42% |
| 2023 | 52,945,000 | 32,494,056 | 85,439,056 | 1,460,000 | 6,283,600 | 7,743,600 | 93,182,656 | |
| 2024 | 54,495,000 | 29,783,079 | 84,278,079 | 1,530,000 | 6,210,600 | 7,740,600 | 92,018,679 | |
| 2025 | 59,710,000 | 27,268,268 | 86,978,268 | 1,610,000 | 6,134,100 | 7,744,100 | 94,722,368 | |
| 2026 | 58,205,000 | 23,833,238 | 82,038,238 | 1,690,000 | 6,053,600 | 7,743,600 | 89,781,838 | |
| 2027 | 60,020,000 | 20,585,938 | 80,605,938 | 1,775,000 | 5,969,100 | 7,744,100 | 88,350,038 | 53.16% |
| 2028 | 40,015,000 | 17,870,588 | 57,885,588 | 19,620,000 | 5,880,350 | 25,500,350 | 83,385,938 | |
| 2029 | 37,045,000 | 15,773,238 | 52,818,238 | 22,145,000 | 4,899,350 | 27,044,350 | 79,862,588 | |
| 2030 | 38,835,000 | 13,901,113 | 52,736,113 | 23,210,000 | 3,792,100 | 27,002,100 | 79,738,213 | |
| 2031 | 26,330,000 | 11,937,338 | 38,267,338 | 8,580,000 | 2,631,600 | 11,211,600 | 49,478,938 | |
| 2032 | 27,610,000 | 10,503,363 | 38,113,363 | 9,010,000 | 2,202,600 | 11,212,600 | 49,325,963 | 78.75% |
| 2033 | 28,995,000 | 8,967,338 | 37,962,338 | 9,370,000 | 1,842,200 | 11,212,200 | 49,174,538 | |
| 2034 | 30,450,000 | 7,353,938 | 37,803,938 | 9,745,000 | 1,467,400 | 11,212,400 | 49,016,338 | |
| 2035 | 13,045,000 | 6,161,700 | 19,206,700 | 2,545,000 | 1,077,600 | 3,622,600 | 22,829,300 | |
| 2036 | 13,660,000 | 5,370,650 | 19,030,650 | 2,645,000 | 975,800 | 3,620,800 | 22,651,450 | |
| 2037 | 14,300,000 | 4,541,500 | 18,841,500 | 2,755,000 | 870,000 | 3,625,000 | 22,466,500 | 91.68% |
| 2038 | 14,500,000 | 3,672,650 | 18,172,650 | 2,865,000 | 759,800 | 3,624,800 | 21,797,450 | |
| 2039 | 12,485,000 | 2,795,050 | 15,280,050 | 2,980,000 | 645,200 | 3,625,200 | 18,905,250 | |
| 2040 | 13,070,000 | 2,063,900 | 15,133,900 | 3,095,000 | 526,000 | 3,621,000 | 18,754,900 | |
| 2041 | 11,265,000 | 1,297,650 | 12,562,650 | 3,220,000 | 402,200 | 3,622,200 | 16,184,850 | |
| 2042 | 11,775,000 | 663,600 | 12,438,600 | 3,350,000 | 273,400 | 3,623,400 | 16,062,000 | 99.65% |
| 2043 | - | - | - | 3,485,000 | 139,400 | 3,624,400 | 3,624,400 | 100.00% |
| | $ 844,551,940 | $ 430,714,175 | $ 1,275,266,115 | $ 141,860,000 | $ 86,196,140 | $ 228,056,140 | $ 1,503,322,255 | |

(1) Excludes the District's Commercial Paper Notes. The Commercial Paper Notes may be issued from time to time up to an aggregate principal amount of $100,000,000 outstanding at any time. Upon the issuance of the Bonds and refunding of the Refunded Notes with proceeds thereof, the capacity to issue Commercial Paper Notes under the Commercial Paper Program will be fully restored to $100,000,000.

(2) Excludes the Refunded Bonds. Interest on the District's Variable Rate Unlimited Tax School Building Bonds, Series 2015A is calculated at a Term Rate of 0.900% through July 31, 2018 and at the Stepped Rate of 7.00% per annum thereafter. Interest on the District's Variable Rate Unlimited Tax School Building Bonds, Series 2015B is calculated at a Term Rate of 1.350% through July 31, 2019 and at the Stepped Rate of 7.000% per annum thereafter. Interest on the District's Variable Rate Unlimited Tax Refunding Bonds, Series 2017C is calculated at an Initial Rate of 1.350% through July 31, 2020 and at the Stepped Rate of 7.00% per annum thereafter. Interest on the District's Variable Rate Unlimited Tax Refunding Bonds, Series 2017D is calculated at an Initial Rate of 1.500% through July 31, 2021 and at the Stepped Rate of 7.000% per annum thereafter.

(3) Preliminary, subject to change. Assumes interest at current market rates for purposes of illustration.

**TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION**

| | |
|---|---|
| Principal and Interest Requirements for the Period Ended August 31, 2019 (1) | $ 86,129,971 |
| $0.260000 Interest and Sinking Fund Tax Rate @ 99.0% Collections (2) | $ 101,667,032 |

(1) Includes the Bonds and excludes the Refunded Bonds and the District's Commercial Paper Notes. The Commercial Paper Notes may be issued from time to time up to an aggregate principal amount of $100,000,000 outstanding at any time. Upon the issuance of the Bonds and refunding of the Refunded Notes with proceeds thereof, the capacity to issue Commercial Paper Notes under the Commercial Paper Program will be fully restored to $100,000,000. Preliminary, subject to change.

(2) Assumes an estimated Tax Year 2018 (Fiscal Year 2018-2019) Taxable Assessed Valuation of $39,497,681,479.

**TABLE 10 - AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS**

| Purpose | Date Authorized | Amount Authorized | Amount Previously Issued(1) | Amount Being Issued | Unissued Balance |
|---|---|---|---|---|---|
| School Building Facilities | November 6, 2007 | $ 428,000,000 | $ 399,000,000 | $ 10,000,000 | $ 19,000,000 |
| School Building Facilities | November 4, 2014 | 484,000,000 | 360,000,000 (2) | 50,000,000 (3) | 74,000,000 (4) |
| | | $ 912,000,000 | $ 759,000,000 | $ 60,000,000 | $ 93,000,000 |

(1) Includes premium charged against voted authority.

(2) The District may issue and have outstanding from time to time up to $100,000,000 in Commercial Paper under its Commercial Paper Program utilizing voted authorization from either of the Elections (as defined herein). This Amount Previously Issued includes and assumes the issuance and allocation of the full $100,000,000 capacity of the District's Commercial Paper Program to the 2014 Election. When the Commercial Paper that is ultimately issued utilizing such capacity is refunded with long-term bonds, the District will make a final allocation of the Commercial Paper to the appropriate Election.

(3) This amount represents the final allocation of the voted authority used by the District in connection with the issuance and refunding of the Refunded Notes.

(4) This amount excludes the $100,000,000 capacity of the District's Commercial Paper Program described in footnote (2). Following the refunding of the Refunding Notes, the District will have $1,000,000 in Commercial Paper outstanding and $99,000,000 in capacity under its Commercial Paper Program.

**ANTICIPATED ISSUANCE OF UNLIMITED TAX DEBT** . . . In November 2016, the District established a commercial paper program (the "CP Program" or "Commercial Paper Program") pursuant to which it is authorized to issue commercial paper notes ("Commercial Paper Notes" or "Commercial Paper") from time to time and in an aggregate principal amount of not more than $100 million at any one time outstanding pursuant to the authority provided at elections held on November 6, 2007 and November 4, 2014 (collectively, the "Elections"); provided, however, that the aggregate amount of indebtedness issued to finance authorized projects pursuant to the Elections cannot exceed the limits approved by the voters at such Elections. See "Table 10 – Authorized but Unissued Unlimited Tax Bonds". The Bonds are issued, in part, as refunding bonds to provide permanent financing for various projects that were originally financed pursuant to the voted authority approved at the Elections through the issuance of Refunded Notes. Upon the issuance of the Bonds and the refunding of the Refunded Notes with proceeds thereof, the capacity to issue Commercial Paper Notes under the Commercial Paper Program will be fully restored to $100,000,000. The District expects to continue issuing its Commercial Paper Notes under the Commercial Paper Program to provide interim financing for projects authorized by the Elections.

The District also plans to issue approximately $60,000,000 in Taxable Unlimited Tax School Building Bonds in 2018 to fund the Career and Technology Center approved at the November 4, 2014 election. Also, the District anticipates remarketing its Variable Rate Unlimited Tax School Building Bonds, Series 2015A into a new Term Rate Period on or prior to those bonds' August 1, 2018 mandatory tender date.

**TABLE 11 - OTHER OBLIGATIONS**

**OTHER OBLIGATIONS** . . . In addition to voter authorized ad valorem tax-supported debt, the District may also enter into other financial obligations, 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. The District currently has no other such obligations outstanding.

**PENSION FUND AND OTHER POST EMPLOYMENT RETIREMENT BENEFITS** . . . The District's employees participate in a retirement plan (the "Plan") with the State of Texas. The Plan is administered by the Teacher Retirement System of Texas ("TRS"). State contributions are made to cover costs of the TRS retirement plan up to certain statutory limits. The District is obligated for a portion of TRS costs relating to employee salaries that exceed the statutory limit. For the year ended June 30, 2017, the State contributed $23,445,722 to TRS on behalf of the District's employees and the District paid additional State contributions of $12,540,010. (For more detailed information concerning the retirement plan, see APPENDIX B – "Excerpts from the Fort Bend Independent School District Annual Financial Report" - Note 14.)

The Government Accounting Standards Board (GASB) has issued *GASB Statements No. 68, No. 73, and No. 82* regarding pension issues. The implementation of these statements is reflected in the financial statements and the notes to the financial statements.

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**FINANCIAL INFORMATION**

**TABLE 12 - CHANGE IN NET ASSETS**

| | Fiscal Year Ended June 30, | | | | |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| Program Revenues: | | | | | |
| Charges for Services | $ 17,894,854 | $ 18,868,613 | $ 18,497,219 | $ 29,087,309 | $ 27,103,770 |
| Operating Grants & Contributions | 92,959,440 | 105,396,708 | 77,560,592 | 70,734,014 | 67,649,896 |
| Capital Grants & Contributions | 1,981,545 | 2,178,836 | - | 348,311 | 17,866 |
| State Aid | 194,871,212 | 227,741,954 | 220,334,746 | 221,418,047 | 195,558,381 |
| Property Taxes - General Purpose | 358,493,162 | 325,891,138 | 294,770,489 | 268,253,154 | 251,471,437 |
| Property Taxes - Debt Service | 104,168,037 | 94,042,907 | 85,022,478 | 77,470,475 | 72,570,735 |
| Investment Earnings | 1,820,824 | 1,325,273 | 545,410 | 667,295 | 822,845 |
| Miscellaneous | - | - | 6,760 | 81,101 | 28,282 |
| Transfers | 1,500,000 | 1,000,000 | (1,802,900) | - | - |
| Total Revenues | $ 773,689,074 | $ 776,445,429 | $ 694,934,794 | $ 668,059,706 | $ 615,223,212 |
| Expenses: | | | | | |
| Instruction | $ 423,919,352 | $ 440,424,533 | $ 397,480,299 | $ 354,454,494 | $ 342,515,702 |
| Instructional Resources | 9,069,384 | 8,955,405 | 8,594,706 | 8,164,312 | 8,008,032 |
| Curriculum and Staff Development | 13,229,608 | 8,239,097 | 7,854,401 | 6,489,663 | 6,257,236 |
| Instructional Leadership | 14,201,230 | 12,690,602 | 10,858,647 | 6,715,627 | 6,297,401 |
| School Leadership | 42,257,165 | 39,687,500 | 36,839,767 | 31,729,773 | 29,428,516 |
| Guidance and Counseling | 32,165,308 | 31,161,853 | 28,549,294 | 24,025,640 | 21,784,971 |
| Social Work Services | 1,827,603 | 1,502,694 | 1,349,573 | 1,092,832 | 1,026,242 |
| Health Services | 9,037,794 | 8,821,395 | 7,975,815 | 7,022,914 | 6,967,990 |
| Student Transportation | 25,377,196 | 22,518,642 | 17,166,506 | 18,591,814 | 18,280,310 |
| Food Services | 27,915,617 | 26,281,407 | 26,188,273 | 24,413,914 | 23,049,160 |
| Extracurricular Activities | 15,510,869 | 15,086,694 | 14,834,359 | 12,575,435 | 12,067,128 |
| General Administration | 16,507,370 | 16,554,022 | 14,701,103 | 11,519,003 | 11,466,496 |
| Plant Maintenance and Operations | 91,960,578 | 69,853,232 | 56,408,160 | 53,926,198 | 50,087,138 |
| Security and Monitoring Services | 10,001,661 | 9,350,680 | 7,523,626 | 5,408,550 | 5,327,661 |
| Data Processing Services | 26,378,254 | 29,360,000 | 13,184,091 | 11,066,313 | 11,038,931 |
| Community Services | 2,002,012 | 962,290 | 1,186,048 | 6,735,541 | 6,975,000 |
| Interest on Long-term Debt | 34,450,182 | 36,067,077 | 35,843,669 | 39,555,950 | 40,750,880 |
| Bond Issuance Costs and Fees | - | - | - | 601,146 | 4,578 |
| Facilities Repair and Maintenance | 4,632,524 | 4,010,336 | 1,288,810 | 2,404,252 | 1,215,855 |
| Payments Related to Shared Services Arrangements | 774,900 | 475,246 | 430,326 | 450,540 | 368,201 |
| Other Intergovernmental Charges | - | - | - | - | - |
| Payments for Tax Appraisal Costs | 2,845,274 | 2,451,206 | 2,371,462 | 2,086,144 | 1,761,067 |
| Total Expenses | $ 804,063,881 | $ 784,453,911 | $ 690,628,935 | $ 629,030,055 | $ 604,678,495 |
| Increase (Decrease) in Net Position | $ (30,374,807) | $ (8,008,482) | $ 4,305,859 | $ 39,029,651 | $ 10,544,717 |
| Beginning Net Position | 236,796,017 | 244,804,499 | 310,534,529 | 271,504,878 | 260,960,161 (1) |
| Prior Period Adjustment | - | - | (70,035,889) | - | - |
| Ending Net Position | $ 206,421,210 (2) | $ 236,796,017 | $ 244,804,499 (3) | $ 310,534,529 | $ 271,504,878 |

*Source: The District's Comprehensive Annual Financial Reports.*

(1) Restated. As a result of implementing GASB Statements No. 63, *Financial Reporting of Deferred Outflows of Resources*, *Deferred Inflows of Resources*, and *Net Position*, and No. 65, *Items Previously Reported as Assets and Liabilities*, the District has restated the beginning net position in the government-wide Statement of Activities, effectively decreasing the net position as of July 1, 2012 by $6,402,008 from $267,362,169 to $260,960,161. The decrease results from no longer deferring and amortizing bond issuance costs.

(2) The Districts Net Assets decreased from $236.8 million to $206.4 million from June 30, 2016 to June 30, 2017 mainly due to net investments in capital assets decreasing by $21.1 million and unrestricted assets decreasing by $14.3 million. The decrease in net investment in capital assets is attributable to implementation of the 2014 Bond projects which were financed by bonded debt. Unrestricted assets decreased primarily due to the District's portion of deferred inflow relating to pension activities increasing by $14.1 million.

(3) The District has implemented the Governmental Accounting Standards Board Statement No. 68 *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27* for the year ending June 30, 2015. As a result the beginning net position of the District's governmental activities has been restated on the Statement of Activities to reflect the net pension liability and deferred outflows of resources relating to pension contributions made after the prior measurement date of the plan.

### TABLE 12A - GENERAL FUND REVENUES AND EXPENDITURE HISTORY

| | Fiscal Years Ended June 30, | | | | |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| Revenues: | | | | | |
| Local and Intermediate Sources | $ 363,641,297 | $ 329,855,223 | $ 298,120,271 | $ 282,532,786 | $ 264,924,351 |
| State Sources | 224,045,425 | 255,906,456 | 252,018,113 | 245,033,935 | 216,119,531 |
| Federal Sources | 9,226,988 | 8,769,014 | 7,707,746 | 8,511,326 | 5,820,196 |
| Total Revenues | $ 596,913,710 | $ 594,530,693 | $ 557,846,130 | $ 536,078,047 | $ 486,864,078 |
| | | | | | |
| Expenditures: | | | | | |
| Instruction | $ 351,605,814 | $ 349,990,086 | $ 346,926,414 | $ 310,713,774 | $ 289,240,414 |
| Instructional Resources | 7,353,704 | 7,337,178 | 7,450,863 | 6,945,986 | 6,614,938 |
| Curriculum & Staff Development | 10,597,964 | 6,171,784 | 6,062,150 | 5,061,742 | 5,037,824 |
| Instructional Leadership | 12,174,420 | 10,731,444 | 9,188,848 | 5,520,197 | 4,888,689 |
| School Leadership | 39,656,488 | 37,626,736 | 36,734,932 | 31,777,281 | 28,607,750 |
| Guidance & Counseling | 28,190,325 | 27,673,964 | 26,635,750 | 22,515,807 | 20,128,199 |
| Social Work Services | 1,531,051 | 1,222,604 | 1,072,450 | 561,758 | 463,338 |
| Health Services | 7,388,922 | 7,389,216 | 7,107,847 | 6,117,016 | 5,918,453 |
| Student Transportation | 21,615,297 | 19,232,386 | 15,026,081 | 16,822,058 | 17,052,692 |
| Co-Curricular Activities | 12,490,059 | 12,225,283 | 12,470,502 | 10,340,510 | 9,221,410 |
| General Administration | 15,716,062 | 15,819,074 | 14,582,554 | 11,719,590 | 11,307,260 |
| Plant Maintenance & Operations | 60,249,514 | 55,706,712 | 54,458,690 | 53,617,638 | 49,805,379 |
| Security & Monitoring Services | 7,538,739 | 7,514,875 | 6,434,010 | 5,307,027 | 5,226,477 |
| Data Processing | 14,914,481 | 14,389,928 | 11,832,216 | 10,068,959 | 8,496,472 |
| Community Service | 686,178 | 431,358 | 575,049 | 6,034,321 | 6,036,203 |
| Prinicpal on Long Term Debt | - | - | - | - | - |
| Interest on Long Term Debt | - | - | - | - | - |
| Capital Outlay | | - | 292,906 | 1,356,185 | 385,519 |
| Payments to Shared Service Arrangements | 454,000 | 474,272 | 429,364 | 450,540 | 367,962 |
| Payments to Tax Appraisal District | 2,845,274 | 2,451,206 | 2,371,462 | 2,086,144 | 1,761,067 |
| Total Expenditures | $ 595,008,292 | $ 576,388,106 | $ 559,652,088 | $ 507,016,533 | $ 470,560,046 |
| | | | | | |
| Excess (Deficiency) of Revenues Over Expenditures | $ 1,905,418 | $ 18,142,587 | $ (1,805,958) | $ 29,061,514 | $ 16,304,032 |
| | | | | | |
| Sale of Real Property | $ 119,375 | $ 130,936 | $ 109,560 | $ 146,990 | $ 104,322 |
| Net Transfers | 767,183 | (6,045,167) | 1,500,000 | (29,235,301) | - |
| Other Uses | | | - | - | - |
| Total | $ 886,558 | $ (5,914,231) | $ 1,609,560 | $ (29,088,311) | $ 104,322 |
| | | | | | |
| Special Item | $ - | $ - | $ - | $ - | $ - |
| | | | | | |
| Net Change in Fund Balance | $ 2,791,976 | $ 12,228,356 | $ (196,398) | $ (26,797) | $ 16,408,354 |
| | | | | | |
| Fund Balance - Beginning | 182,463,050 | 170,234,694 | 170,431,092 | 170,457,889 | 154,049,535 |
| | | | | | |
| Fund Balance - Ending | $ 185,255,026 | $ 182,463,050 | $ 170,234,694 | $ 170,431,092 | $ 170,457,889 |

*Source: The District's Comprehensive Annual Financial Reports.*

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## INVESTMENTS

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

**LEGAL INVESTMENTS** . . . Under Texas law, the District is authorized to invest in (1) obligations 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 is 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, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successors; (7) bonds issued, assumed or guaranteed by the State of Israel; (8) certificates of deposit (i) meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (7) or in any other manner and amount provided by law for District deposits or, (ii) where (a) the funds are invested by the District through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the District as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the District; (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (ii) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit issued for the account of the District; (9) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1) 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 are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (10) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (11) commercial paper with a stated maturity of 270 days or less that is rated at least A 1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (12) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that comply with federal Securities and Exchange Commission Rule 2a-7; and (13) no-load mutual funds registered with the Securities and Exchange Commission that: have an average weighted maturity of less than two years; and have a duration of one year or more and are invested exclusively in obligations described in this paragraph or have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts, subject to limitations as set forth in the Public Funds Investment Act, Texas Government Code, Chapter 2256.

A political subdivision such as the District may enter into 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 (6) 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 (6) above, clauses (11) through (13) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAm or an equivalent by at least one nationally recognized rating service. 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.

As a school district that qualifies as an issuer under Chapter 1371, Texas Government Code, as amended, the District is also authorized to purchase, sell, and invest its funds in corporate bonds that, at the time of purchase, are rated by a nationally recognized investment rating firm "AA-" or the equivalent and have a stated final maturity that is not later than the third anniversary of the date the corporate bonds were purchased. Texas 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 debt obligation that is convertible into stocks or shares in the entity issuing the bond (or an affiliate or subsidy thereof) or any unsecured debt. Corporate bonds must finally mature not later than 3 years from their date of purchase by the school district. A school district may not (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. The District has, to date, taken no such action to permit its investment in corporate bonds.

The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

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

**TABLE 13 - CURRENT INVESTMENTS[(1)]**

As of February 28, 2018, the District's investable funds were invested in the following categories:

| Type of Investment | % of Portfolio | Market Value |
|---|---|---|
| Cash | 11.92% | $ 56,538,891 |
| Money Market Funds | 0.00% [(2)] | 664 |
| Texpool | 9.76% | 46,340,133 |
| Lone Star | 8.94% | 42,425,109 |
| TexStar | 8.29% | 39,334,297 |
| Texas Term | 9.16% | 43,472,035 |
| Texas CLASS | 5.97% | 28,345,682 |
| U.S. Securities and U.S. Agency Securities | 45.96% | 218,104,989 |
| Totals | 100.00% | $474,561,800 |

(1) Unaudited.
(2) Less than 0.01%.

As of such date, 100.00% of the District's investment portfolio will mature within 12 months. The market value of the investment portfolio was approximately 100.00% of its purchase price. 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.

TexSTAR is a local government investment pool for whom HilltopSecurities provides customer service and marketing for the pool. TexSTAR currently maintains a "AAAm" rating from Standard & Poor's and has an investment objective of achieving and maintaining a stable net asset value of $1.00 per share. Daily investments or redemptions of funds is allowed by the participants.

## TAX MATTERS

**TAX EXEMPTION** . . . In the opinion of Bracewell LLP, Bond Counsel, under existing law (i) interest on the Bonds is excludable from gross income for federal income tax purposes and (ii) the Bonds are not "private activity bonds" under the Internal Revenue Code of 1986, as amended (the "Code"), and, as such, interest on the Bonds will not be subject to the alternative minimum tax.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of proceeds and the source of repayment, limitations on the investment of proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of proceeds be paid periodically to the United States, and requirement that the issuer file an information report with the Internal Revenue Service (the "Service"). The District has covenanted in the Order that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Order pertaining to those sections of the Code which affect the excludability of interest on the Bonds from gross income for federal income tax purposes and, in addition, will rely on representations by the District, the District's Financial Advisor and the Underwriters, with respect to matters solely within the knowledge of the District, the District's Financial Advisor and the Underwriters, respectively, which Bond Counsel has not independently verified. If the District should fail to comply with the covenants in the Order or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the Bonds could become includable in gross income from the date of delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Bonds.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the District as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds regardless of the ultimate outcome of the audit.

**ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS**

***COLLATERAL TAX CONSEQUENCES***. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit, and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively connected earnings and profits, including tax-exempt interest such as interest on the Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Bonds should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

***TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE PREMIUM***. The issue price of all or a portion of the Bonds may exceed the stated redemption price payable at maturity of such Bonds. Such Bonds (the "Premium Bonds") are considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis of a Premium Bond in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Bond in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Premium Bond.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Premium Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of amortized bond premium upon the redemption, sale or other disposition of a Premium Bond and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption or other disposition of such Premium Bonds.

***TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT BONDS***. The issue price of all or a portion of the Bonds may be less than the stated redemption price payable at maturity of such Bonds (the "Original Issue Discount Bonds"). In such case, the difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds. Generally, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussions regarding interest on the Bonds under the captions "TAX MATTERS – Tax Exemption" and "TAX MATTERS – Additional Federal Income Tax Considerations – Collateral Tax Consequences" and "—Tax Legislative Changes" generally apply and should be considered in connection with the discussion in this portion of the Official Statement.

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

The foregoing discussion assumes that (i) the Underwriter has purchased the Bonds for contemporaneous sale to the public and (ii) all of the Original Issue Discount Bonds have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the inside cover page of this Official Statement. Neither the District nor Bond Counsel has made any investigation or offers any comfort that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.

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

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

***TAX LEGISLATIVE CHANGES***. Public Law No. 115-97 (i.e., the Tax Cuts and Jobs Act), which makes significant changes to the Code, including changing certain provisions affecting tax-exempt obligations, such as the Bonds, was signed into law on December 22, 2017. The changes include, among others, changes to the federal income tax rates for individuals and corporations and the alternative minimum tax for tax years beginning after December 31, 2017. Further, current law may change so as to directly or indirectly reduce or eliminate the benefit of the excludability of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could also affect the value and liquidity of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any recently-enacted, proposed, pending or future legislation.

## CONTINUING DISCLOSURE OF INFORMATION

In the Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains an "obligated person" with respect to the Bonds, within the meaning of the United States Securities and Exchange Commission Rule 15c2-12 (the "Rule"). Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the Municipal Securities Rulemaking Board (the "MSRB"). This information will be publicly available on the MSRB's Electronic Municipal Market Access System ("EMMA") at www.emma.msrb.org. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" for a description of the TEA's continuing disclosure undertaking to provide certain updated financial information and operating data annually with respect to the Permanent School Fund and the State, as the case may be, and to provide timely notice of certain specified events related to the guarantee to the MSRB.

**ANNUAL REPORTS** . . . The District shall provide annually to the MSRB, (i) within six (6) months after the end of each Fiscal Year of the District ending in or after 2018, financial information and operating data with respect to the District of the general type included in this Official Statement under Tables 1 through 6 and 8 through 13 and including audited financial statements of the District if audited financial statements of the District are then available, and (ii) if not provided as part such financial information and operating data, audited financial statements of the District, when and if available. Any financial statements so to be provided shall be (i) prepared in accordance with the accounting principles prescribed by the Texas State Board of Education or such other accounting principles as the District may be required to employ, from time to time, by State law or regulation, and (ii) audited, if the District commissions an audit of such statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the District shall file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available.

The District may provide updated information in full text or may incorporate by reference documents available on EMMA or filed with the U.S. Securities and Exchange Commission (the "SEC").

The District's current fiscal year end is June 30. Accordingly, it must provide updated information by the last day of December in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

**NOTICES OF CERTAIN EVENTS** . . . The District will provide to the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of ten (10) business days after the occurrence of the event, notice of any of the following events with respect to the Bonds: (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; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such 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.

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. In addition, the District will provide timely notice of any failure by the District to provide annual financial information in accordance with their agreement described above under "Annual Reports."

**AVAILABILITY OF INFORMATION FROM MSRB** . . . The District has agreed to provide the foregoing information only as described above. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at www.emma.msrb.org.

**LIMITATIONS AND AMENDMENTS** . . . The District has agreed to update information and to provide notices of certain 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, 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 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 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 District, if (i) 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 (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment 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 registered and beneficial owners of the Bonds. The District may also repeal or amend the provisions of its continuing disclosure agreement 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, and the District also may amend the provisions of its continuing disclosure agreement in its discretion in any other manner or circumstance, but in either case only if and to the extent that the provisions of this sentence would not have prevented an underwriter from lawfully purchasing or selling the 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 so amends the agreement, it has agreed to 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 financial information and operating data so provided.

**COMPLIANCE WITH PRIOR UNDERTAKINGS** . . . On May 12, 2014, S&P upgraded the underlying rating on the District's bonds from AA to AA+. The District disclosed the AA+ rating in its Official Statement for the District's Unlimited Tax Refunding Bonds, Series 2014, which was posted on the EMMA website on May 23, 2014. The information was also included in the District's Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2014, which was posted on the EMMA website on December 22, 2014. The District did not file a separate notice of the ratings upgrade, and the upgraded rating information contained in such offering documents was not linked to all of the CUSIP numbers for the District's bonds that were outstanding at that time. The District recently learned that its filings of annual financial information and operating data for the fiscal year ending June 30, 2013 was not linked to several CUSIP numbers associated with certain maturities of its Unlimited Tax School Building and Refunding Bonds, Series 2008 and Unlimited Tax School Building and Refunding Bonds, Series 2004A. The bonds associated with such CUSIP numbers have matured and are no longer outstanding and the information was otherwise available and obtainable through EMMA.

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## OTHER INFORMATION

### RATINGS

The Bonds and the presently outstanding unenhanced tax-supported debt of the District are rated "AA+" by Fitch Ratings ("Fitch") and "AA+" by S&P Global Ratings, a division of Standard & Poor's Financial Services LLC ("S&P"). The District also has thirteen issues outstanding which are rated "AAA" by Fitch and "AAA" by S&P by virtue of the guarantee of the Permanent School Fund of the State of Texas. The District has two issues that are not subject to the Permanent School Fund Guarantee and one issue that is not rated. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the District makes no representation as to the appropriateness of the ratings. The District has received conditional approval for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein). The ratings reflect only the respective 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 either or both of such rating companies, if in the judgment of either or both 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.

### LITIGATION

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

### 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. The District assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

### LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency. See "OTHER INFORMATION - 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 capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the District has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

### LEGAL MATTERS

The delivery of the Bonds is subject to the approval of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limitation as to rate or amount, upon all taxable property in the District and the approving legal opinion of Bond Counsel, in substantially the form attached hereto as APPENDIX C.

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 herein except that in its capacity as Bond Counsel, such firm has reviewed the information in this Official Statement appearing under the captions and subcaptions "PLAN OF FINANCING", "THE BONDS" (excluding the information under the subcaptions "Permanent School Fund Guarantee," "Book-Entry-Only System," "Bondholders Remedies" and "Sources and Uses of Proceeds"), and "CONTINUING DISCLOSURE OF INFORMATION" (except for the information under the subcaption "Compliance with Prior Undertakings") and Bond Counsel is of the opinion that the information contained therein conforms to the provisions of the Order; further, such firm has reviewed the information in this Official Statement appearing under the captions and subcaptions "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC

SCHOOL FINANCE SYSTEM," "TAX RATE LIMITATIONS" (first paragraph only, except for the last sentence of such paragraph), "TAX MATTERS," "ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS," "OTHER INFORMATION - Legal Investments and Eligibility to Secure Public Fund in Texas," "OTHER INFORMATION – Registration and Qualification of Bonds for Sale," and "OTHER INFORMATION – Legal Matters" (excluding the last sentence of the second paragraph thereof), and such firm is of the opinion that the information contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein. 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. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by Orrick, Herrington & Sutcliffe LLP, Houston, Texas, Counsel to the Underwriters.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

**FINANCIAL ADVISOR**

HilltopSecurities is employed as 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. HilltopSecurities, in its capacity as Financial Advisor, has not verified and 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.

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

**VERIFICATION OF MATHEMATICAL COMPUTATIONS**

Grant Thornton LLP, a firm of independent certified public accountants, will deliver to the District, on or before the settlement date of the Bonds, its verification report indicating that it has verified, in accordance with the Statement on Standards for Consulting Services established by the American Institute of Certified Public Accountants, the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Federal Securities, to pay, when due, the maturing principal of, interest on and related call premium requirements, if any, of the Refunded Obligations and (b) the mathematical computations of yield used by Bond Counsel to support its opinion that interest on the Bonds will be excluded from gross income for federal income tax purposes.

Grant Thornton LLP relied on the accuracy, completeness and reliability of all information provided to it by, and on all decisions and approvals of, the District. In addition, Grant Thornton LLP has relied on any information provided to it by the District's retained advisors, consultants or legal counsel. Grant Thornton LLP was not engaged to perform audit or attest services under AICPA auditing or attestation standards or to provide any form of attest report or opinion under such standards in conjunction with this engagement.

**UNDERWRITING**

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the District for $___________ (an amount equal to the principal amount of the Bonds, plus a premium of $__________, less an underwriting discount of $__________). The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters 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 Underwriters do not guarantee the accuracy or completeness of such information.

FTN Financial Capital Markets is a division of First Tennessee Bank National Association and FTB Advisors, Inc. is a wholly owned subsidiary of First Tennessee Bank National Association. FTN Financial Capital Markets has entered into a distribution agreement with FTB Advisors, Inc. for the distribution of the Bonds at the original issue prices. Such arrangement generally provides that FTN Financial Capital Markets will share a portion of its underwriting compensation or selling concession with FTB Advisors, Inc.

One of the Underwriters is BOK Financial Securities, Inc., which is not a bank, and the Bonds are not deposits of any bank and are not insured by the Federal Deposit Insurance Corporation.

#### AUDITED FINANCIAL STATEMENTS

Whitley Penn LLP, the District's independent auditor, has not reviewed, commented on, or approved, and is not associated with, this Official Statement. The report of Whitley Penn LLP relating to District's financial statements for the fiscal year ended June 30, 2017 is included in this Official Statement in APPENDIX B; however, Whitley Penn LLP has not performed any procedures on such financial statements since the date of such report, and has not performed any procedures on any other financial information of the District, including without limitation any of the information contained in this Official Statement.

#### FORWARD-LOOKING STATEMENTS DISCLAIMER

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. The District's actual results could differ materially from those discussed in such forward-looking statements.

The forward-looking statements included 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 will prove to be accurate.

#### MISCELLANEOUS

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. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

The Order authorizing the issuance of the Bonds authorizes an authorized official to approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorizes its further use in the reoffering of the Bonds by the Underwriters.

**SCHEDULE I**

## SCHEDULE OF REFUNDED BONDS*

### Unlimited Tax School Building & Refunding Bonds, Series 2008*

| Original Dated Date | Maturity (August 15) | Interest Rate | Amount |
|---|---|---|---|
| April 15, 2008 | 2028 | 5.000% | $19,365,000 |
| | 2029 | 5.000% | 21,880,000 |
| | 2030 | 5.000% | 22,925,000 |
| | 2031 | 5.000% | 8,285,000 |
| | 2034 | 4.750% | 27,355,000 [(1)] |

The Refunded Bonds listed above are to be called on August 15, 2018 at par.

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(1) Term Bond.
* Preliminary, subject to change.

*[The remainder of this page intentionally left blank.]*

**SCHEDULE II**

## SCHEDULE OF REFUNDED NOTES*

**Fort Bend Independent School District**
**Unlimited Tax Commercial Paper Program, Series A***

| Issue Date | Maturity Date | Principal Amount | Coupon | Maturity Amount |
|---|---|---|---|---|
| | | $ | | $ |
| | | $ - | | $ - |

---
* Preliminary, subject to change.

*[The remainder of this page intentionally left blank.]*

**APPENDIX A**

GENERAL INFORMATION REGARDING THE DISTRICT, THE CITY OF SUGAR LAND
AND FORT BEND COUNTY, TEXAS

**GENERAL INFORMATION REGARDING THE DISTRICT, THE CITY OF SUGAR LAND AND FORT BEND COUNTY, TEXAS**

**LOCATION**

The District is located in the northeast quadrant of Fort Bend County adjoining the southern city limits of Houston and is accessed by U.S. Highway 59 extending from downtown Houston. The District encompasses the Cities of Sugar Land, Missouri City, Arcola and Meadows. The District is also traversed by U.S. Highway 90A, State Highways 6 and 99, and the Sam Houston Tollway. The 2018 population estimate for the District is 364,601. The District is the largest employer in Fort Bend County and one of the top ten largest school districts in Texas.

**LOCAL ECONOMY**

Fort Bend County and the surrounding metropolitan area economy is diverse, with many industries such as oil and gas, healthcare, real estate, and other trades. Although the area has been affected by recent layoffs in the energy sector, other industries continue to develop. A suburb of the greater Houston Metro area, the county offers a suburban setting with access to international airports, entertainment venues and downtown Houston. The unemployment rate in December 2017 for Fort Bend County of 4.0 percent is slightly above the national average of 3.9 percent.

The population of Fort Bend County is expected to increase from over 700,000 today to over one million by the year 2025. The continued growth in the county has led to major infrastructure projects including major highway expansions that feed into various master planned communities, including Aliana, Harvest Green, Riverstone, and Sienna Plantation. These infrastructure projects will improve mobility for Fort Bend County residents. Additionally, adjusted assessed property values have experienced an increase of approximately 10% over the prior tax year, largely due to the new construction in the master planned communities.

The City of Sugar Land opened a performing arts center in January 2017.

**ACADEMIC AND COMMUNITY PARTNER ACCOLADES**

FBISD received a 2016 District accountability rating of Met Standard, and 67 of 70 campuses received a Met Standard rating. Two campuses, Briargate Elementary and Ridgemont Elementary, were rated Improvement Required. Under the state's accountability based system, campuses and districts receive either Met Standard or Improvement Required ratings. FBISD campuses also earned a total of 108 distinctions in seven possible areas –Student Progress, Closing Performance Gaps, English Language Arts/Reading, Math, Science, Social Studies, and Post-Secondary Readiness. At the campus level 31 of 71 campuses (44%) earned one or more distinction designations, and four campuses (6%) earned all distinction designations for which they were eligible.

Eighty of FBISD's secondary students were finalists in the 2016 National Merit Scholarship Program. The 80 scholars are among 15,000 chosen as finalists from more than 1.5 million high school seniors in nearly 22,000 high schools that entered the 2016 National Merit Scholarship Program by taking the PSAT/National Merit Scholarship Qualifying Test.

The graduation rate of the District for 2014 was 92% compared to the state average of 88.3%.

Thirty student musicians were selected to the 2017 Texas All-State Musicians by the Texas Music Educators Association. They are among 1,780 students selected through competitive auditions.

The 2016 graduating Senior Class were offered academic and athletic scholarship totaling over $110 million.

FBISD values its strong community and business partners, who play an integral role in student success. Business and Community Partners donated more than $3.5 million to support student success. In addition, the District's Volunteers in Public Schools recorded over 359,000 volunteer hours in the District's campuses and schools, which total an estimated $8.8 million in additional volunteer services based on an hourly rate established by the Independent Sector.

Since its inception in 1992, The Fort Bend Education Foundation has awarded more than $32 million to FBISD teachers and schools. During the 2015-2016 school year, the Fort Bend Education Foundation awarded more than $477,000 to FBISD teachers to fund innovative programs for the District's students.

**AWARDS**

The Government Finance Officers Association awarded a Certificate of Achievement for Excellence in Financial Reporting to the District for its comprehensive annual financial report for the twelve months ending June 30, 2016. In order to be awarded a Certificate of Achievement, the District published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both accounting principles generally accepted in the United States of America and applicable legal requirements.

Additionally, the Association of School Business Officials (ASBO) awarded a Certificate of Excellence in Financial Reporting to the District for its annual financial report for the twelve months ending June 30, 2017. The Certificate of Excellence in Financial Reporting certifies that the recipient school district presented its comprehensive annual financial report to the ASBO Panel of Review for critical review and evaluation; and the report was judged to have complied with the principles and practices of financial reporting recognized by ASBO.

Both the Certificate of Achievement for Excellence in Financial Reporting and the Certificate of Excellence in Financial Reporting are valid for a period of one year only. We believe that the current comprehensive annual financial report continues to meet the program requirements for the Certificate of Achievement and the Certificate of Excellence, and it is being submitted it to the GFOA and ASBO to determine its eligibility for other certificates.

The District was assigned a rating of an "A" for "Superior Achievement" under the recently revised scoring system of the Schools FIRST (Financial Integrity Rating System of Texas), a financial accountability system for Texas school districts developed by the Texas Education Agency in response to Senate Bill 875 of the 76th Texas Legislature. The primary goal of Schools FIRST is to ensure quality performance in the management of school districts' financial resources, a goal made more significant due to the complexity of accounting associated with the Texas school finance system. Fort Bend ISD has achieved the highest possible rating for fourteen consecutive years.

Lastly, the District was awarded for the third consecutive time a Certification of Investment Policy by the Government Treasurers' Organization of Texas (GTOT) with the latest award applicable for the two year period ending September 2018. The certification recognizes the District for developing an investment policy that meets the requirements of the Public Funds Investment Act and standards for prudent public investing established by the GTOT.

**STUDENT ENROLLMENT BY GRADES**

| Grade | 2017/2018 (As of 2/28/18) | 2016/2017 | 2015/2016 | 2014/2015 | 2013/2014 |
|---|---|---|---|---|---|
| EC | 543 | 652 | 123 | 600 | 556 |
| Pre-K | 1,408 | 1,177 | 1,351 | 1,194 | 1,253 |
| K | 4,691 | 4,666 | 4,526 | 4,637 | 4,601 |
| 1 | 5,131 | 5,136 | 5,135 | 5,093 | 4,929 |
| 2 | 5,290 | 5,367 | 5,276 | 5,199 | 5,030 |
| 3 | 5,602 | 5,477 | 5,354 | 5,269 | 5,235 |
| 4 | 5,651 | 5,559 | 5,408 | 5,365 | 5,220 |
| 5 | 5,705 | 5,572 | 5,482 | 5,491 | 5,515 |
| 6 | 5,750 | 5,702 | 5,604 | 5,656 | 5,302 |
| 7 | 5,911 | 5,806 | 5,750 | 5,515 | 5,544 |
| 8 | 5,894 | 5,946 | 5,633 | 5,667 | 5,640 |
| 9 | 6,592 | 6,399 | 6,431 | 6,257 | 6,077 |
| 10 | 6,052 | 6,011 | 5,927 | 5,671 | 5,684 |
| 11 | 5,602 | 5,474 | 5,607 | 5,240 | 5,345 |
| 12 | 5,897 | 5,636 | 5,303 | 5,644 | 5,298 |
| Total | 75,719 | 74,580 | 72,910 | 72,498 | 71,229 |

**AVERAGE DAILY ATTENDANCE INCREASES/(DECREASES)**

| School Year | ADA | Actual Increase/Decrease | Percent (%) |
|---|---|---|---|
| 2008-09 | 65,522 | 1,003 | 1.55 |
| 2009-10 | 66,052 | 530 | 0.81 |
| 2010-11 | 65,906 | (146) | (0.22) |
| 2011-12 | 66,224 | 318 | 0.48 |
| 2012-13 | 66,338 | 114 | 0.17 |
| 2013-14 | 67,577 | 1,239 | 1.87 |
| 2014-15 | 68,768 | 1,191 | 1.76 |
| 2015-16 | 70,070 | 1,302 | 1.89 |
| 2016-17 | 70,874 | 804 | 1.15 |
| 2017-18 | 71,952 | 1,078 | 1.52 |

**STUDENT ENROLLMENT**

| Grade | 2016/2017 | 2017/2018 (As of 2/28/18) |
|---|---|---|
| EC | 652 | 543 |
| Pre-K | 1,177 | 1,408 |
| K | 4,666 | 4,691 |
| 1 | 5,136 | 5,131 |
| 2 | 5,367 | 5,290 |
| 3 | 5,477 | 5,602 |
| 4 | 5,559 | 5,651 |
| 5 | 5,572 | 5,705 |
| 6 | 5,702 | 5,750 |
| 7 | 5,806 | 5,911 |
| 8 | 5,946 | 5,894 |
| 9 | 6,399 | 6,592 |
| 10 | 6,011 | 6,052 |
| 11 | 5,474 | 5,602 |
| 12 | 5,636 | 5,897 |
| Total | 74,580 | 75,719 |

**HISTORICAL DISTRICT FACULTY**

| School Year | Teachers | Professional Support | Campus Administration | Central Admistration | Education Aides | Auxiliary | Total Staff |
|---|---|---|---|---|---|---|---|
| 2007-08 | 4,320 | 960 | 196 | 28 | 608 | 2,817 | 8,928 |
| 2008-09 | 4,354 | 1,003 | 197 | 25 | 557 | 2,759 | 8,894 |
| 2009-10 | 4,385 | 1,028 | 200 | 27 | 612 | 2,789 | 9,042 |
| 2010-11 | 4,135 | 1,008 | 198 | 29 | 534 | 2,551 | 8,453 |
| 2011-12 | 3,982 | 845 | 199 | 20 | 518 | 2,349 | 7,914 |
| 2012-13 | 4,030 | 838 | 200 | 18 | 541 | 2,323 | 7,950 |
| 2013-14 | 4,130 | 844 | 205 | 18 | 587 | 2,327 | 8,111 |
| 2014-15 | 4,418 | 949 | 225 | 31 | 646 | 2,358 | 8,627 |
| 2015-16 | 4,510 | 1,006 | 229 | 33 | 669 | 2,403 | 8,850 |
| 2016-17 | 4,468 | 1,076 | 230 | 32 | 721 | 2,462 | 8,989 |

**FORT BEND COUNTY**

The County is located just southwest of the City of Houston and Harris County. The County's 2017 population is estimated to be 736,825[(1)], which is an increase of 26% over the 2010 census of 585,375. The County encompasses 886 square miles.

*(1) Source: Municipal Advisory Council of Texas.*

The County's population began to grow after 1972 when the master planned communities of Quail Valley, Sugar Creek and First Colony began to attract families to the Fort Bend County area. Currently, twenty one master planned communities are located in the County.

Industry provides a large number of jobs. The predominate agricultural activity is derived from rice, cotton and livestock. These agricultural profits keep the County balanced, and also contribute a great deal to the economy. In addition to agriculture, industry in the County is varied, and employment opportunities include but are not limited to: Education, Professional, Retail, Finance, Insurance, Real Estate, Manufacturing, Energy Exploration, Technology, Medical, Research, Construction, Mining, Wholesale Trade, Communications, Public Utilities, Transportation, Public Administration, Entertainment and Recreation.

*Sources: U.S. Census Bureau, Fort Bend County Greater Fort Bend Economic Development Council, Municipal Advisory Council of Texas, and the Fort Bend Chamber of Commerce.*

**LEADING EMPLOYERS IN FORT BEND COUNTY**[1]

| Employer | Principal Line of Business | Approximate Number of Employees |
|---|---|---|
| Fort Bend ISD | Public Education | 10,579 |
| Lamar CISD | Public Education | 3,188 |
| Fort Bend County | County Government | 2,502 |
| Fluor Corporation | Engineering, Construction Maintenance and Technical Services | 2,430 |
| Methodist Sugar Land Hospital | Healthcare | 2,200 |
| Schlumberger Technology Corp. | Energy Exploration Technology/Research | 1,750 |
| Richmond State School | Special Education | 1,300 |
| United Parcel Service | Package Distribution | 1,200 |
| Oak Bend Medical Center | Healthcare | 1,164 |
| Nalco Company | Chemical Production | 1,100 |

*Sources: Fort Bend Economic Development Council.*
(1) As of May 2017.

**POPULATION TRENDS**

| Year | Fort Bend County | Sugar Land, Texas | State of Texas |
|---|---|---|---|
| 2010 Census | 585,375 | 78,817 | 25,674,681 |
| 2000 Census | 354,452 | 63,328 | 20,851,820 |
| 1990 Census | 225,421 | 24,529 | 16,986,510 |

*Sources: Fort Bend County Greater Fort Bend Economic Development Council and the U.S. Census Bureau.*

**EMPLOYMENT AND WAGES BY INDUSTRY - FORT BEND COUNTY**[(1)(2)]

| | First Quarter | | | | |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| Natural Resources and Mining | 3,279 | 3,901 | 4,313 | 4,279 | 4,327 |
| Construction | 11,126 | 11,520 | 12,285 | 11,484 | 12,157 |
| Manufacturing | 12,871 | 13,432 | 14,512 | 14,853 | 14,845 |
| Trade, Transportation & Utilities | 37,532 | 35,643 | 34,724 | 32,193 | 30,801 |
| Information | 1,933 | 1,697 | 1,565 | 1,704 | 1,584 |
| Financial Activities | 6,617 | 6,270 | 5,717 | 5,627 | 5,521 |
| Professional and Business Services | 19,740 | 18,882 | 18,274 | 17,532 | 17,192 |
| Education and Health Services | 27,597 | 25,638 | 24,141 | 22,195 | 20,729 |
| Leisure and Hospitality | 24,570 | 23,870 | 23,069 | 21,345 | 19,416 |
| Other Services | 5,538 | 5,089 | 4,932 | 4,744 | 4,341 |
| Unclassified | 250 | 80 | 79 | 90 | 121 |
| State Government | 2,827 | 2,783 | 2,726 | 2,759 | 2,943 |
| Local Government | 20,694 | 20,984 | 20,128 | 19,087 | 18,504 |
| **Total Employment** | 174,574 | 169,790 | 166,465 | 157,891 | 152,481 |
| **Total Wages** | $ 2,315,560,128 | $ 2,162,951,206 | $ 2,219,869,935 | $ 2,119,488,189 | $ 2,037,851,329 |

(1) Source: Texas Workforce Commission.
(2) Statistics do not include Federal employees or their wages.

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**LABOR FORCE STATISTICS FOR FORT BEND COUNTY**[1]

| | 2017[2] | 2016[3] | 2015[3] | 2014[3] | 2013[3] |
|---|---|---|---|---|---|
| Civilian Labor Force | 371,452 | 366,246 | 355,573 | 347,068 | 333,271 |
| Total Employed | 356,749 | 347,950 | 340,441 | 331,406 | 314,975 |
| Total Unemployed | 14,703 | 18,296 | 15,132 | 15,662 | 18,296 |
| Unemployment Rate | 4.0% | 5.0% | 4.3% | 4.5% | 5.5% |
| % Unemployed (Texas) | 3.7% | 4.6% | 4.5% | 5.1% | 6.2% |
| % Unemployed (U.S.) | 3.9% | 4.9% | 5.3% | 6.2% | 7.4% |

(1) Source: Texas Workforce Commission.
(2) As of December 2017.
(3) Actual annual statistics.

**HIGHER EDUCATION**

Four major institutes of higher learning are strongly present in the County. These institutions offer traditional classrooms and also the new technology of teleconferencing. These institutions play a key role in the expanding needs of both education and business in Fort Bend County. These four schools are Houston Community College Southwest, University of Houston System at Fort Bend, Wharton City Junior College - the Centraplex campus in Sugar Land and the University of Houston West Houston Institute at Cinco Ranch.

**TRANSPORTATION**

Access to the County is provided by U.S. Highway 59 (Southwest Freeway) which runs from Houston to the Rio Grande Valley; U.S. Highway 90-A, which traverses the District westward to San Antonio, and State Highway 6, which extends from the Gulf Coast through the southern portion of the District and then continues northward. Additionally, the District is served by the Sam Houston Tollway.

There are four rail companies providing freight service to the County: The Southern Pacific, the Union Pacific, the Atchison Topeka & Santa Fe, and the Burlington Northern Rail Service.

The County is served mainly by Houston Intercontinental Airport and the William P. Hobby Airport. Direct access to both is provided by the Sam Houston Tollway. Within the District are Arcola Houston Airport and the Sugar Land Municipal Airport. Each of these airports are fully F.A.A. approved, and serve private and small commercial aircraft.

**PARKS AND RECREATION**

Fort Bend has recently created a Parks and Recreation Department and is developing a Parks Master Plan. Sugar Land Memorial Park is a 420-acre park which includes a Veterans Memorial, walking/jogging/bike trails, a dog park, and many other amenities for family enjoyment. The Brazos Bend Park is a 4,897 acre park including nature trails, camping and the George Observatory. Kitty Hollow Park is a 190-acre park on the east side of the county. Also, within the separate master planned communities, homeowners provide additional facilities and programs, including eight country clubs.

There is an abundance of recreational activities throughout the County. In addition to the parks, the County has the Challenger Learning Center, where one can learn about the Challenger Spacecraft, and the Aerodrome Ice Skating Rink. In addition, each fall the County has a fair which attracts more than 200,000 visitors a year. Also, there is the George Ranch, a 23,000 acre working ranch including a restored Victorian mansion, blacksmith shop and farm buildings. Finally, there is the Imperial Sugar Refinery, which is located in the same location that cane sugar was first brought to Texas in 1843.

The Fort Bend County Fair and Livestock Show is the largest county fair in Texas and draws nearly 200,000 visitors each year to the County.

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**APPENDIX B**

EXCERPTS FROM THE

FORT BEND INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2017

The information contained in this Appendix consists of excerpts from the Fort Bend Independent School District Annual Financial Report for the Year Ended June 30, 2017, and is not intended to be a complete statement of the District's financial condition. Reference is made to the complete Report for further information.

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# REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees
Fort Bend Independent School District
Sugar Land, Texas

## Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Fort Bend Independent School District (the "District"), as of and for the year ended June 30, 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 fraud or error.

## Auditor's Responsibility

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

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

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

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 7 through 18 and the budgetary and required pension system information on pages 78 through 83 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 the 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 accompanying supplementary information, such as the combining and individual nonmajor fund financial statements, budget comparisons and compliance schedules and the other information, such as the introductory and statistical section, are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and budget comparisons and compliance schedules 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 and individual fund financial statements and budget comparisons and compliance schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have 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 them.

To the Board of Trustees
Fort Bend Independent School District

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Whitley Penn LLP

Houston, Texas
October 24, 2017

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# MANAGEMENT’S DISCUSSION AND ANALYSIS

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As management of Fort Bend Independent School District, we offer this narrative overview of the District's financial performance for the year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our transmittal letter located in the front of this report, the independent auditors' report, and the District's Basic Financial Statements which follow this section.

## Financial Highlights

The assets and deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources at June 30, 2017, by $212,818,472 on the government-wide financial statements. Of this amount, $120,638,624 is unrestricted that may be utilized to meet the District's ongoing obligations.

The District's governmental funds financial statements reported combined ending fund balances of $187,182,023 at June 30, 2017, a decrease of $96,755,840 in comparison to the prior year. The decrease in governmental balances was primarily due to a decrease of $105,151,840 in the capital projects fund due to ongoing expenditures on construction projects.

At the end of the current fiscal year, total unassigned fund balance for the general fund was $100.6 million or 16.9 percent of the total general fund expenditures of $595.0 million. In addition, the general fund has a committed fund balance of $49.4 million for state revenue stabilization, or 8.3 percent of total general fund expenditures.

## Overview of the Financial Statements

The Comprehensive Annual Financial Report is composed of three main sections - (A) Introductory Section, (B) Financial Section and (C) the Statistical Section. The Financial Section of this Comprehensive Annual Financial Report consists of four parts: (1) *management's discussion and analysis* (this section), (2) the *basic financial statements,* (3) *required supplementary information,* and (4) *other supplementary information*, which is an optional section that presents additional information such as *combining and individual fund statements and schedules* for non-major and major governmental funds, internal service funds, fiduciary funds, capital assets and required compliance information.

The Management's Discussion and Analysis section 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 Basic Financial Statements.

The basic financial statements include two kinds of statements that present different views of the District:

> The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's *overall* financial status.
>
> The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in *more detail* than the government-wide statements.
>
>> *Governmental fund* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
>>
>> *Proprietary fund* statements offer *short-* and *long-term* financial information about the activities the government operates *like businesses,* such as the District's self-insurance programs.

**Overview of the Financial Statements (continued)**

*Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

**Basic Financial Statements**

***Government-Wide Statements***

All of the District's services are reported in the government-wide financial statements, including instructional, instructional leadership, student support services, general administration, support services, and debt services. Property taxes, state foundation funds and grants finance most of these activities.

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

The Statement of Net Position presents information on all of the District's assets, deferred outflows and inflows of resources, and liabilities, with the difference between the four reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. To fully assess the overall health of the District, however, non-financial factors need to be considered as well, such as changes in the District's average daily attendance, its property tax base and the condition of the District's facilities.

The Statement of Activities presents information for all of the current year's revenues and expenses regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues *(governmental activities)* from other functions that are intended to recover all or a significant portion of their costs through user fees and charges *(business-type activities).*

The government-wide financial statements include the District's extended learning program and facility rental program. The extended learning program provides K-6$^{th}$ grade students homework help and enrichment activities, while the facility rental program provides rental space for participants. The costs associated with these programs are accounted for as business-type activities.

***Fund Financial Statements***

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related requirements. The fund financial statements provide more detailed information about the District's most significant funds, not the District as a whole.

## Basic Financial Statements (continued)

### *Fund Financial Statements (continued)*

Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and by bond covenants.

The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has three fund types:

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

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

The District maintains 25 governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, debt service fund and capital projects fund, which are considered to be major funds. Data from the other governmental funds are combined in a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in the financial statements. The District adopts an annual appropriated budget for its General Fund, National School Breakfast and Lunch Program Fund, and Debt Service Fund. A budgetary comparison schedule has been provided to demonstrate compliance with these budgets.

*Proprietary funds:* Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. There are two proprietary fund types – enterprise and internal service funds. The District's enterprise fund is used to account for its business-type activities, a day care program, an extended learning program and a facilities rental program. The internal service funds are an accounting device used to accumulate and allocate costs internally among the various functions. The District uses the internal service fund to report activities for its self-funded insurance programs.

## Basic Financial Statements (continued)

### *Fund Financial Statements (continued)*

*Fiduciary funds:* Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The District is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that -- because of a trust arrangement -- can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. The fiduciary funds are excluded from the activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

*Notes to Financial Statements*

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

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. The Required Supplementary Information relates to general fund budgetary comparison information and required pension system information.

Other Supplementary Information

The Other Supplementary Information section contains information for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information includes combining and individual fund statements for non-major governmental funds, internal service funds and fiduciary fund and budget comparisons for funds required to be reported, which does not meet the criteria for required supplementary information. This section also includes certain compliance schedules required by State Regulatory agencies.

## Government-Wide Financial Analysis

Presented in the following pages, Tables I and II are summarized Statement of Net Position and Statement of Changes in Net Position for both current and prior-year data. Our analysis focuses on the current year and the comparison of prior-year amounts on the net position (Table I) and changes in net position (Table II) of the District's governmental activities.

*Net Position*

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. For the year ended June 30, 2017, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $212.8 million.

## Government-Wide Financial Analysis (continued)
## Table I - Net Position Summary

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Current and other assets | $ 365,350,396 | $ 409,437,144 | $ 4,247,214 | $ 2,914,069 | $ 369,597,610 | $ 412,351,213 |
| Capital assets | 1,064,316,191 | 938,007,403 | 2,852,354 | 2,971,191 | 1,067,168,545 | 940,978,594 |
| **Total Assets** | 1,429,666,587 | 1,347,444,547 | 7,099,568 | 5,885,260 | 1,436,766,155 | 1,353,329,807 |
| **Total Deferred Outflows of Resources** | 97,129,326 | 90,636,703 | - | - | 97,129,326 | 90,636,703 |
| Current liabilities | 160,997,736 | 94,527,182 | 702,306 | 836,811 | 161,700,042 | 95,363,993 |
| Long-term liabilities | 1,134,752,607 | 1,096,248,539 | - | - | 1,134,752,607 | 1,096,248,539 |
| **Total Liabilities** | 1,295,750,343 | 1,190,775,721 | 702,306 | 836,811 | 1,296,452,649 | 1,191,612,532 |
| **Total Deferred Inflows of Resources** | 24,624,360 | 10,509,512 | - | - | 24,624,360 | 10,509,512 |
| Net Investment in capital assets | 31,173,206 | 52,298,650 | 2,852,354 | 2,971,191 | 34,025,560 | 55,269,841 |
| Restricted | 58,154,288 | 53,063,342 | - | - | 58,154,288 | 53,063,342 |
| Unrestricted | 117,093,716 | 131,434,025 | 3,544,908 | 2,077,258 | 120,638,624 | 133,511,283 |
| **Total Net Position** | $ 206,421,210 | $ 236,796,017 | $ 6,397,262 | $ 5,048,449 | $ 212,818,472 | $ 241,844,466 |

Unrestricted net position for governmental activities, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, amounted to $117.1 million at June 30, 2017. Government-wide unrestricted net position decreased by $12.9 million, mainly due to the increase in deferred inflows relating to pension activities.

Government-wide net investment in capital assets (e.g. land, buildings and improvements, furniture and equipment, and construction in progress), less any related debt used to acquire those assets that is still outstanding, amounted to $34.0 million as of June 30, 2017. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

## Government-Wide Financial Analysis (continued)

### *Changes in Net Position*

The Net Position of the District decreased by $29.0 million for the year ended June 30, 2017. The total revenues from taxpayers, user service fees, grants and other sources for the District was $782.9 million, a $1.8 million decrease from fiscal year 2016. Total expenses for the 2017 fiscal year were $812.0 million or $20.6 million greater than expenses of fiscal year 2016.

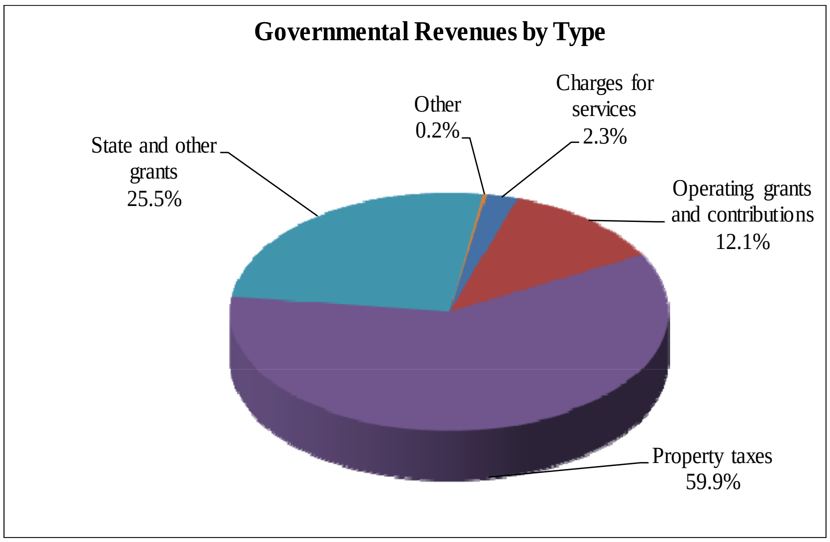
### Table II - Change in Net Position

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| **Revenues** | | | | | | |
| **Program Revenues:** | | | | | | |
| Charges for services | $ 17,894,854 | $ 18,868,613 | $ 10,739,967 | $ 9,334,174 | $ 28,634,821 | $ 28,202,787 |
| Operating grants and contributions | 92,959,440 | 105,396,708 | - | - | 92,959,440 | 105,396,708 |
| **General Revenues:** | | | | | | |
| Property taxes | 462,661,199 | 419,934,045 | - | - | 462,661,199 | 419,934,045 |
| State and other grants | 196,852,757 | 229,920,790 | - | - | 196,852,757 | 229,920,790 |
| Other | 1,820,824 | 1,325,273 | 18,171 | 10,263 | 1,838,995 | 1,335,536 |
| **Total Revenues** | 772,189,074 | 775,445,429 | 10,758,138 | 9,344,437 | 782,947,212 | 784,789,866 |
| **Expenses** | | | | | | |
| Instructional | 446,218,344 | 457,619,035 | - | - | 446,218,344 | 457,619,035 |
| Instructional leadership | 56,458,395 | 52,378,102 | - | - | 56,458,395 | 52,378,102 |
| Student support services | 111,834,387 | 105,372,685 | - | - | 111,834,387 | 105,372,685 |
| General administration | 16,507,370 | 16,554,022 | - | - | 16,507,370 | 16,554,022 |
| Support services | 128,340,493 | 108,563,912 | - | - | 128,340,493 | 108,563,912 |
| Community services | 2,002,012 | 962,290 | - | - | 2,002,012 | 962,290 |
| Interest expense | 34,450,182 | 36,067,077 | - | - | 34,450,182 | 36,067,077 |
| Facilities repairs and maintenance | 4,632,524 | 4,010,336 | - | - | 4,632,524 | 4,010,336 |
| Intergovernmental charges | 3,620,174 | 2,926,452 | - | - | 3,620,174 | 2,926,452 |
| Business-type activities | - | - | 7,909,325 | 6,924,219 | 7,909,325 | 6,924,219 |
| **Total Expenses** | 804,063,881 | 784,453,911 | 7,909,325 | 6,924,219 | 811,973,206 | 791,378,130 |
| Excess (deficiency) before transfers | (31,874,807) | (9,008,482) | 2,848,813 | 2,420,218 | (29,025,994) | (6,588,264) |
| Transfers | 1,500,000 | 1,000,000 | (1,500,000) | (1,000,000) | - | - |
| Increase (decrease) in net position | (30,374,807) | (8,008,482) | 1,348,813 | 1,420,218 | (29,025,994) | (6,588,264) |
| **Net Position - Beginning** | 236,796,017 | 244,804,499 | 5,048,449 | 3,628,231 | 241,844,466 | 248,432,730 |
| **Net Position - Ending** | $ 206,421,210 | $ 236,796,017 | $ 6,397,262 | $ 5,048,449 | $ 212,818,472 | $ 241,844,466 |

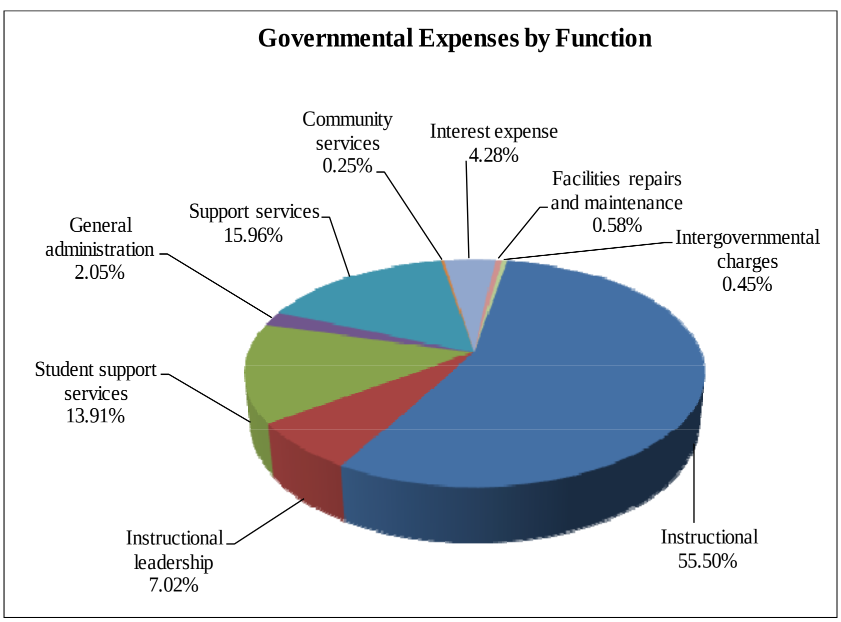
**Government-Wide Financial Analysis (continued)**

***Governmental Activities***

Revenues for the District's governmental activities decreased by $3.4 million for the year ended June 30, 2017 over the prior fiscal year. Operating grants and contributions revenue decreased by $12.4 million mainly due to the State Instructional Materials Fund revenue decreasing by $10 million from the prior fiscal year due to the Texas Education Agency not requiring a textbook proclamation during the current fiscal year. Property tax revenues increased by $42.7 million resulting in state and other grant revenue decreasing by $33.1 million. The rise in property values continues to increase the District's property tax revenue while reducing the state aid.




Approximately 59.9 percent of the District's revenues came from property taxes, with an additional 25.5 percent derived from state funding formulas and federal grants. Last fiscal year 54.1 percent of the District's revenues came from property taxes and 29.7 percent came from state funding formulas and federal grants.



## Government-Wide Financial Analysis (continued)

Total governmental activities expenses per pupil totaled $11,345 for the fiscal year 2017 compared to $11,195 for fiscal year 2016 based on average daily attendance. This increase is primarily due to repair work and new buses purchased in connection with the 2014 bond program.

Expenses for the District's governmental activities increased by approximately $19.6 million in fiscal year 2017 from 2016. Over 55.5 percent of the District's expenses were expended for instructional activities. When combined with student and other support services such as transportation, counseling and nursing, 85.4 percent of the District's expenses were spent on direct student services.

### *Business-Type Activities*

Revenues for the District's business-type activities were $10.8 million and expenses were $7.9 million for the year ended June 30, 2017 compared to $9.3 million of revenue and $6.9 million of expenses for the year ending June 30, 2016. The increase in revenue is attributable to the Extended Learning program increasing enrollment at elementary and some middle school campuses and focused efforts to expand the facility rental program.

## Financial Analysis of the District's Funds

### *Governmental Funds*

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, bond covenants, and segregation for particular purposes.

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

As of June 30, 2017, the District's governmental funds (shown on Exhibit C-1) reported a combined ending fund balance of $187.2 million, a decrease of $96.8 million from last year due primarily to capital projects fund balance decreasing from $33.7 million to a negative $71.5 million. A recap of fund balance follows:

| | |
|---|---|
| **Nonspendable:** | |
| Inventories | $ 472,523 |
| Prepaid items | 2,490,378 |
| **Restricted:** | |
| Grant Funds | 4,489,609 |
| Debt service | 65,040,028 |
| **Committed:** | |
| Capital outlay | 6,400,000 |
| State revenue stabilization | 49,400,000 |
| Other committed | 21,200,000 |
| Campus activity funds | 3,879,828 |
| **Assigned:** | |
| Other purposes | 4,724,855 |
| **Unassigned:** | |
| Unassigned | 29,084,802 |
| **Total Fund Balances** | $ 187,182,023 |

## Financial Analysis of the District's Funds (continued)

***Governmental Funds (continued)***

*General Fund*

The General Fund is the primary operating fund of the District. At the end of the year ended June 30, 2017, unassigned fund balance of the general fund was $100.6 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 16.9 percent of the total general fund actual expenditures for fiscal year 2017, while total fund balance represents 31 percent of that same amount.

The fund balance of the District's general fund was $185.3 million at year end, an increase of $2.8 million from the prior year. Significant changes within the fund balance classifications were as follows:

Unassigned fund balance decreased by approximately $4.2 million from $104.8 million to $100.6 million. However, committed fund balance increased from $72 million to $77 million mainly due to increasing the committed fund balance for budgeted loss increases from $6.5 million as of June 30, 2016 to $14 million as of June 30, 2017 for the 2017-2018 adopted budgeted loss of $12 million.

*Debt Service Fund*

The Debt Service Fund realized revenues of $105.7 million and expenditures of $92.7 million for the year ended June 30, 2017. In addition, the Debt Service Fund had other financing sources of $33.2 million and uses of $40.2 million during the year from a debt remarketing and a transfer of funds to the Capital Project Fund for a payment on the commercial paper refunding which is explained in Note 8. The fund balance of the debt service fund, restricted for the payment of the District's debt, increased by $6.0 million and totaled $65.0 million at June 30, 2017.

*Capital Projects Fund*

The Capital Projects Fund incurred fund balance decreased by $105.2 million due to construction related expenditures of $208.0 million for the year ended June 30, 2017 compared to revenues of $2.3 million. Issuance of capital related debt of $92.7 million as well as transfers in of $7 million from the Debt Service Fund resulted in a deficit fund balance of $71.5 million at year end.

## General Fund Budgetary Highlights

The District revised the General Fund budget several times during the year ended June 30, 2017. Budget amendments totaling $9 million were approved by the Board of Trustees resulting in revenue increases. State aid increased by $6.2 million, federal revenue related to SHARS (School Health and Related Services program) increased by $1.3 million and local revenues increased by $1.6 million. The $6.2 million state aid increase was comprised of a $4.6 million increase in Texas Retirement System (TRS) on-behalf revenue and $1.6 million in Foundation and Available School Fund increases mainly due to increases in the transportation allotment and student enrollment increases. The $1.6 million increase in local revenues was comprised of $1.2 million for increase in property tax revenue and $.4 million related to donations.

### Financial Analysis of the District's Funds (continued)

### General Fund Budgetary Highlights (continued)

Budgeted appropriations for expenditures for the General Fund increased $11.4 million due to $3.94 million for purchase orders from fiscal year 2016 that were honored in fiscal year 2017, $4.6 million for TRS on-behalf expense, $1.92 million for a one-time supplement for non-teaching staff members, $.6 million for a document management system and $.4 million for expenditures funded from donation revenue.

Overall, the General Fund experienced operational savings of $2.8 million. This savings was mainly attributable to purchase orders of $4.7 million that will carry over into fiscal year 2017-2018.

## Capital Assets and Debt Administration

### *Capital Assets*

At the end of fiscal year 2017, the District's investment in capital assets was $1,067.2 million, net of accumulated depreciation. The investments in capital assets include a broad range of capital assets, including land, buildings and improvements (includes infrastructure), furniture and equipment and construction in progress (see Table III). This amount represents a net increase (including additions and deletions) of $126.2 million.

### Table III - Capital Asset Summary

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Land | $ 76,591,362 | $ 73,859,474 | $ - | $ - | $ 76,591,362 | $ 73,859,474 |
| Construction in Progress | 147,741,032 | 34,711,269 | - | - | 147,741,032 | 34,711,269 |
| Buildings and Improvements | 806,416,503 | 804,139,055 | 2,852,354 | 2,969,306 | 809,268,857 | 807,108,361 |
| Furniture and Equipment | 13,363,027 | 11,500,751 | - | 1,885 | 13,363,027 | 11,502,636 |
| Vehicles | 20,204,267 | 13,796,854 | - | - | 20,204,267 | 13,796,854 |
| **Total Capital Assets, Net of Depreciation** | $ 1,064,316,191 | $ 938,007,403 | $ 2,852,354 | $ 2,971,191 | $ 1,067,168,545 | $ 940,978,594 |

Major additions to capital assets during 2017 included the following:

- Construction costs for Leonetti, Neill and Patterson Elementary Schools which opened in August 2017.
- Construction costs for Ronald Thornton Middle School anticipated to open August 2018.
- Construction costs for Bonnie Beard Ag Center which opened September 2017.
- Classroom additions at six elementary schools scheduled to be completed winter of 2017.
- Purchase of land for a future elementary school.
- Purchase of technology hardware for wireless connectivity at elementary schools.
- Purchase of 70 school buses; including 20 buses for special education and 30 buses that utilize compressed natural gas.
- Purchase of football, baseball and/or softball scoreboards for ten high schools.

Additional information on the District's capital assets can be found in Note 7 of the financial statements.

## Capital Asset and Debt Administration (continued)

### *Debt Administration*

At June 30, 2017, the District had total long-term liabilities of $1.1 billion. Of this amount, $674.2 million comprises debt backed by the full faith of the State of Texas Permanent School Fund. The District retired $50.7 million of bonds payable. The District also has capital appreciation bonds, on which no interest is paid until the bonds mature. The District experienced an $7.0 million increase in its portion of the TRS net pension liability and experienced a net decrease of $.2 million of other long-term liabilities during the year ended.

The District's current underlying credit rating is "AA+" by Fitch IBCA and "AA+" by Standard & Poor's and is given without consideration of credit enhancement. In addition, the Texas Permanent School Fund is rated "AAA" by Fitch.

**Table IV - District's Outstanding Debt**

| **Governmental Activities** | **2017** | **2016** |
|---|---|---|
| Bonds Payable (net) | $ 973,798,793 | $ 942,085,567 |
| Net Pension Liability | 148,632,453 | 141,636,991 |
| Other Governmental Activity | 12,321,361 | 12,525,981 |
| **Total Governmental Activity Long-Term Liabilities** | $ 1,134,752,607 | $ 1,096,248,539 |

More detailed information about the District's debt is presented in Note 8 of the financial statements.

## Economic Factors and Next Year's Budgets and Rates

The Board of Trustees adopted General Fund budgeted revenues for fiscal year 2018 of $619.8 million compared to General Fund budgeted expenditures of $633.3 million and transfers in of $1.5 million based on the projected student population of 75,355 students. The $12 million budgeted shortfall has been committed in fund balance as of June 30, 2017.

Overall, the District is decreasing the tax rate from $1.34 in fiscal year 2016-17 to $1.32 for fiscal year 2017-2018 for the combination of the General Fund and Debt Service Fund. However, the Debt Service Fund tax rate is decreasing by four cents from .34 cents to .30 cents while the General fund is increasing two cents from $1.04 to $1.06.

The budgeted revenue for fiscal year 2018 of $619.8 million is more than the actual revenue fiscal year 2017 of $596.1 million primarily due to local revenues increasing from $364.1 million for fiscal year 2017 to $392.2 million budgeted in fiscal year 2018. The local revenue increase is due to property value increases and the maintenance and operations tax rate increasing by two cents which adds an additional $7.5 million of revenue to the General Fund. State revenue decreased from $223.1 million for fiscal year 2017 to $218.7 million budgeted in fiscal year 2018 mainly due to the increase in property tax values. The District is budgeting 63% of its revenue from local sources in fiscal year 2018 compared to budgeting 61.8% from local revenue in fiscal year 2017. Thus, the state is funding less each year.

## Economic Factors and Next Year's Budgets and Rates (continued)

The fiscal year 2018 budgeted expenses of $633.3 million includes an increase of 210 new positions at a cost of $12.2 million, principal and teacher increases at a cost of $14.7 million, non-teaching compensation adjustments totaling $9.2 million and $3 million for health insurance benefits for employees. The estimated budget shortfall for fiscal year 2018 is $12 million which includes additional expenses for three new elementary schools opened in August 2017. The District committed $4.5 million of fund balance as of June 30, 2017 for more new school openings (a middle school as well as a career and technical education center) as well as $14 million for the budgeted operational losses expected for fiscal year 2018 and beyond. The District will continue to refine budget estimates, project actual operating results, develop strategies to provide educational services efficiently and effectively, actively promote changes in the state funding formula and monitor state legislation affecting school district funding.

## Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's financial services office.

**BASIC FINANCIAL STATEMENTS**

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**FORT BEND INDEPENDENT SCHOOL DISTRICT** *Exhibit A-1*

***STATEMENT OF NET POSITION***

***June 30, 2017***

| Data Control Codes | | Governmental Activities | Business-type Activities | Total |
|---|---|---|---|---|
| | **Assets** | | | |
| 1110 | Cash and cash equivalents | $ 668,719 | $ 671,509 | $ 1,340,228 |
| 1120 | Investments | 286,437,212 | 3,391,744 | 289,828,956 |
| 1225 | Property taxes receivables, net | 11,292,305 | - | 11,292,305 |
| 1240 | Due from other governments | 61,813,822 | - | 61,813,822 |
| 1250 | Accrued interest | 196,506 | - | 196,506 |
| 1260 | Internal balances | 126,225 | (126,225) | - |
| 1290 | Other receivables, net | 1,050,779 | 310,186 | 1,360,965 |
| 1300 | Inventories | 1,172,668 | - | 1,172,668 |
| 1410 | Prepaid items | 2,592,160 | - | 2,592,160 |
| | Capital assets not subject to depreciation | | | |
| 1510 | Land | 76,591,362 | - | 76,591,362 |
| 1580 | Construction in progress | 147,741,032 | - | 147,741,032 |
| | Capital assets net of depreciation: | | | |
| 1520 | Buildings and improvements, net | 806,416,503 | 2,852,354 | 809,268,857 |
| 1530 | Furniture and equipment, net | 13,363,027 | - | 13,363,027 |
| 1540 | Vehicles | 20,204,267 | - | 20,204,267 |
| 1000 | **Total Assets** | 1,429,666,587 | 7,099,568 | 1,436,766,155 |
| | **Deferred Outflows of Resources** | | | |
| 1700 | Deferred charge on refunding | 12,138,276 | - | 12,138,276 |
| 1705 | Deferred outflows relating to pension activities | 84,991,050 | - | 84,991,050 |
| | **Total Deferred Outflows of Resources** | 97,129,326 | - | 97,129,326 |
| | **Liabilities** | | | |
| 2110 | Accounts payable | 33,908,988 | 72,927 | 33,981,915 |
| 2120 | Loans payable | 39,000,000 | - | 39,000,000 |
| 2140 | Interest payable | 13,883,019 | - | 13,883,019 |
| 2150 | Payroll deductions and withholdings | 1,771,489 | - | 1,771,489 |
| 2160 | Accrued wages payable | 55,866,278 | 306,029 | 56,172,307 |
| 2180 | Due to other governments | 69,991 | - | 69,991 |
| 2200 | Accrued expenses | 8,992,887 | - | 8,992,887 |
| 2300 | Unearned revenue | 7,505,084 | 323,350 | 7,828,434 |
| | Noncurrent Liabilities: | | | |
| 2501 | Due within one year | 44,736,677 | - | 44,736,677 |
| 2502 | Due in more than one year | 941,383,477 | - | 941,383,477 |
| 2540 | Net pension liability | 148,632,453 | - | 148,632,453 |
| 2000 | **Total Liabilities** | 1,295,750,343 | 702,306 | 1,296,452,649 |
| | **Deferred Inflows of Resources** | | | |
| 2600 | Deferred inflows relating to pension activities | 24,624,360 | - | 24,624,360 |
| | **Total Deferred Inflows of Resources** | 24,624,360 | - | 24,624,360 |
| | **Net Position** | | | |
| 3200 | Net investment in capital assets | 31,173,206 | 2,852,354 | 34,025,560 |
| | Restricted for: | | | |
| 3820 | Federal and state programs | 4,489,609 | - | 4,489,609 |
| 3850 | Debt service | 53,664,679 | - | 53,664,679 |
| 3900 | Unrestricted | 117,093,716 | 3,544,908 | 120,638,624 |
| 3000 | **Total Net Position** | $ 206,421,210 | $ 6,397,262 | $ 212,818,472 |

*See Notes to the Basic Financial Statements.*

**FORT BEND INDEPENDENT SCHOOL DISTRICT**

***STATEMENT OF ACTIVITIES***

***For the Year Ended June 30, 2017***

| Data Control Codes | Functions/Programs | Expenses | Program Revenue: Charges for Services | Program Revenue: Operating Grants and Contributions |
|---|---|---|---|---|
| | **Governmental activities** | | | |
| 11 | Instruction | $ 423,919,352 | $ 2,939,419 | $ 46,160,069 |
| 12 | Instructional Resources and Media Services | 9,069,384 | 188,396 | 481,529 |
| 13 | Curriculum and Staff Development | 13,229,608 | 50,194 | 2,441,543 |
| 21 | Instructional Leadership | 14,201,230 | - | 1,760,961 |
| 23 | School Leadership | 42,257,165 | 77,001 | 3,117,404 |
| 31 | Guidance, Counseling, and Evaluation Services | 32,165,308 | 1,034,300 | 3,151,586 |
| 32 | Social Work Services | 1,827,603 | - | 311,384 |
| 33 | Health Services | 9,037,794 | 94 | 9,520,387 |
| 34 | Student Transportation | 25,377,196 | 80,780 | 2,465,618 |
| 35 | Food Service | 27,915,617 | 11,104,108 | 14,591,894 |
| 36 | Extracurricular Activities | 15,510,869 | 2,345,151 | 896,237 |
| 41 | General Administration | 16,507,370 | - | 1,292,086 |
| 51 | Plant, Maintenance and Operations | 91,960,578 | 19,524 | 2,495,056 |
| 52 | Security and Monitoring Services | 10,001,661 | 55,887 | 491,430 |
| 53 | Data Processing Services | 26,378,254 | - | 781,346 |
| 61 | Community Services | 2,002,012 | - | 1,110,324 |
| 72 | Interest expense | 34,450,182 | - | - |
| 81 | Facilities Repair and Maintenance | 4,632,524 | - | 1,569,686 |
| 93 | Payments Related to Shared Services Arrangements | 774,900 | - | 320,900 |
| 99 | Payments for tax appraisal costs | 2,845,274 | - | - |
| **TG** | **Total governmental activities** | $ 804,063,881 | $ 17,894,854 | $ 92,959,440 |
| | **Business-type activities** | | | |
| 01 | Extended Learning Program | 7,030,145 | 9,453,290 | - |
| 02 | Facility Rental Program | 879,180 | 1,286,677 | - |
| **TB** | **Total business-type activities** | 7,909,325 | 10,739,967 | - |
| **TP** | **Total primary government** | $ 811,973,206 | $ 28,634,821 | $ 92,959,440 |

| Data Control Codes | |
|---|---|
| | **General revenues** |
| | **Taxes:** |
| **MT** | Property taxes, levied for general purposes |
| **DT** | Property taxes, levied for debt service |
| **SF** | State-aid formula grants |
| **GC** | Grants and contributions not restricted |
| **IE** | Investment earnings |
| **FR** | Transfers |
| **TR** | **Total general revenues** |
| **CN** | Change in net position |
| **NB** | **Net position - beginning** |
| **NE** | **Net position - ending** |

*See Notes to the Basic Financial Statements.*

*Exhibit B-1*

| Net (Expense) Revenue and Changes in Net Position | | |
|---|---|---|
| Primary Government | | |
| Governmental Activities | Business-type Activities | Total |
| $ (374,819,864) | | $ (374,819,864) |
| (8,399,459) | | (8,399,459) |
| (10,737,871) | | (10,737,871) |
| (12,440,269) | | (12,440,269) |
| (39,062,760) | | (39,062,760) |
| (27,979,422) | | (27,979,422) |
| (1,516,219) | | (1,516,219) |
| 482,687 | | 482,687 |
| (22,830,798) | | (22,830,798) |
| (2,219,615) | | (2,219,615) |
| (12,269,481) | | (12,269,481) |
| (15,215,284) | | (15,215,284) |
| (89,445,998) | | (89,445,998) |
| (9,454,344) | | (9,454,344) |
| (25,596,908) | | (25,596,908) |
| (891,688) | | (891,688) |
| (34,450,182) | | (34,450,182) |
| (3,062,838) | | (3,062,838) |
| (454,000) | | (454,000) |
| (2,845,274) | | (2,845,274) |
| (693,209,587) | | (693,209,587) |
| | | |
| - | 2,423,145 | 2,423,145 |
| - | 407,497 | 407,497 |
| - | 2,830,642 | 2,830,642 |
| (693,209,587) | 2,830,642 | (690,378,945) |
| | | |
| 358,493,162 | - | 358,493,162 |
| 104,168,037 | - | 104,168,037 |
| 194,871,212 | - | 194,871,212 |
| 1,981,545 | - | 1,981,545 |
| 1,820,824 | 18,171 | 1,838,995 |
| 1,500,000 | (1,500,000) | - |
| 662,834,780 | (1,481,829) | 661,352,951 |
| (30,374,807) | 1,348,813 | (29,025,994) |
| 236,796,017 | 5,048,449 | 241,844,466 |
| $ 206,421,210 | $ 6,397,262 | $ 212,818,472 |

**FORT BEND INDEPENDENT SCHOOL DISTRICT**

***BALANCE SHEET***

***GOVERNMENTAL FUNDS***

***June 30, 2017***

| Data Control Codes | | General Fund | Debt Service Fund | Capital Projects Fund |
|---|---|---|---|---|
| | **Assets** | | | |
| 1110 | Cash and cash equivalents | $ 641,793 | $ 393 | $ 899 |
| 1120 | Investments | 189,605,091 | 64,652,861 | 5,364,130 |
| | Receivables: | | | |
| 1220 | Property taxes - delinquent | 13,104,509 | 3,543,468 | - |
| 1230 | Allowance for uncollectible taxes (credit) | (4,319,874) | (1,035,798) | - |
| 1240 | Receivables from other governments | 54,684,141 | 372,562 | - |
| 1250 | Accrued interest | 167,733 | 28,773 | - |
| 1260 | Due from other funds | 3,617,611 | - | 1,341,334 |
| 1290 | Other receivables | 235,729 | 37,571 | 23,307 |
| 1300 | Inventories, at cost | 472,523 | - | - |
| 1410 | Prepaid items | 2,490,378 | - | - |
| 1000 | **Total Assets** | $ 260,699,634 | $ 67,599,830 | $ 6,729,670 |
| | **Liabilities, Deferred Inflows, and Fund Balance** | | | |
| | **Liabilities:** | | | |
| 2110 | Accounts payable | $ 4,586,135 | $ - | $ 28,169,217 |
| 2120 | Loans Payable | - | - | 39,000,000 |
| 2150 | Payroll deductions and withholdings payable | 1,523,143 | - | 121 |
| 2160 | Accrued wages payable | 52,752,812 | - | - |
| 2170 | Due to other funds | 7,350,345 | - | 2,067,820 |
| 2180 | Payable to other governments | - | 52,132 | - |
| 2200 | Accrued expenditures | 17,907 | - | 8,974,980 |
| 2300 | Unearned revenues | 429,631 | - | - |
| 2000 | **Total Liabilities** | 66,659,973 | 52,132 | 78,212,138 |
| | **Deferred Inflows of Resources** | | | |
| 2600 | Unavailable revenue - property taxes | 8,784,635 | 2,507,670 | - |
| | **Total Deferred Inflows of Resources** | 8,784,635 | 2,507,670 | - |
| | **Fund Balance:** | | | |
| | Nonspendable: | | | |
| 3410 | Inventories | 472,523 | - | - |
| 3430 | Prepaid items | 2,490,378 | - | - |
| | Restricted: | | | |
| 3450 | Grant Funds | - | - | - |
| 3480 | Debt service | - | 65,040,028 | - |
| | Committed: | | | |
| 3530 | Capital outlay | 6,400,000 | - | - |
| 3545 | State revenue stabilization | 49,400,000 | - | - |
| 3545 | Other committed | 21,200,000 | - | - |
| 3545 | Campus activity funds | - | - | - |
| 3590 | Assigned for other purposes | 4,724,855 | - | - |
| 3600 | Unassigned | 100,567,270 | - | (71,482,468) |
| 3000 | **Total Fund Balances** | 185,255,026 | 65,040,028 | (71,482,468) |
| 4000 | **Total Liabilities, Deferred Inflows, and Fund Balances** | $ 260,699,634 | $ 67,599,830 | $ 6,729,670 |

*See Notes to the Basic Financial Statements.*

*Exhibit C-1*

| Non-major Governmental Funds | Total Governmental Funds |
|---|---|
| $ 25,163 | $ 668,248 |
| 7,302,979 | 266,925,061 |
| | |
| - | 16,647,977 |
| - | (5,355,672) |
| 6,757,119 | 61,813,822 |
| - | 196,506 |
| 3,919,514 | 8,878,459 |
| 96,056 | 392,663 |
| 631,279 | 1,103,802 |
| - | 2,490,378 |
| $ 18,732,110 | $ 353,761,244 |
| | |
| $ 851,325 | $ 33,606,677 |
| - | 39,000,000 |
| 4,603 | 1,527,867 |
| 3,113,466 | 55,866,278 |
| 3,892,518 | 13,310,683 |
| 2,847 | 54,979 |
| - | 8,992,887 |
| 2,497,914 | 2,927,545 |
| 10,362,673 | 155,286,916 |
| | |
| - | 11,292,305 |
| - | 11,292,305 |
| | |
| - | 472,523 |
| - | 2,490,378 |
| | |
| 4,489,609 | 4,489,609 |
| - | 65,040,028 |
| | |
| - | 6,400,000 |
| - | 49,400,000 |
| - | 21,200,000 |
| 3,879,828 | 3,879,828 |
| - | 4,724,855 |
| - | 29,084,802 |
| 8,369,437 | 187,182,023 |
| | |
| $ 18,732,110 | $ 353,761,244 |

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**FORT BEND INDEPENDENT SCHOOL DISTRICT** *Exhibit C-2*

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

***June 30, 2017***

| Data Control Codes | | |
|---|---|---|
| | **Total fund balance, governmental funds** | $ 187,182,023 |
| | Amounts reported for governmental activities in the statement of net position are different because: | |
| 1 | Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. | 1,063,184,020 |
| 2 | Property taxes receivable have been levied and are due this year, but are not available soon enough to pay for the current period's expenditures. These property taxes (net of allowance for uncollectible accounts) are deferred inflows of resources in the fund financial statements. | 11,292,305 |
| 3 | Deferred amount on refunding | 12,138,276 |
| 4 | Deferred outflows relating to pension activities | 84,991,050 |
| | Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of: | |
| 5 | General obligation bonds | (894,331,938) |
| 6 | Premiums on issuance | (74,428,719) |
| 7 | Accreted interest on premium compound interest bonds | (5,038,136) |
| 8 | Accrued compensated absences | (4,015,624) |
| 9 | Accrued interest payable | (13,883,019) |
| 10 | Net pension liability | (148,632,453) |
| 11 | Deferred inflows relating to pension activities | (24,624,360) |
| 12 | Addition of Internal Service fund net position | 12,587,785 |
| 19 | **Total net position - governmental activities** | $ 206,421,210 |

*See Notes to the Basic Financial Statements.*

**FORT BEND INDEPENDENT SCHOOL DISTRICT**

***STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS***

***For the Year Ended June 30, 2017***

| Data Control Codes | | General Fund | Debt Service Funds | Capital Projects |
|---|---|---|---|---|
| | **Revenues** | | | |
| 5700 | Local, intermediate, and out-of-state | $ 363,641,297 | $ 103,870,364 | $ 125,228 |
| 5800 | State program revenues | 224,045,425 | 1,875,418 | - |
| 5900 | Federal program revenues | 9,226,988 | - | 2,217,036 |
| 5020 | **Total revenues** | 596,913,710 | 105,745,782 | 2,342,264 |
| | **Expenditures** | | | |
| | **Current:** | | | |
| 0011 | Instruction | 351,605,814 | - | 408,129 |
| 0012 | Instruction resources and media services | 7,353,704 | - | 12,008 |
| 0013 | Curriculum and instructional staff development | 10,597,964 | - | - |
| 0021 | Instructional leadership | 12,174,420 | - | 138,207 |
| 0023 | School leadership | 39,656,488 | - | - |
| 0031 | Guidance, counseling and evaluation services | 28,190,325 | - | - |
| 0032 | Social work services | 1,531,051 | - | - |
| 0033 | Health services | 7,388,922 | - | - |
| 0034 | Student transportation | 21,615,297 | - | 6,371,560 |
| 0035 | Food services | - | - | 31,692 |
| 0036 | Extracurricular activities | 12,490,059 | - | 959,656 |
| 0041 | General administration | 15,716,062 | - | 71,782 |
| 0051 | Facilities maintenance and operations | 60,249,514 | - | 40,805,916 |
| 0052 | Security and monitoring services | 7,538,739 | - | 2,213,015 |
| 0053 | Data processing services | 14,914,481 | - | 9,502,816 |
| 0061 | Community services | 686,178 | - | - |
| | **Debt service:** | | | |
| 0071 | Principal on long-term debt | - | 50,698,393 | - |
| 0072 | Interest on long-term debt | - | 41,272,170 | - |
| 0073 | Bond issuance costs and fees | - | 741,812 | 721,603 |
| | **Capital outlay:** | | | |
| 0081 | Facilities acquisition and construction | - | - | 146,735,447 |
| | **Intergovernmental:** | | | |
| 0093 | Payments related to shared services arrangements | 454,000 | - | - |
| 0099 | Payments to tax appraisal district | 2,845,274 | - | - |
| 6030 | **Total Expenditures** | 595,008,292 | 92,712,375 | 207,971,831 |
| 1100 | Excess (deficiency) of revenues over expenditures | 1,905,418 | 13,033,407 | (205,629,567) |
| | **Other Financing Sources (Uses)** | | | |
| 7911 | Refunding bonds issued | - | 33,155,000 | - |
| 7911 | Issuance of capital related debt | - | - | 84,330,000 |
| 7912 | Sale of real or personal property | 119,375 | - | - |
| 7915 | Transfers in | 1,500,000 | - | 7,732,817 |
| 7916 | Premium or discount on issuance of bonds | - | - | 8,414,910 |
| 8911 | Transfers out | (732,817) | (7,000,000) | - |
| 8949 | Payment to refunding escrow agent | - | (33,155,000) | - |
| 7080 | **Total other financing sources and uses** | 886,558 | (7,000,000) | 100,477,727 |
| 1200 | Net change in fund balances | 2,791,976 | 6,033,407 | (105,151,840) |
| 0100 | **Fund Balances - Beginning** | 182,463,050 | 59,006,621 | 33,669,372 |
| 3000 | **Fund Balances - Ending** | $ 185,255,026 | $ 65,040,028 | $ (71,482,468) |

*See Notes to the Basic Financial Statements.*

| Non-major Governmental Funds | Total Governmental Funds |
|---|---|
| $ 15,047,442 | $ 482,684,331 |
| 7,650,187 | 233,571,030 |
| 38,300,323 | 49,744,347 |
| 60,997,952 | 765,999,708 |
| | |
| 22,910,004 | 374,923,947 |
| 222,103 | 7,587,815 |
| 2,188,093 | 12,786,057 |
| 1,061,384 | 13,374,011 |
| 443,345 | 40,099,833 |
| 2,270,522 | 30,460,847 |
| 228,005 | 1,759,056 |
| 1,249,214 | 8,638,136 |
| 1,417,461 | 29,404,318 |
| 25,942,933 | 25,974,625 |
| 1,570,904 | 15,020,619 |
| - | 15,787,844 |
| 463,884 | 101,519,314 |
| 61,204 | 9,812,958 |
| - | 24,417,297 |
| 1,077,379 | 1,763,557 |
| | |
| - | 50,698,393 |
| - | 41,272,170 |
| - | 1,463,415 |
| | |
| - | 146,735,447 |
| | |
| 320,900 | 774,900 |
| - | 2,845,274 |
| 61,427,335 | 957,119,833 |
| (429,383) | (191,120,125) |
| | |
| - | 33,155,000 |
| - | 84,330,000 |
| - | 119,375 |
| - | 9,232,817 |
| - | 8,414,910 |
| - | (7,732,817) |
| - | (33,155,000) |
| - | 94,364,285 |
| | |
| (429,383) | (96,755,840) |
| | |
| 8,798,820 | 283,937,863 |
| | |
| $ 8,369,437 | $ 187,182,023 |

**FORT BEND INDEPENDENT SCHOOL DISTRICT** *Exhibit C-4*

***RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES***

***For the Year Ended June 30, 2017***

| Data Control Codes | | | |
|---|---|---|---|
| | Net change in fund balances - total governmental funds (from C-3) | $ | (96,755,840) |
| | Amounts reported for governmental activities in the statement of activities (B-1) 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. | | |
| 1 | Governmental funds capital outlay | | 164,767,423 |
| 2 | Governmental activities depreciation expense | | (38,897,703) |
| 3 | Governmental funds report the entire sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain/loss on the sale/dosposal of the assets. Thus the change in net position differs from the change in fund balance by the book value of the assets sold and disposed. | | (278,932) |
| 4 | Property tax revenues in the statement of activities that do not provide current financial resources and are not reported as revenues in the funds. | | 233,299 |
| 5 | Pension contributions made during the current fiscal year are reported as expenditures in the governmental funds and are reported as deferred outflows and reductions in net pension liability as opposed to expenses in the statement of activity | | 12,564,865 |
| 6 | Repayment of bond principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net position. | | 50,698,393 |
| 7 | Amortization of bond premium. | | 6,177,398 |
| 8 | Proceeds from issuance of long-term debt is reported as an other financing source in the governmental funds. In the government-wide financial statements, proceeds are treated as an increase in long-term liabilities. | | (117,485,000) |
| 9 | Payment to escrow agent for refunding. | | 33,155,000 |
| 10 | Premium received from issuance of long-term debt. | | (8,414,910) |
| | Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds: | | |
| 11 | Pension expense for the pension plan measurement year | | (25,807,413) |
| 12 | Increase in interest payable not recognized in fund statements | | (672,750) |
| 13 | Decrease in long-term portion of accrued compensated absences | | 157,271 |
| 14 | Accreted interest on capital appreciation bonds | | 4,155,893 |
| 15 | Deferred amount on refunding | | (1,375,138) |
| 16 | Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental funds. | | (12,596,663) |
| | **Change in net position of governmental activities** | $ | (30,374,807) |

*See Notes to the Basic Financial Statements.*

**FORT BEND INDEPENDENT SCHOOL DISTRICT** *Exhibit D-1*

***STATEMENT OF NET POSITION***

***PROPRIETARY FUNDS***

***June 30, 2017***

| | | Business-type Activities | | | Governmental Activities |
|---|---|---|---|---|---|
| | | Enterprise Funds | | | |
| **Data Control Codes** | | **Extended Learning Program** | **Facility Rental Program** | **Total Enterprise Funds** | **Total Internal Service Funds** |
| | **Assets** | | | | |
| | **Current Assets:** | | | | |
| 1110 | Cash and cash equivalents | $ 70,037 | $ 601,472 | $ 671,509 | $ 471 |
| 1120 | Temporary investments, at fair value | 3,391,744 | - | 3,391,744 | 19,512,151 |
| | **Receivables:** | | | | |
| 1260 | Due from other funds | - | 1,206 | 1,206 | 5,454,112 |
| 1290 | Other receivables | 122,079 | 188,107 | 310,186 | 658,116 |
| 1300 | Inventories, at cost | - | - | - | 68,866 |
| 1410 | Prepaid items | - | - | - | 101,782 |
| | **Total current assets** | 3,583,860 | 790,785 | 4,374,645 | 25,795,498 |
| | Land, Buildings and Equipment: | | | | |
| 1520 | Building and improvements | 4,557,097 | - | 4,557,097 | - |
| 1530 | Furniture and equipment | 1,748,949 | - | 1,748,949 | 1,373,399 |
| 1573 | Accumulated depreciation | (3,453,691) | - | (3,453,691) | (241,228) |
| | **Total non-current assets** | 2,852,355 | - | 2,852,355 | 1,132,171 |
| 1000 | **Total Assets** | 6,436,215 | 790,785 | 7,227,000 | 26,927,669 |
| | **Liabilities** | | | | |
| | **Current Liabilities:** | | | | |
| 2110 | Accounts payable | 56,228 | 16,700 | 72,928 | 302,311 |
| 2150 | Payroll deductions and withholdings | - | - | - | 243,622 |
| 2160 | Accrued wages payable | 306,029 | - | 306,029 | - |
| 2170 | Due to other funds | 127,431 | - | 127,431 | 895,663 |
| 2180 | Payable to other governments | - | - | - | 15,012 |
| 2210 | Claims payable | - | - | - | 6,032,764 |
| 2300 | Unearned revenue | 323,350 | - | 323,350 | 4,577,539 |
| | **Total Current Liabilities** | 813,038 | 16,700 | 829,738 | 12,066,911 |
| | **Non-current liabilities:** | | | | |
| 2590 | Claims and judgments | - | - | - | 2,272,973 |
| | **Total Non-current Liabilities** | - | - | - | 2,272,973 |
| 2000 | **Total Liabilities** | 813,038 | 16,700 | 829,738 | 14,339,884 |
| | **Net Position** | | | | |
| 3200 | Net investments in capital assets | 2,852,355 | - | 2,852,355 | 1,132,171 |
| 3900 | Unrestricted | 2,770,822 | 774,085 | 3,544,907 | 11,455,614 |
| 3000 | **Total Net Position** | $ 5,623,177 | $ 774,085 | $ 6,397,262 | $ 12,587,785 |

*See Notes to the Basic Financial Statements.*

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

***PROPRIETARY FUNDS***

***For the Year Ended June 30, 2017***

| | | Business-type Activities | | | Governmental Activities |
|---|---|---|---|---|---|
| | | Enterprise Funds | | | |
| Data Control Codes | | Extended Learning Program | Facility Rental Program | Total Enterprise Funds | Total Internal Service Funds |
| | **Operating Revenues** | | | | |
| 5754 | Interfund services provided and used | $ 9,453,290 | $ 1,286,677 | $ 10,739,967 | $ 62,475,823 |
| 5020 | **Total Operating Revenues** | 9,453,290 | 1,286,677 | 10,739,967 | 62,475,823 |
| | **Operating Expenses** | | | | |
| 6100 | Payroll costs | 5,348,097 | 421,876 | 5,769,973 | 1,112,967 |
| 6200 | Purchased and contracted services | 762,175 | 436,649 | 1,198,824 | 5,966,754 |
| 6300 | Supplies | 251,404 | 15,042 | 266,446 | 2,420,510 |
| 6400 | Claims expense and other operating expenses | 549,633 | 5,613 | 555,246 | 65,591,591 |
| 6449 | Depreciation | 118,836 | - | 118,836 | 101,373 |
| 6030 | **Total Operating Expenses** | 7,030,145 | 879,180 | 7,909,325 | 75,193,195 |
| 1200 | Operating Income (Loss) | 2,423,145 | 407,497 | 2,830,642 | (12,717,372) |
| | **Non-Operating Revenues (Expenses)** | | | | |
| 7020 | Investment earnings | 18,171 | - | 18,171 | 120,709 |
| | **Total Nonoperating Revenues (Expenses)** | 18,171 | - | 18,171 | 120,709 |
| | **Income (Loss) before Transfers** | 2,441,316 | 407,497 | 2,848,813 | (12,596,663) |
| 7915 | Transfers in | - | - | - | 2,826,827 |
| 8911 | Transfers out | (1,500,000) | - | (1,500,000) | (2,826,827) |
| | | (1,500,000) | - | (1,500,000) | - |
| 1200 | Change in Net Position | 941,316 | 407,497 | 1,348,813 | (12,596,663) |
| | **Net Postion:** | | | | |
| 0100 | **Net Position - Beginning** | 4,681,861 | 366,588 | 5,048,449 | 25,184,448 |
| 3300 | **Net Position - Ending** | $ 5,623,177 | $ 774,085 | $ 6,397,262 | $ 12,587,785 |

*See Notes to the Basic Financial Statements.*

**FORT BEND INDEPENDENT SCHOOL DISTRICT** *Exhibit D-3*

***STATEMENT OF CASH FLOWS***

***PROPRIETARY FUNDS***

***Year Ended June 30, 2017***

| | Business-type Activities | | | Governmental Activities |
|---|---|---|---|---|
| | Enterprise Funds | | | |
| | Extended Learning Program | Facility Rental Program | Total Enterprise Funds | Total Internal Service Funds |
| **Cash Flows from Operating Activities:** | | | | |
| Cash receipts from services provided | $ 9,450,568 | $ 1,256,185 | $ 10,706,753 | $ 62,634,978 |
| Cash payments to suppliers for goods and services | (1,570,533) | (458,933) | (2,029,466) | (74,467,013) |
| Cash payments to employees | (5,387,405) | (422,234) | (5,809,639) | (1,170,488) |
| **Net Cash Provided by (Used for) Operating Activities** | 2,492,630 | 375,018 | 2,867,648 | (13,002,523) |
| **Cash Flows from Non-Capital Financing Activities:** | | | | |
| Advances from other funds | - | - | - | 2,826,827 |
| Advances to other funds | (1,500,000) | - | (1,500,000) | (2,826,827) |
| **Net Cash Provided by Non-Capital Financing Activities** | (1,500,000) | - | (1,500,000) | - |
| **Cash Flows from Capital and Related Financing Activities:** | | | | |
| Acquisition of capital assets | - | - | - | (819,374) |
| **Net Cash (Used for) Capital and Related Financing Activities** | - | - | - | (819,374) |
| **Cash Flows from Investing Activities:** | | | | |
| Investment purchased | (1,889,743) | - | (1,889,743) | (72,354) |
| Sale of investment | - | - | - | 13,461,014 |
| Interest on investments | 18,171 | - | 18,171 | 120,709 |
| **Net Cash (Used for) Investing Activities** | (1,871,572) | - | (1,871,572) | 13,509,369 |
| Net Increase in Cash and Cash Equivalents | (878,942) | 375,018 | (503,924) | (312,528) |
| **Cash and Cash Equivalents at Beginning of Year** | 948,979 | 226,454 | 1,175,433 | 312,999 |
| **Cash and Cash Equivalents at End of Year** | $ 70,037 | $ 601,472 | $ 671,509 | $ 471 |
| **Reconciliation to Balance Sheet** | | | | |
| Cash and Cash Equivalents Per Cash Flow | $ 70,037 | $ 601,472 | $ 671,509 | $ 471 |
| Cash and Cash Equivalents per Balance Sheet | $ 70,037 | $ 601,472 | $ 671,509 | $ 471 |
| **Reconciliation of Operating Income to Net Cash Provided by Operating Activities** | | | | |
| Operating Income (Loss) | $ 2,423,145 | $ 407,497 | $ 2,830,642 | $ (12,717,372) |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities | | | | |
| Depreciation | 118,836 | - | 118,836 | 101,373 |
| Change in Assets and Liabilities: | | | | |
| Decrease (increase) in receivables | (31,481) | (30,492) | (61,973) | 188,051 |
| Decrease (increase) in due from other funds | - | (1,206) | (1,206) | (1,118,182) |
| Decrease (increase) in inventories at cost | - | - | - | 5,205 |
| Decrease (increase) in prepaid items | - | - | - | (7,868) |
| Increase (decrease) in accrued wages payable | (39,308) | (358) | (39,666) | (57,521) |
| Increase (decrease) in accounts payable | 24,160 | (423) | 23,737 | (452,245) |
| Increase (decrease) in due to other funds | 115,853 | - | 115,853 | 895,663 |
| Increase (decrease) in due to other governments | - | - | - | (35,988) |
| Increase (decrease) in unearned revenue | (118,575) | - | (118,575) | 243,710 |
| Increase (decrease) in claims payable | - | - | - | (47,349) |
| **Net Cash Provided by (Used for) Operating Activities** | $ 2,492,630 | $ 375,018 | $ 2,867,648 | $ (13,002,523) |

*See Notes to the Basic Financial Statements.*

***STATEMENT OF FIDUCIARY NET POSITION***

***June 30, 2017***

| Data Control Codes | | Private-Purpose Trust Fund | Agency Funds |
|---|---|---|---|
| | **Assets** | | |
| 1110 | Cash and cash equivalents | $ 91,369 | $ 74,214 |
| 1120 | Investments | - | 3,308,480 |
| 1290 | Other receivables | - | 243,766 |
| 1000 | **Total Assets** | 91,369 | 3,626,460 |
| | **Liabilities** | | |
| 2110 | Accounts payable | 28 | 24,885 |
| 2180 | Payable to other governments | - | 6,583 |
| 2190 | Due to others | - | 3,594,992 |
| 2300 | Unearned revenues | 48,250 | - |
| 2000 | **Total Liabilities** | 48,278 | 3,626,460 |
| | **Net Position** | | |
| 3490 | Held in trust for scholarships | $ 43,091 | |

*See Notes to the Basic Financial Statements.*

**FORT BEND INDEPENDENT SCHOOL DISTRICT** ***Exhibit E-2***

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

***For the Year Ended June 30, 2017***

| | Private Purpose Trust Fund |
|---|---|
| **Additions** | |
| Gifts and contributions | $ 58,000 |
| **Total Additions** | 58,000 |
| **Deductions** | |
| Scholarship awards | 60,000 |
| **Total deductions** | 60,000 |
| Change in net position | (2,000) |
| **Net position - Beginning** | 45,091 |
| **Net position - Ending** | $ 43,091 |

*See Notes to the Basic Financial Statements.*

## Note 1 - Summary of Significant Accounting Policies

The Fort Bend Independent School District (the "District") is an independent public educational agency operating under applicable laws and regulations of the State of Texas. A seven-member Board of Trustees, elected by the District's residents to staggered three-year terms, has fiscal accountability over all activities within the jurisdiction of the District. Board vacancies may be filled by appointment until the next election. Board decisions are based on a majority vote. The Board adopts policies, employs the Superintendent and oversees operations of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in Statement on Auditing Standards of the American Institute of Certified Public Accountants; and it complies with the requirements of the appropriate version of Texas Education Agency's *Financial Accountability System Resource Guide* (the "Resource Guide" or "FASRG") and the requirements of contracts and grants of agencies from which it receives funds.

The following is a summary of the most significant accounting policies.

### A. Reporting Entity

The District is considered an independent entity for financial reporting purposes and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared, based on considerations regarding the potential for inclusion of other entities, organizations, or functions, as part of the District's financial reporting entity. Based on these considerations, no other entities have been included in the District's financial reporting entity. Additionally, as the District is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the District's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the District is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the District's financial reporting entity status is that of a primary government are: that it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments.

Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable; and considerations pertaining to other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The Board of Trustees (the "Board") is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by GASB.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**A. Reporting Entity (continued)**

The District receives support from various PTA, PTO, and Booster club organizations as well as the Fort Bend Education Foundation. Generally Accepted Accounting Principles require the District to report certain legally separate organizations as component units even though the District is not financially accountable for these organizations. These standards promulgated by GASB require that a legally separate tax-exempt organization be reported as a component unit if all of the following criteria are met:

a. The economic resources of the separate organization entirely, or almost entirely, directly benefit the primary government, its component units, or its constituents.
b. The primary government is entitled to, or can otherwise access, a majority of the economic resources of the separate organization.
c. The economic resources of the individual separate organization that the primary government is entitled to, or can otherwise access, are significant to that primary government.

While the various organizations noted above meet the first criteria specified by GASB, none of the organizations meet the second two requirements and are therefore not included as component units within the reporting entity.

**B. Government-Wide and Fund Financial Statements**

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the Fort Bend Independent School District nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State funds, grants and other intergovernmental revenues. *Business-Type activities* include operations that rely to a significant extent on fees and charges for support.

The Statement of Activities Program Revenues demonstrates how other people or entities that participate in programs the District operates have shared in the payment of the direct costs. The "Charges for Services" Program Revenues column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the District. Examples include summer school tuition, school lunch charges, etc. The "Grants and Contributions" Program Revenues column includes amounts paid by organizations outside the District to help meet the operational requirements of a given function. Examples include grants under the Elementary and Secondary Education Act. If revenue is not program revenue, it is general revenue used to support all of the District's functions. Taxes are always general revenues.

Interfund activities between governmental funds and between governmental funds and proprietary funds appear as due to/due from on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Position and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances and on the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Position. All interfund transactions between governmental funds and between governmental funds and internal service funds are eliminated on the government-wide statements. The District has no interfund services provided and used between functions that would be program revenue which would not be eliminated in the process of consolidation. Interfund activities between governmental funds and fiduciary funds remain as due to/due from on the government-wide Statement of Net Position.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**B. Government-Wide and Fund Financial Statements (continued)**

The fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for District operations, they are not included in the government-wide statements. The District considers some governmental funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are nonoperating.

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

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

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The District considers state and federal revenues and interest revenues available if they are collectible within 60 days after year-end.

Revenue from local sources consists primarily of property taxes and is recorded as revenue when received. Uncollected property taxes are recorded as receivables and unearned revenue. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as unearned revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the District to refund all or part of the unused amount.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)**

The Proprietary Fund Types and the Fiduciary Fund Types are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into restricted net position (held in trust) and unrestricted net position. The agency funds record only assets and liabilities and use the accrual basis of accounting to recognize receivables and payables. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

**D. Fund Accounting**

The accounts of the District are organized on the basis of funds in accordance with the provisions of the Resource Guide. Each fund is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which comprise its assets, liabilities, fund equity, deferred inflows and outflows of resources, revenues, and expenditures or expenses. For financial statement presentation, the District's fund financial statements provide more detailed information about the District's most significant funds -- not the District as a whole.

The District reports the following major Governmental Funds:

**1.** General Fund

The General Fund is the government's primary operating fund. It is used to account for all financial transactions not properly includable in other funds. The principal sources of revenue include local property taxes, state funding, interest earnings on fund investments, and federal source revenues not accounted for in Special Revenue Funds. Expenditures include all costs associated with the daily operations of the District except for specific programs funded by the federal or state government, food service, debt service and capital projects.

**2.** Debt Service Fund

The Debt Service Fund is used to account for financial resources that are restricted, committed, or assigned to expenditure for principal and interest payments on the outstanding debt obligations of the District. These resources include interest and sinking tax revenues which are considered restricted and for which a tax has been dedicated.

**3.** Capital Projects Fund

The Capital Projects Fund is used to account for the expenditures of resources accumulated from sales of bonds and related interest earnings for the acquisition and construction of school facilities.

**Note 1 - Summary of Significant Accounting Policies (continued*)***

**D. Fund Accounting (continued)**

**4.** Special Revenue Funds

The District reports all special revenue funds under non-major governmental funds.

The Special Revenue Funds are used to account for the proceeds of specific revenue that are legally restricted or committed to expenditures for specific purposes through federal, state, and local grant awards. Specifically, this type of fund is used to account for funds that are used for the District's Food Service Program, including local and federal revenue sources for federally financed programs (grants) where unused balances are returned to the grantor at the close of specified project periods and other revenue specific programs. Project accounting is employed to maintain integrity for the various sources of funds. Resources accounted for in these funds are awarded to the District for the purpose of accomplishing specific educational tasks as defined by grantors in contracts or other agreements.

**5.** Enterprise Funds

The Enterprise Funds are used to account for revenues and expenses associated with operations of the Extended Learning Program at all of the elementary schools and some middle schools, and the Facility Rental Program. Revenues in these funds are primarily from fees paid by participants in the program. Expenses consist mainly of payroll, utilities, and supplies.

**6.** Internal Service Funds

The internal service fund is used to account for revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis. The following internal services funds are used by the District:

Print Shop Fund
The Print Shop Fund is used to account for the operations of the District’s print shop. Printing services to other departments of the District is the main service. Expenses include the day to day cost of operations of the print shop as well as depreciation of fixed assets.

Health Insurance Fund
The Health Insurance Fund is used to account for the operations of the District's employee health insurance plan, which is supported principally by employer and employee contributions. Expenses include plan benefit payments to medical providers and employees, and charges incurred in administering the plan.

Workers' Compensation Fund
The Workers' Compensation Fund is used to account for the operations of the District's Workers' Compensation insurance plan, which is supported principally by employer contributions. Expenses include plan benefit payments to providers of medical services or to employees for claims, administrative costs and stop-loss premium charges. Estimated amounts due for claims incurred but not reported at year-end are included as fund liabilities.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**D. Fund Accounting (continued)**

Unemployment Insurance Fund
The Unemployment Insurance Fund is used to account for the operations of the District's unemployment insurance plan, which is supported principally by employer contributions. Expenses include plan benefit payments for eligible employees and charges incurred in administering the plan.

Technology Fund
The Technology Funds is used to account for the operations of technology items utilized throughout the District, which is supported principally by transfers from the General Fund. Expenses include computers, laptops, and infrastructure costs.

**7.** Fiduciary Funds

Fiduciary funds are used to account for assets held by the District as trustee for employees and others and as agent for various student groups. The following fiduciary funds are used by the District:

Private Purpose Trust Fund
The Private Purpose Trust Fund is used to account for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. The District has funds that have been received for scholarships that are to be awarded to current and former students for post-secondary education purposes.

Agency Fund - Student Activities
The Student Activities Agency Fund is used to account for activities of student groups. This fund has no equity; assets are equal to liabilities and do not include revenues and expenditures for general operations of the District. The agency fund accounts for resources held in a custodial capacity by the District and consist of funds that are property of students and cannot be used by the District in the regular day-to-day operations.

**E. Other Accounting Policies - Assets, Deferred Outflows/Inflows of Resources, Liabilities and Net Position or Equity**

**1.** Cash and Cash Equivalents

The District reports cash and cash equivalents in the District's statement of cash flows for Proprietary Fund Types and in all other financial statements of financial position. The District considers cash and cash equivalents to be cash on hand, demand deposits, money market funds and certificates of deposit with original maturities of three months or less from acquisition date.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**E. Other Accounting Policies - Assets, Deferred Outflows/Inflows of Resources, Liabilities and Net Position or Equity (continued)**

**2.** Investments

Investments consist of balances in privately managed public funds investment pools and investments in United States (U.S.) securities and U.S. Agency securities. The District reports all investments at fair value, except for investment pools. The District's investment pools are valued and reported at amortized cost, which approximates fair value.

Interest earned from investments from the Campus Activity Fund and the Agency Funds for fiscal year 2017 has been assigned to the General Operating Fund in the amounts of $21,175 and $39,932, respectively. The interest was used to offset the maintenance fees for the accounts and to fund the start-up activity fund campus accounts for three new elementary schools.

The District categorizes fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; level 3 inputs are significant unobservable inputs. The District's local government investment pools are recorded at amortized costs as permitted by GASB Statement No. 79, *Certain Investment Pools and Pool Participants*.

**3.** Property Taxes

Property taxes are levied by October 1 in conformity with Subtitle E, Texas Property Tax Code, are due on the receipt of the tax bill, and are delinquent if not paid before February 1 of the year following the year imposed. Property Tax receivables include unpaid property taxes at year-end, and are shown net of allowance for uncollectible. Allowances for uncollectible taxes are based on historical experience in collecting property taxes. However, not all outstanding property taxes are expected to be collected within one year of the date of financial statements.

**4.** Short Term Interfund Receivables/Payables

During the course of operations, transactions occur between individual funds for specified purposes. These receivables and payables are classified as "due from other funds" and due to other funds" on the combined balance sheet. Interfund services between funds are not eliminated in the process of consolidation.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**E. Other Accounting Policies - Assets, Deferred Outflows/Inflows of Resources, Liabilities and Net Position or Equity (continued)**

**5.** Inventories and Prepaid Items

Inventories consisting of supplies and materials are stated at cost (average cost method) when the item is purchased, and are subsequently recognized as expenditures when consumed (consumption method). Inventories include consumable custodial, maintenance, transportation, instructional, food consumables and office supplies. Inventories of food commodities inventory are recorded at fair market value supplied by the Texas Department of Human Services on the date received. Commodity inventory items are recorded as expenditures when distributed to user locations and revenue is recognized for an equal amount. Commodity inventory is reported as unearned revenue at year-end. A portion of fund balance is reserved to reflect minimum inventory quantities considered necessary for the District's continuing operations.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These expenditures will be recorded when consumed (consumption method) rather than when purchased.

**6.** Capital Assets

Capital assets, which include land, buildings and improvements, furniture and equipment, construction in progress, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Costs of the Facilities Acquisition and Construction Function that relate to overall planning of District facilities, managing overall District assets and overall construction projects are treated as period costs and are not capitalized unless related to specific assets.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. When assets are retired or otherwise disposed of, the related costs or other recorded amounts are removed.

Buildings, furniture and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

| Assets | Years |
|---|---|
| Buildings | 40 |
| Building Improvements | 20 |
| Furniture and Equipment | 5-15 |
| Vehicles | 5-10 |

Land and construction in progress are not depreciated.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**E. Other Accounting Policies - Assets, Deferred Outflows/Inflows of Resources, Liabilities and Net Position or Equity (continued)**

**7.** Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Accretion of interest on the capital appreciation bonds are recorded at the accreted value through the end of the fiscal year.

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, 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. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**8.** Compensated Absences

The District maintains a policy allowing employees meeting established requirements to be compensated for unused sick leave at retirement. Annual non-duty days are granted to non-professional and professional employees; however, any unused days lapse at the end of each fiscal year. There are no other compensated absences allowed under the District's personnel policies. Compensated absences are liquidated from the General Fund when due and payable.

**9.** Deferred Outflows And Inflows of Resources

A *deferred outflow of resources* is a consumption of a government's net assets (a decrease in assets in excess of any related decrease in liabilities or an increase in liabilities in excess of any related increase in assets) by the government that is applicable to a future reporting period. The District has two items that qualify for reporting in this category:

- Deferred outflows of resources for refunding - Reported in the government-wide statement of net position, this 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.
- Deferred outflows of resources for pension – Reported in the government wide financial statement of net position, this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the results of 1) differences between projected and actual earnings on pension plan investments; 2) changes in actuarial assumptions; 3) differences between expected and actual actuarial experiences and 4) changes in the District's proportional share of pension liabilities. The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The deferred outflows resulting from differences between projected and actual earnings on pension plan investments will be amortized over a closed five year period. The remaining pension related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**E. Other Accounting Policies - Assets, Deferred Outflows/Inflows of Resources, Liabilities and Net Position or Equity (continued)**

**9.** Deferred Outflows And Inflows of Resources (continued)

A *deferred inflow of resources* is an acquisition of a government's net assets (an increase in assets in excess of any related increase in liabilities or a decrease in liabilities in excess of any related decrease in assets) by the government that is applicable to a future reporting period. The District has two items that qualify for reporting in this category:

- Deferred inflows of resources for unavailable revenues - Reported only in the governmental funds balance sheet, unavailable revenues from property taxes arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- Deferred inflows of resources for pension – Reported in the government wide financial statement of net position, these deferred inflows result primarily from 1) changes in actuarial assumptions; 2) differences between expected and actual actuarial experiences and 3) changes in the District's proportional share of pension liabilities These pension related deferred inflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.

**10.** 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.

**11.** Fund Balance Classifications

The fund balance in governmental funds has been classified as follows to describe the relative strength of the spending constraints:

*Nonspendable fund balance* - amounts that are not in spendable form or are required to be maintained intact. As such, the inventory and prepaid items have been properly classified in the Governmental Funds Balance Sheet (Exhibit C-1).

*Restricted fund balance* - amounts that can be spent only for specific purposes because of local, state or federal laws, or externally imposed conditions by grantors or creditors.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**E. Other Accounting Policies - Assets, Deferred Outflows/Inflows of Resources, Liabilities and Net Position or Equity (continued)**

11. Fund Balance Classifications (continued)

*Committed fund balance* - amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e. the Board of Trustees). To be reported as committed, amounts cannot be used for any other purposes unless the District takes the same highest level of action to remove or change the constraint. The District establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. A fund balance commitment is further indicated in the budget document as a commitment of the fund. The District has committed fund balance in the General Fund for capital expenditures for equipment in the amount of $6.4 million, $2.7 million for textbooks, $4.5 million for new school openings, $14 million for potential future losses, and $49.4 million for potential loss of state funding.

*Assigned fund balance* - amounts the District intends to use for a specific purpose. Intent can be expressed by the District or by an official to which the Board of Trustees delegates the authority. The District has assigned $4,724,855 for outstanding purchase orders for the purpose of acquiring educational supplies and services that will be honored in fiscal year 2018.

The Board can commit or assign fund balances by passage of a Board resolution. All modifications of commitments and assignments also require Board approval by either budget amendment or Board resolution.

*Unassigned fund balance* - amounts that are available for any purpose. Positive amounts are reported only in the general fund.

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

Per the District’s Fiscal and Budget Strategy, the District will strive to maintain an unassigned general fund balance equal to the greater of sixty (60) days or seventeen percent (17%) of net budgeted operating expenditures. In order to protect the District from a potential loss in state revenue, the District will commit at least thirty (30) days or a third (8.33%) of net budgeted operating expenditures.

**12.** Use of Estimates

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

**Note 1 - Summary of Significant Accounting Policies (continued)**

**E. Other Accounting Policies - Assets, Deferred Outflows/Inflows of Resources, Liabilities and Net Position or Equity (continued)**

**13.** Data Control Codes

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

**14.** New Accounting Standards

In the current fiscal year, the District implemented the following new standards. The applicable provisions of these new standards are summarized below. Implementation is reflected in the financial statements and the notes to the financial statements.

GASB Statement 82, *Pension Issues-An amendment of GASB Statements No. 67, No. 68 and No. 73,* addresses the presentation of payroll-related measures in required supplementary information, selection of assumptions and the treatment of deviations from the guidance in an actuarial standard of practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee contribution requirements.

## Note 2 - Stewardship, Compliance, and Accountability

### A. Budgetary Data

The Board of Trustees adopts an annual "appropriated budget" for the General Fund, Debt Service Fund, and National School Breakfast and Lunch Program Fund (which is included in the Special Revenue Funds). Budgets are prepared using the same method of accounting as for financial reporting. The District is required to present the adopted and final annual amended budgeted revenues and expenditures for the general fund and each major special revenue fund. The National School Breakfast and Lunch Program is not a major fund. The General Fund budget report appears in the required supplementary information section where the District compares the final annual amended budget to actual revenues and expenditures. Per regulatory requirements, the National School Breakfast and Lunch Program Fund and Debt Service Fund are required to be reported with the original budget, amended budget, and actual. These statements are included in the Other Supplementary Information at the end of the Financial Section of the District’s Comprehensive Annual Financial Report in Exhibit H-3 and H-4.

The Capital Projects Fund budget is prepared on a project basis based on the proceeds available from bond issues and planned expenditures outlined in applicable bond ordinances. Capital Projects Fund equity, which represents unexpended appropriations, is reappropriated in the subsequent fiscal year's budget until available funds for acquisition and construction of facilities have been utilized. Each major construction contract is approved based on the existing availability of bond proceeds and/or approved but unissued bonds. The non-budgeted Special Revenue funds (primarily Federal, State, and local grant programs) utilize a managerial-type financial plan approved at the fund level by the Board of Trustees upon acceptance of the grants. These grants are subject to State imposed project length budgets and monitored through submission of reimbursement reports to the State.

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

1. Prior to June 20th, the District prepares a budget for the next succeeding fiscal year beginning July 1st. The operating budget includes proposed expenditures and the means of financing them.

2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days public notice of the meeting must be given.

3. Prior to July 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. During the year, amendments are presented to the Board at its regular meetings. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. All supplemental appropriations must be within limits of available revenues and fund equity.

4. Each budget is controlled by the budget director at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

**Note 2 - Stewardship, Compliance, and Accountability (continued)**

**B. Encumbrances**

The District utilizes encumbrance accounting in its governmental funds. Encumbrances represent commitments related to contracts not yet performed (executory contracts), and are used to control expenditures for the year and to enhance cash management. A school district often issues purchase orders or signs contracts for the purchase of goods and services to be received in the future. At the time these commitments are made, which in its simplest form means that when a purchase order is prepared, the appropriate account is checked for available funds. If an adequate balance exists, the amount of the order is immediately charged to the account to reduce the available balance for control purposes. The encumbrance account does not represent an expenditure for the period, only a commitment to expend resources.

Prior to the end of the year, every effort should be made to liquidate outstanding encumbrances. When encumbrances are outstanding at the fiscal year-end, the District likely will honor the open purchase orders or contracts that support the encumbrances. For reporting purposes, as noted earlier, outstanding encumbrances are not considered expenditures for the fiscal year. If the school district allows encumbrances to lapse, even though it plans to honor the encumbrances, the appropriations authority expires and the items represented by the encumbrances are usually reappropriated in the following year's budget. Open encumbrances at fiscal year-end are included in restricted, committed, or assigned fund balance, as appropriate.

As of June 30, 2017, outstanding purchase orders that will be honored in the 2018 fiscal year totaled $4,724,855. As these purchase orders were the result of normal operations, the District has assigned this amount in the General Fund and the administration will present a budget amendment to the Board of Trustees for the 2018 fiscal year.

**Note 3 - Deposits (Cash) and Investments**

**Authorization for Deposits and Investments**

The Texas Education Code (TEC) and the Texas Public Funds Investment Act (PFIA), as prescribed in Chapter 2256 of the Texas Government Code and the District Investment Strategy, regulate deposits and investment transactions of the District.

The TEC authorizes the District to invest any of its funds in direct debt securities of the United States or other types of bonds, securities and warrants in accordance with applicable provisions.

The TEC authorizes the District to place the proceeds from debt issues in properly secured or collateralized interest bearing time deposits with any Texas state or national bank having federal depository insurance coverage (FDIC) for depositors or directly in bonds or other obligations of the United States or U.S. Agency securities. TEC requirements prohibit the District from investing debt issue proceeds in interest-bearing time deposits that have any chance of original invested principal loss.

**Note 3 - Deposits (Cash) and Investments (continued)**

**Authorization for Deposits and Investments (continued)**

In accordance with applicable statutes, the District has a depository contract with a local bank (depository) providing interest rates to be earned on deposited funds and fixed fees for banking services received. The District may place funds with the depository in interest and non-interest bearing accounts. Statutes and the depository contract require full security for all funds in the depository institution through federal depository insurance or a combination of federal depository insurance and acceptable collateral securities and/or an acceptable surety bond. The depository must deliver the collateral securities to the District or place them with an independent trustee institution. The depository is required to deliver the safekeeping receipts to the District and send copies of the safekeeping receipts to the Texas Education Agency. In accordance with Texas statutes, the safekeeping receipts are in the name of the depository with proper indication of pledge of the collateral securities by the depository to secure funds of the District. The District must approve all collateral securities pledged and also must approve in writing any changes to the pledged collateral securities.

The District has adopted a written investment policy [CDA (LEGAL) and CDA (LOCAL)] regarding the investment of its funds as defined by the PFIA. The PFIA also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District complies with the requirements of the Act and with local policies.

The District's investment policy permits investment of District funds in only the following investment types, consistent with the strategies and maturities defined in the policy:

1. Obligations of or guaranteed by, governmental entities as permitted by Government Code 2256.009
2. Certificates of deposit and share certificates as permitted by Government Code 2256.010
3. Fully collateralized repurchase agreements permitted by Government Code 2256.011
4. Commercial paper as permitted by Government Code 2256.013
5. No-load money market mutual funds and no-load mutual funds as permitted by Government Code 2256.014
6. Public funds investment pools as permitted by Government Code 2256.016

The District’s investment policy specifically prohibits investment of District funds in the following investment types:

1. Collateralized mortgage obligations
2. Reverse repurchase agreements
3. Corporate bonds issued by domestic business entities

## Note 3 - Deposits (Cash) and Investments (continued)

### Authorization for Deposits and Investments (continued)

A summary of the District's cash and investments at June 30, 2017 follows:

| | Cash and Deposits | Investment Pools | Agency Securities | Total |
|---|---|---|---|---|
| General Fund | $ 641,793 | $ 82,433,816 | $ 107,171,275 | $ 190,246,884 |
| Debt Service Fund | 393 | 46,695,261 | 17,957,600 | 64,653,254 |
| Capital Projects Fund | 899 | 5,364,130 | - | 5,365,029 |
| Non-major Governmental Funds | 25,163 | 7,302,979 | - | 7,328,142 |
| **Total Governmental Funds** | 668,248 | 141,796,186 | 125,128,875 | 267,593,309 |
| Internal Service Funds | 471 | 19,512,151 | - | 19,512,622 |
| **Total Governmental Activities** | 471 | 19,512,151 | - | 19,512,622 |
| **Enterprise Funds** | 671,509 | 3,391,744 | - | 4,063,253 |
| **Fiduciary Funds - Trust & Agency** | 165,583 | 3,308,480 | - | 3,474,063 |
| **Total Investments** | **$ 1,505,811** | **$ 168,008,561** | **$ 125,128,875** | **$ 294,643,247** |

The table below shows the investment pools and U.S. Securities balances along with the weighted average maturity and credit rating for the District's investments at June 30, 2017.

| | Fair Value | Weighted Avg. Maturity (Years) | S & P Credit Quality Rating |
|---|---|---|---|
| **U.S. Securities and U.S. Agency Securities** | | | |
| U.S. Treasury Bonds/Notes | $ 69,949,500 | 0.16 | AA+ |
| Federal Home Loan Bank | 20,200,375 | 0.11 | AA+ |
| Federal Home Loan Bank Discount Note | 19,984,000 | 0.01 | AA+ |
| Federal Home Loan Mortgage Corporation | 4,999,000 | 0.01 | AA+ |
| Federal National Mortgage Association | 9,996,000 | 0.01 | AA+ |
| **Total U.S. Securities and U.S. Agency Securities** | **$ 125,128,875** | | |
| **Public Funds Investment Pools** | | | |
| Lone Star | $ 22,663,293 | 0.06 | AAAm |
| TexasCLASS | 34,624,958 | 0.13 | AAAm |
| TexasTERM | 28,728,597 | 0.09 | AAAm |
| TexPool | 52,843,353 | 0.10 | AAAm |
| TexSTAR | 29,148,360 | 0.09 | AAAm |
| **Total Funds Investment Pools** | **$ 168,008,561** | | |

**Note 3 - Deposits (Cash) and Investments (continued)**

Investments' fair value measurements are as follows at June 30, 2017:

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| **Investments** | **Fair Value** | **Level 1 Inputs Inputs** | **Level 2 Inputs** | **Level 3 Inputs** |
| Debt securities: | | | | |
| U.S. Treasury Bonds and Notes | $ 69,949,500 | $ 69,949,500 | $ - | $ - |
| U.S. Agency Securities | 55,179,375 | - | 55,179,375 | - |
| Total debt securities | $ 125,128,875 | $ 69,949,500 | $ 55,179,375 | $ - |

**Interest Rate Risk**

The District measures interest rate risk using the weighted average maturity method based on the fund in which the District makes investments. The District's Investment Strategy specifies limitations for weighted average maturities for investments in all funds and for investments in the general fund.

For all funds, weighted average maturities of U.S. Agency security investments are limited by the District's investment policy to two years or less. Repurchase agreements are limited to a maximum maturity of 30 days and certificates of deposit are limited to a maximum maturity of one year. For bond proceeds and other bond funds, the District may specifically authorize investments in repurchase agreements with maturities in excess of 30 days, subject to any required approvals from bond insurers and the Board of Trustees. Under adverse market conditions, the District may deviate from the limitations outlined above for periods of 90 days or less, with the Superintendent's approval, in order to sufficiently maintain safety and liquidity.

**Credit risk**

Credit risk is the possibility of loss occurring due the inability of an investment instrument to meet financial obligations. As of June 30, 2017, investments were diversified in local government investment pools, money market funds, and U.S. agency securities with sufficient ratings from Standard & Poor's to reduce the probability of loss and comply with the District's investment policy.

The District participates in the Texas Local Government Investment Pool ("TexPool"), a public funds investment pool created by the Texas Treasury Safekeeping Trust Company (Trust Company) to provide a safe environment for the placement of local government funds in authorized short-term, fully-collateralized investments, including direct obligations of, or obligations guaranteed by, the United States or State of Texas or their agencies; federally insured certificates of deposit issued by Texas banks or savings and loans; and fully collateralized direct repurchase agreements secured by United States Government agency securities and placed through a primary government securities dealer.

**Note 3 - Deposits (Cash) and Investments (continued)**

**Credit Risk (continued)**

The Trust Company was incorporated by the State Treasurer by authority of the Texas Legislature as a special purpose trust company with direct access to the services of the Federal Reserve Bank to manage, disburse, transfer, safekeep, and invest public funds and securities more efficiently and economically. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. TexPool operates in a manner consistent with the Security and Exchange Commission's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than fair value to report net position to compute share prices. The fair value of the position in TexPool is the same as the value of TexPool shares. Accordingly, the District's investments in TexPool are stated at cost, which approximates fair value. TexPool is currently rated AAAm by Standard and Poor's. This rating indicates excellent safety and a superior capacity to maintain principal value and limit exposure to loss.

The District participates in the TexasTERM Local Government Investment Pool (“TexasTERM”), an external investment pool. TexasTERM was established under the provisions of the Interlocal Cooperations Act, Chapter 791 of the Texas Government Code and Chapter 2256 of the Public Funds Investment Act. An Advisory Board composed of participants and non-participant members elected by the participant shareholders of TexasTERM is responsible for the overall management of TexasTERM, including formulation and implementation of its investment and operating policies. In addition, Advisory Board members select and oversee the activities of the Investment Advisor and Custodian of TexasTERM and monitor investment performance and the method of valuing the shares. TexasTERM is a floating net asset value fund, which is a non-2a7 fund, and has a rating from Standard and Poor’s of AAAm. It is a fundamental objective of TexasTERM to assure the return of principal and interest at the date planned for redemption of shares; however the net asset value of shares may fluctuate prior to the planned redemption date. GASB Statement No. 31 allows that the value at maturity and fair value to be the same for investment positions that mature within one year of the purchase date of the position. Therefore, TexasTERM's fair value and the value at maturity for the District's investment are the same.

The District participates in the TexStar Local Government Investment Pool (“TexSTAR”), an external investment pool. The pool is overseen by a five member governing board made up of three participants and one of each of the program’s professional administrators. The responsibility of the board includes the ability to influence operations, designation of management, and accountability for fiscal matters. In addition, the pool has a Participant Advisory Board which provides input and feedback on the operations and direction of the program and Standard and Poor’s reviews the pool on a weekly basis to ensure the pool’s compliance with its rating requirements. Although TexSTAR is not registered with the SEC as an investment company, it operates in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940. GASB Statement No. 31 allows 2a7-like pools to use amortized cost (which excludes unrealized gains and losses) rather than fair value to report net assets to compute share price. The fair value of the District’s position in TexSTAR is the same as the value of TexSTAR shares.

**Note 3 - Deposits (Cash) and Investments (continued)**

**Credit Risk (continued)**

The District participates in the First Public Local Government Pool (“Lone Star”), a Texas public investment pool sponsored by the Texas Association of School Boards (TASB) for investment of funds by state and local government entities, primarily local school districts. The Board has entered into an agreement with First Public, LLC (First Public), a Texas limited liability company and a member of the National Association of Securities Dealers, Securities Investor Protection Corporation, and Municipal Securities Rulemaking Board, pursuant to which First Public serves as administrator of Lone Star's operations. American Beacon Advisors, Fort Worth, Texas, and Standish Mellon Asset Management Company, LLC, Pittsburgh, Pennsylvania, provide investment management services to Lone Star regarding the investment and reinvestment of the pool's assets. The fund's credit quality is excellent as its portfolio is composed of U. S. government and U. S. agency securities. Investments in Lone Star provide for investment in securities with maturities and returns generally greater than money market instruments. Lone Star is marked-to-market daily to maintain an accurate net asset value. The District's fair value in Lone Star is the same as the value of the pool shares. Lone Star is currently rated AAAm by Standard and Poor's. This rating indicates excellent safety and a superior capacity to maintain principal value and limit exposure to loss.

The District participates in the Texas Cooperative Liquid Assets Securities System (“Texas CLASS”), an external investment pool. Texas CLASS is a local government investment pool emphasizing safety, liquidity, convenience and competitive yield. Since 1996, Texas CLASS has provided Texas public entities a safe and competitive investment alternative. Texas CLASS invests only in securities allowed by the Texas Public Funds Investment Act. The pool is governed by a board of trustees, elected annually by its participants. Texas CLASS is rated ‘AAAm’ by Standard and Poor’s Ratings Services. The ‘AAAm’ principal stability fund rating is the highest assigned to principal stability government investment pools and is a direct reflection of Texas CLASS’s outstanding credit quality and management. The District’s fair value in Texas CLASS is the same as the value of the pool shares.

In accordance with GASB Statement No. 79, Certain External Investment Pools and Pool Participants, the Local Government Investment Pools do not have any limitations and restrictions on withdrawals such as notice periods or maximum transaction amounts. These pools do not impose any liquidity fees or redemption gates.

**Concentration of Credit Risk**

The District's Investment Portfolio policy is diversified by market sector in accordance with the District’s investment policy.

Custodial credit risk - deposits

In the case of deposits, this is the risk that in the event of a bank failure, the district's deposits may not be returned to it. As of June 30, 2017, the District's bank's balances were not exposed to custodial credit risk because it was insured and collateralized with securities held by the District's agent and in the District's name.

Custodial credit risk - investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's agent, the Federal Home Loan Bank of Dallas, holds securities in the District's name; therefore, the District is not exposed to custodial credit risk on its investments.

**Note 4 - Property Taxes**

Property taxes are levied by October 1 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 February 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. The Central Appraisal District (CAD) of Fort Bend County, Texas, establishes appraised values as of January 1 of each year. Prior to July 1 of each year, the District must adopt its annual budget and as soon thereafter as practicable, shall adopt a tax rate based on the appraised values received from the CAD, thus creating the levy, which Fort Bend County bills and collects on behalf of the District.

Property tax rates, established in accordance with state law, are levied on real and personal property within the District's boundaries for use in financing general government and debt service expenditures.

Tax rates levied to finance general government and debt service expenditures for fiscal year 2017 were $1.04 and $0.30, respectively, per $100 of valuation, based on an assessed property valuation of approximately $35.5 billion, resulting in a tax levy of approximately $461.6 million. Allowances for uncollectible taxes are based on historical experience in collecting property taxes. Uncollectible property taxes are periodically reviewed and written off by the District, as provided by specific statutory authority from the Texas Legislature.

Governmental funds net property taxes receivable at June 30, 2017, consisted of the following:

| | General Fund | Debt Service Fund | Totals |
|---|---|---|---|
| **Delinquent Taxes:** | | | |
| Delinquent Taxes Receivable | $ 8,847,299 | $ 2,536,300 | $ 11,383,599 |
| Penalty and Interest on Delinquent Taxes | 4,257,210 | 1,007,168 | 5,264,378 |
| **Total Delinquent Taxes and Penalty and Interest** | 13,104,509 | 3,543,468 | 16,647,977 |
| Less Allowance for Uncollectible Taxes | (4,319,874) | (1,035,798) | (5,355,672) |
| **Net Property Taxes Receivable** | $ 8,784,635 | $ 2,507,670 | $ 11,292,305 |

## Note 5 - Interfund Receivables, Payables and Transfers

Interfund balances consist of short-term lending/borrowing arrangements that result primarily from payroll and other regularly occurring charges that are paid by the general fund and then charged back to the appropriate other fund. Additionally, some lending/borrowing may occur between two or more non-major governmental funds. The District had not cleared the interfund payables and receivables at year-end. Most of the amounts represent short-term borrowings between funds for operating expense payments.

| | Interfund Payables | | | | | |
|---|---|---|---|---|---|---|
| | | Capital | Non-major Funds | | | |
| Interfund Receivable | General Fund | Projects Fund | Special Revenue | Enterprise | Internal Service | Totals |
| General Fund | $ - | $ 2,067,820 | $ 1,426,424 | $ 123,367 | $ - | $ 3,617,611 |
| Capital Projects Fund | 1,341,334 | - | - | - | - | 1,341,334 |
| Nonmajor Funds | | | | | | |
| Special Revenue | 1,671,791 | - | 2,247,723 | - | - | 3,919,514 |
| Enterprise | - | - | 1,206 | - | - | 1,206 |
| Internal Service | 4,337,220 | - | 217,165 | 4,064 | 895,663 | 5,454,112 |
| Totals | $ 7,350,345 | $ 2,067,820 | $ 3,892,518 | $ 127,431 | $ 895,663 | $ 14,333,777 |

The following transfers were recorded during fiscal year ending June 30, 2017:

- A transfer of $1.5 million was made from the Extended Learning Business-Type Activity Fund to the General Fund.
- A transfer of $732,817 was made from the General Fund to the Capital Project Fund for capital related expenditures.
- A transfer of $2,826,827 was made from the workers compensation fund to the health insurance fund to cover deficit balances.
- A transfer of $7,000,000 was made from the Debt Service Fund to Capital Projects Fund for the commercial paper refunding that closed in May of 2017.

## Note 6 - Receivables Due From State and Federal Agencies

Receivables due from other governments at June 30, 2017, consisted of the following:

| | General Fund | Debt Service Fund | Nonmajor Governmental Funds | Total |
|---|---|---|---|---|
| Due from State Agencies: | | | | |
| State expenditure reimbursement | $ 54,597,835 | $ - | $ - | $ 54,597,835 |
| State grant expenditure reimbursement | - | - | 1,545,667 | 1,545,667 |
| Due from County Agency | 69,200 | 372,562 | | 441,762 |
| Due from State or Federal Agencies: | | | | |
| Federal grant expenditure reimbursement | 17,106 | - | 5,211,452 | 5,228,558 |
| **Total Due from Other Governments** | $ 54,684,141 | $ 372,562 | $ 6,757,119 | $ 61,813,822 |

All receivables are expected to be collected within one year of the end of the fiscal year.

## Note 7 - Capital Assets

Capital asset activity for the governmental activities of the District for the year ended June 30, 2017, are as follows:

| | Balance July 1, 2016 | Additions | Retirements and Transfers | Balance June 30, 2017 |
|---|---|---|---|---|
| **Governmental Activities** | | | | |
| **Capital Assets Not Being Depreciated:** | | | | |
| Land | $ 73,859,474 | $ 2,731,888 | $ - | $ 76,591,362 |
| Construction in Progress | 34,711,269 | 148,470,970 | (35,441,207) | 147,741,032 |
| **Total Capital Assets Not Being Depreciated** | 108,570,743 | 151,202,858 | (35,441,207) | 224,332,394 |
| **Capital Assets Being Depreciated:** | | | | |
| Buildings and Improvements | 1,193,552,399 | 35,799,104 | (347,498) | 1,229,004,005 |
| Furniture and Equipment | 44,702,790 | 5,198,304 | (1,235,727) | 48,665,367 |
| Vehicles | 41,660,891 | 8,827,738 | (1,583,711) | 48,904,918 |
| **Total Capital Assets Being Depreciated** | 1,279,916,080 | 49,825,146 | (3,166,936) | 1,326,574,290 |
| **Less: Accumulated Depreciation:** | | | | |
| Buildings and Improvements | (389,413,344) | (32,275,337) | (898,821) | (422,587,502) |
| Furniture and Equipment | (33,202,039) | (3,933,502) | 1,833,201 | (35,302,340) |
| Vehicles | (27,864,037) | (2,790,237) | 1,953,623 | (28,700,651) |
| **Total Accumulated Depreciation** | (450,479,420) | (38,999,076) | 2,888,003 | (486,590,493) |
| **Governmental Activities Capital Assets** | $ 938,007,403 | $ 162,028,928 | $ (35,720,140) | $ 1,064,316,191 |

Capital asset activity for the business-type activities of the District for the year ended June 30, 2017, are as follows:

| | Balance July 1, 2016 | Additions | Retirements and Transfers | Balance June 30, 2017 |
|---|---|---|---|---|
| **Business-Type Activities** | | | | |
| **Capital Assets Being Depreciated:** | | | | |
| Buildings and Improvements | $ 4,557,097 | $ - | $ - | $ 4,557,097 |
| Furniture and Equipment | 1,748,949 | - | - | 1,748,949 |
| **Total Capital Assets Being Depreciated** | 6,306,046 | - | - | 6,306,046 |
| **Less: Accumulated Depreciation:** | | | | |
| Buildings and Improvements | (1,587,791) | (116,952) | - | (1,704,743) |
| Furniture and Equipment | (1,747,064) | (1,884) | - | (1,748,948) |
| **Total Accumulated Depreciation** | (3,334,855) | (118,836) | - | (3,453,691) |
| **Business-Type Activities Capital Assets** | $ 2,971,191 | $ (118,836) | $ - | $ 2,852,355 |

**Note 7 - Capital Assets (continued)**

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

| | |
|---|---|
| Instruction | $ 29,168,642 |
| Instructional resources & media services | 1,158,580 |
| Curriculum & instructional staff development | 4,109 |
| Instructional leadership | 288,307 |
| School leadership | 401,909 |
| Guidance, counseling & evaluation services | 288,383 |
| Social work services | 28,465 |
| Health services | 58,367 |
| Student (pupil) transportation | 2,509,607 |
| Food services | 1,168,269 |
| Cocurricular/extracurricular activities | 1,183,737 |
| General administration | 173,028 |
| Plant maintenance & operations | 570,708 |
| Security and monitoring services | 144,385 |
| Data processing services | 1,849,590 |
| Community services | 2,990 |
| Total Depreciation Expense - Governmental Activities | $ 38,999,076 |
| | |
| Total Depreciation Expense - Business-Type Activities | $ 118,836 |

Construction budgets and remaining commitments under related construction contracts as of June 30, 2017, follows:

| Project | Contract Expenditures | Other Project Costs | Construction in Progress |
|---|---|---|---|
| Athletic Scoreboards | $ 5,526 | $ - | $ 5,526 |
| Clements High School | 16,536 | - | 16,536 |
| Cornerstone Elem School | 2,063,882 | 112,553 | 2,176,435 |
| District Wide Infrastructure Cameras | - | 11,246 | 11,246 |
| Dulles Elem School | 246,050 | - | 246,050 |
| Ferndell Henry Ctr for Learning | 18,028 | - | 18,028 |
| Heritage Rose Elem School | 13,496 | - | 13,496 |
| Holley Elem School | 1,872,409 | 109,551 | 1,981,960 |
| Kempner High School | 3,122,391 | 207,876 | 3,330,267 |
| Leonetti Elem School | 26,387,978 | 1,349,358 | 27,737,336 |
| Neill Elem School | 34,650,820 | 2,799,453 | 37,450,273 |
| Oyster Creek Elem School | 2,780,707 | 130,348 | 2,911,055 |
| Patterson Elem School | 24,142,886 | 253,958 | 24,396,844 |
| Reese CTE Facility (Telfair) | 2,285,986 | 78,906 | 2,364,892 |
| Ridge Point High School | - | 5,760 | 5,760 |
| Ridgemont Elem School | 106,822 | 6,201 | 113,023 |
| Scanlan Oaks Elem School | 2,497,168 | 139,096 | 2,636,264 |
| Schiff Elem School | 2,174,784 | 125,505 | 2,300,289 |
| Sienna Crossing Elem School | 1,853,781 | 91,152 | 1,944,933 |
| Sullivan Elem School | 121,181 | - | 121,181 |
| Thornton Middle School | 32,282,034 | 250,856 | 32,532,890 |
| Travis High School | - | 9,264 | 9,264 |
| Willowridge High School | 5,096,095 | 321,389 | 5,417,484 |
| **Totals** | **$141,738,560** | **$ 6,002,472** | **$147,741,032** |

## Note 7 - Capital Assets (continued)

Construction Commitments at June 30, 2017 are as follows:

| Project | Remaining Commitment |
|---|---|
| **New Schools** | |
| Leonetti Elem School | $ 1,882,761 |
| Neill Elem School | 210,951 |
| Patterson Elem School | 3,997,717 |
| Thornton Middle School | 17,748,938 |
| **New Facility** | |
| Beard Ag Facility | 128,356 |
| **Classroom Additions - various schools** | 8,242,301 |
| **School Renovations** | 26,784,793 |
| **Non School Facilities Renovations** | 2,207,450 |
| **Other Projects** | 214,365 |
| | $ 61,417,632 |

## Note 8 - Long-Term Liabilities

The District's long-term liabilities consist of bond indebtedness, self-insured health claims, self-insured workers' compensation and compensated absences. The District also has a long-term pension liability which is discussed further in Note 14. The current requirements for general obligation bonds principal and interest expenditures are accounted for in the debt service fund. The current requirements for self-funded health and workers' compensation claims are accounted for and liquidated in the respective internal service fund. The current requirements for compensated absences are accounted for in the general fund.

### Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2017, was as follows:

| | Balance July 1, 2016 | Additions | Retirements | Balance June 30, 2017 | Due Within One Year |
|---|---|---|---|---|---|
| Bonds Payable | | | | | |
| General obligation bonds | $ 860,700,331 | $ 117,485,000 | $ (83,853,393) | $ 894,331,938 | $ 38,033,388 |
| Issuance premiums | 72,191,207 | 8,414,910 | (6,177,398) | 74,428,719 | - |
| Accumulated accretion payable | 9,194,029 | 414,107 | (4,570,000) | 5,038,136 | 273,323 |
| Health Claims | 4,992,791 | 62,646,328 | (62,246,456) | 5,392,663 | 5,392,663 |
| Workers' Compensation Claims | 3,360,295 | 517,173 | (964,394) | 2,913,074 | 640,101 |
| Compensated Absences | 4,172,895 | 255,487 | (412,758) | 4,015,624 | 397,202 |
| | $ 954,611,548 | $ 189,733,005 | $ (158,224,399) | $ 986,120,154 | $ 44,736,677 |

Of the $894,331,938 outstanding general obligation bonds and related liabilities, $674,231,940 comprises debt backed by the full faith of the State of Texas Permanent School Fund.

**Note 8 - Long-Term Liabilities (continued)**

Internal service funds predominantly serve the governmental funds. Accordingly, the health and workers' compensation claims reported in the internal service funds are included as part of the above totals for governmental activities.

**General Obligation Bonds**

The District issues general obligation bonds to provide funds for the construction and equipment of school facilities and to purchase school buses and land for future schools.

General obligation bonds are direct obligations and pledge the full faith and credit of the District. These bonds are issued as current interest, capital appreciation bonds (CAB), and qualified zone academy bonds (QZAB) with various amounts of principal maturing each year. Bonds are payable solely from Debt Service fund revenues which consist primarily of property tax revenues and state aid.

The following is a summary of changes in the general obligation bonds for the year ended June 30, 2017:

| Series | Interest Rate Payable | Amounts Original Issue | Maturity Date | Beginning Balance | Additions | Reductions | Ending Balance |
|---|---|---|---|---|---|---|---|
| 2005 (QZAB) | - | 7,673,767 | 2021 | $ 2,240,331 | $ - | $ (373,393) | 1,866,938 |
| 2006 | 3.50 - 5.00% | 107,760,000 | 2026 | 3,240,000 | - | (3,240,000) | - |
| 2008 | 3.00 - 5.00% | 220,675,000 | 2034 | 181,810,000 | - | (7,025,000) | 174,785,000 |
| 2009 | 4.05 - 5.00% | 166,730,000 | 2034 | 166,730,000 | - | - | 166,730,000 |
| 2009 (CAB) | 2.23 - 4.64% | 8,270,000 | 2020 | 2,065,000 | - | (1,280,000) | 785,000 |
| 2009 | 3.00 - 5.00% | 89,650,000 | 2024 | 57,090,000 | - | (4,505,000) | 52,585,000 |
| 2010 | 2.00 - 5.00% | 121,225,000 | 2028 | 105,180,000 | - | (5,660,000) | 99,520,000 |
| 2012 | 5.00% | 88,855,000 | 2028 | 88,855,000 | - | - | 88,855,000 |
| 2014 | 2.00-5.00% | 71,725,000 | 2030 | 62,640,000 | - | (7,145,000) | 55,495,000 |
| 2015A | 0.66% | 50,000,000 | 2040 | 33,865,000 | - | (33,865,000) | - |
| 2015B | 2.00% | 49,420,000 | 2040 | 49,420,000 | - | (935,000) | 48,485,000 |
| 2015C | 2.00 - 5.00% | 37,015,000 | 2024 | 37,015,000 | - | (19,825,000) | 17,190,000 |
| 2016A | 2.00 - 5.00% | 70,550,000 | 2026 | 70,550,000 | - | - | 70,550,000 |
| 2015A | 0.97% | 33,155,000 | 2018 | - | 33,155,000 | - | 33,155,000 |
| 2017A | 4.00-5.00% | 47,505,000 | 2042 | - | 47,505,000 | - | 47,505,000 |
| 2017B | 2.00-5.00% | 36,825,000 | 2042 | - | 36,825,000 | - | 36,825,000 |
| **Totals - Bonds Payable at Original Par Value** | | | | 860,700,331 | 117,485,000 | (83,853,393) | 894,331,938 |
| For Issuance Premiums | | | | 72,191,207 | 8,414,910 | (6,177,398) | 74,428,719 |
| For Accreted Interest | | | | 9,194,029 | 414,107 | (4,570,000) | 5,038,136 |
| **Totals - Bonds Payable, net** | | | | $ 942,085,567 | $ 126,314,017 | $ (94,600,791) | $ 973,798,793 |

The District is in compliance with all significant bond and note limitations and restrictions.

In August 2016, the District remarketed the 2015A Variable Rate Series Unlimited Tax Schoolhouse Bonds. The remarketing generated proceeds of $33,037,982 and the District contributed $182,018 to the closing. The net debt has an initial interest rate of .9% for an initial rate period of two years. The bonds convert to a stepped-up interest rate of 7% after the initial two year period in the event the bonds are not remarketed. Interest on the bonds accrue from the closing date of August 1, 2016 and are payable on each February 1 and August 1 thereafter, with the initial interest payment on February 1, 2017.

**Note 8 - Long-Term Liabilities (continued)**

In May 2017, the District refunded Tax Exempt Commercial Paper notes, which is more fully explained in Note 9. The bond sale generated proceeds of $92,744,910 and the District contributed $7,142,248 to the closing which includes the $7 million transferred from the Debt Service Fund to the Capital Projects Fund for the closing. The District issued two series of Unlimited Tax Refunding Bonds: Series 2017A (Green Bonds) for $47,505,000 and Series 2017B for $36,825,000. The 2017A and 2017B Refunding Bonds have a true interest rate of 3.375304% and 3.37388%, respectively.

The District's 2015B Variable Rate Series Unlimited Tax Schoolhouse Bonds were sold in August 2015 with an initial rate of 2% for two years. The bonds convert to a stepped up interest rate of 8% after the initial two-year period in the event the bonds are not remarketed (see Note 20 for Subsequent Events disclosure on the remarketing).

In accordance with the District's Fiscal Strategy, the District can issue a maximum of 25% in variable rate debt in proportion to the total debt outstanding. As of June 30, 2017, the District had 13.03% of variable rate debt outstanding.

Annual debt service requirements to maturity for general obligation bonds as of June 30, 2017, follow:

| Year Ending June 30 | Principal | Interest | Total Requirements |
|---|---|---|---|
| 2018 | $ 38,033,388 | $ 39,976,299 | $ 78,009,687 |
| 2019 | 41,303,388 | 41,495,623 | 82,799,011 |
| 2020 | 38,118,388 | 46,263,703 | 84,382,091 |
| 2021 | 45,873,388 | 38,653,041 | 84,526,429 |
| 2022 | 47,988,386 | 36,439,688 | 84,428,074 |
| 2023-2027 | 267,080,000 | 144,051,555 | 411,131,555 |
| 2028-2032 | 262,670,000 | 73,133,749 | 335,803,749 |
| 2033-2037 | 103,085,000 | 24,625,725 | 127,710,725 |
| 2038-2042 | 44,825,000 | 6,813,150 | 51,638,150 |
| 2043-2047 | 5,355,000 | 107,100 | 5,462,100 |
| | $ 894,331,938 | $ 451,559,633 | $ 1,345,891,571 |

In prior years, the District defeased certain outstanding bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the respective trust account assets and the related liabilities for the defeased bonds are not included in the District's financial statements. At year end, the following outstanding bonds are considered defeased:

| Series | Ending Balance |
|---|---|
| 2006 | $ 85,430,000 |

As of June 30, 2017, the District had $48 million unlimited tax bonds remaining authorized but unissued from the 2007 bond election, and $300 million of authorized but unissued unlimited tax bonds from the 2014 bond election.

**Note 9 - Short-Term Debt**

In September 2016, the District's Board of Trustees adopted an Order ("Order") approving the issuance of Fort Bend Independent School District Unlimited Tax Commercial Paper Notes, Series A, in an aggregate principal amount not to exceed $100 million. The proceeds of the Commercial Paper Notes shall be used for constructing, renovating and equipping school buildings for the District, all authorized by the voters of the District at the November 2007 election and the November 2014 election.

The Commercial Paper Notes will mature in not more than 270 days from issuance and are supported by the revolving credit agreement with JPMorgan Chase Bank. The Order for the Commercial Paper Notes provides for a maximum maturity date of September 19, 2066. The short-term ratings on the Commercial Paper Program are F1+ by Fitch. The Commercial Paper Notes are secured by a pledge of the proceeds from the sales of Commercial Paper Notes from time to time issued to pay the principal amount of outstanding Commercial Paper Notes, from the sale of general obligation bonds issued by the District from time to time hereafter for the purpose of paying the principal and interest on outstanding Commercial Paper Notes, amounts held in the Commercial Paper note Payment Account and /or proceeds of the tax levy.

Series A of the Commercial Paper Program is used for issuing notes for funds as needed. As of June 30, 2017, the District had a $38 million outstanding balance of Tax-Exempt Commercial Paper – Series A. This amount is comprised of $8 million from the 2007 unissued bonds and $30 million from the 2014 unissued bonds. The rates for the outstanding notes range from 0.94% to 0.98% and the longest maturity date is 95 days.

Series B of the Commercial Paper Program is a $1 million note that the liquidity provider, JPMorgan Chase, requires. This note uses the LIBOR index rate for each six-month period (180 days). The $1 million note outstanding as of June 30, 2017 has an interest rate of 1.7384% and matures on November 3, 2017 at which time it will be rolled over for another six-month period at the current LIBOR rate.

Changes in the Commercial Paper are as follows:

| | June 30, 2017 |
|---|---|
| Beginning of the period liability | $ - |
| Commercial paper issuances | 138,000,000 |
| Bonds Issued | (99,000,000) |
| End of the period liability | $ 39,000,000 |

**Note 10 - Deferred Inflows of Resources and Unearned Revenue**

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are considered to be unavailable to liquidate liabilities in the current period. Revenue recognition in governmental funds does not occur until resources that have been received in advance are earned.

A summary of deferred inflows of resources and unearned revenue by fund follows:

| | Deferred Inflows of Resources Relating to Property Taxes | Unearned Revenue |
|---|---|---|
| General Fund: | | |
| Net property taxes receivable | $ 8,784,635 | $ - |
| Other | - | 429,631 |
| Debt Service Fund: | | |
| Net property taxes receivable | 2,507,670 | - |
| Non-major Governmental Funds: | | |
| Grant funds received prior to meeting eligibility requirements | - | 1,522,122 |
| Child nutrition prepaid revenues | - | 326,404 |
| Other | - | 649,388 |
| Child nutrition HeadStart revenues | - | - |
| Enterprise Funds: | | |
| Summer program prepaid revenues | - | 323,350 |
| Internal Service Funds: | | |
| Benefit prepaid contributions | - | 4,577,539 |
| **Total** | $ 11,292,305 | $ 7,828,434 |

**Note 11 - Deficit Fund Balance**

As of June 30, 2017, the Capital Projects Fund had a deficit fund balance of $71.5 million. The deficit fund balance resulted from capital expenditures incurred in fiscal year 2017 that will be financed by commercial paper. The District utilizes a commercial paper program as more fully described in Note 9 rather than issuing a large amount of bonds at the beginning of the construction period and investing those proceeds until the funds are needed to pay construction invoices. The commercial paper program allows the District to more closely match cash flows needs with short term borrowings and take advantage of the lower end of the yield curve for shorter maturities resulting in interest expense savings. The deficit balance will be eliminated as the District pays for invoices that were accrued as of June 30, 2017 and long-term debt is issued.

### Note 12 - Committed Fund Balance

At June 30, 2017, the District has committed $77.0 million in the General Fund for the following: $6.4 million for major maintenance and repair, $21.2 million for other committed, and $49.4 million for potential loss of state funding. The $21.2 million is comprised of $2.7 million for the purchase of instructional materials, $4.5 million for new school openings, $14.0 million for economic stabilization. In addition, the District has assigned $4.7 million for outstanding purchase orders that are due in a future period.

The $14.0 million for economic stabilization is committed for potential budget shortfalls for the fiscal year 2017-2018. The Board adopted a 2017-2018 budget for the General Fund with expenditures exceeding revenues of $12.0 million.

The $49.4 million committed fund balance for potential loss of state funding was established by the Board of Trustees by adopting the District's fiscal policy which states that the District will commit at least thirty days or eight and a third of net budgeted operating expenditures and by Board resolution of committing fund balances. The committed balance will grow as budgeted operating expenditures increase and any increase will require Board Resolution. If a budgetary shortfall is projected due to loss of state funding, the District would take action as outlined in the fiscal policy budgetary contingency plan. If those actions were insufficient to offset the revenue deficit, the District would develop an expenditure reduction plan for approval by the Board of Trustees and one option available to the Board would be to utilize the committed fund which would require Board action.

### Note 13 - Revenues from Local, Intermediate and Out-of-State Sources

A summary of local revenues recorded in the governmental funds for the fiscal year ended June 30, 2017, follows:

| | General | Debt Service | Capital Projects | Non-major Governmental Funds | Total |
|---|---|---|---|---|---|
| Property Taxes | $ 356,926,922 | $ 102,952,969 | $ - | $ - | $ 459,879,891 |
| Penalties, Interest and Other Related Tax Income | 1,982,611 | 565,398 | - | - | 2,548,009 |
| Summer School, Tuition and Fees | 1,212,850 | - | - | - | 1,212,850 |
| Investment Income | 1,201,801 | 351,997 | 125,228 | 21,089 | 1,700,115 |
| Food Sales | - | - | - | 10,843,430 | 10,843,430 |
| Cocurricular Activities | 847,742 | - | - | 3,474,554 | 4,322,296 |
| Other | 1,469,371 | - | - | 708,369 | 2,177,740 |
| **Total** | $ 363,641,297 | $ 103,870,364 | $ 125,228 | $ 15,047,442 | $ 482,684,331 |

## Note 14 - Defined Benefit Retirement Plan

### A. Plan Description

The District participates in a cost-sharing multi-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). TRS's defined benefit pension plan is 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.

### B. Pension Plan Fiduciary Net Position

Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR ; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

### C. 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.

### D. 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.

**Note 14 - Defined Benefit Retirement Plan (continued)**

**D. Contributions (continued)**

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

| | Contribution Rates Plan Fiscal year | |
|---|---|---|
| | **2016** | **2017** |
| Member (Employee) | 7.2% | 7.7% |
| Non-employer contributing agency (State) | 6.8% | 6.8% |
| District | 6.8% | 6.8% |

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA). Contributions and pension expense for all contributors were as follows:

| | Measurement Year (2016) | Fiscal Year (2017) |
|---|---|---|
| | **Contributions Required and Made** | **TRS Contributions** |
| Member (Employee) | $ 31,403,514 | $ 33,702,608 |
| Non-employer contributing agency (State) | 23,174,702 | 23,445,722 |
| District | 12,496,997 | 12,540,010 |

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.

**Note 14 - Defined Benefit Retirement Plan (continued)**

**D. Contributions (continued)**

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.

**E. 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 |
| Discount Rate | 8.00% |
| Long-term expected Investment Rate of Return | 8.00% |
| Inflation | 2.5% |
| Salary Increases | 3.5% to 9.5% including inflation |
| Payroll Growth Rate | 2.5% |
| Benefit Changes during the year | None |
| Ad hoc post-employment benefit changes | None |

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

**Note 14 - Defined Benefit Retirement Plan (continued)**

**F. 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 Contributions to Returns incorporates the volatility drag resulting from the conversion between Arithmetic and Geometric mean returns.*

**Note 14 - Defined Benefit Retirement Plan (continued)**

**G. Discount Rate Sensitivity Analysis**

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

| | 1% Decrease 7% | Current Discount Rate 8% | 1% Increase 9% |
|---|---|---|---|
| District's proportional share of the net pension liability | $ 230,032,969 | $ 148,632,453 | $ 79,588,361 |

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

At June 30, 2017, the District reported a liability of $148,632,453 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 proportion of the net pension liability | 0.3933% |
| District's proportionate share of the net pension liability | $ 148,632,453 |
| State's proportionate share of the net pension liability associated with the District | 275,080,136 |
| Total | $ 423,712,589 |

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

At August 31, 2016 the employer's proportion of the collective net pension liability was 0.3933% which was a decrease from its proportion measured as of August 31, 2015 of 0.4007%.

**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.

**Note 14 - Defined Benefit Retirement Plan (continued)**

**H. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)**

For the fiscal year ended June 30, 2017, the District recognized pension expense of $25,807,413 as well as revenue of $28,546,759 representing pension expense incurred by the State on behalf of the District.

At June 30, 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 actuarial experience | $ 2,330,528 | $ (4,438,079) |
| Changes in actuarial assumptions | 4,530,051 | (4,119,894) |
| Net difference between projected and actual investment earnings | 28,641,677 | (16,055,787) |
| Changes in proportion and differences between District contributions and proportionate share of contributions | 38,855,898 | (10,600) |
| Contributions paid to TRS subsequent to the measurement date | 10,632,896 | - |
| Total | $ 84,991,050 | $ (24,624,360) |

The $10,632,896 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. 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 June 30 | Amount |
|---|---|
| 2018 | $ (8,956,045) |
| 2019 | (8,956,045) |
| 2020 | (16,983,939) |
| 2021 | (8,339,207) |
| 2022 | (5,749,100) |
| 2023 | (749,458) |
| | $ (49,733,794) |

**Note 15 - Retiree Health Plan**

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

*Funding Policy.* Contribution requirements are not actuarially determined but are legally established each biennium by the Texas legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas contribution rate was 1.00% of public school payroll for the period September 2015 through June 2017. Active public school employee contribution rates were 0.65% of public school payroll, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2017, 2016, and 2015. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For staff members funded by federal programs, the federal programs are required to contribute 1.00%. The District contributed 100% of the annual required contribution for fiscal year 2017, 2016, and 2015.

Contributions made by the State, District and staff members to TRS-Care for the years ended June 30, 2017, 2016 and 2015 are as follows:

| Fiscal Year | State TRS-Care Contributions Made on Behalf of the District | District Required Contributions to TRS-Care | Employees' Contributions to TRS-Care | District's Annual Covered Payroll |
|---|---|---|---|---|
| 2017 | $ 4,287,705 | $ 2,649,663 | $ 2,872,290 | $ 443,921,362 |
| 2016 | 4,179,332 | 2,620,370 | 2,824,875 | 434,547,274 |
| 2015 | 3,987,624 | 2,455,694 | 2,683,747 | 412,837,141 |

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

**Note 15 - Retiree Health Plan (continued)**

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 established prescription drug coverage for Medicare beneficiaries know as Medicare Part D. Under Medicare Part D, TRS-Care receives retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the years ended June 30, 2017, 2016, and 2015 the subsidy payments received by TRS-Care on behalf of the District are as follows:

| Fiscal Year | Medicare Part D |
|---|---|
| 2017 | $ 1,334,660 |
| 2016 | 1,288,515 |
| 2015 | 1,236,683 |

**Note 16 - Risk Management**

The District is exposed to various risks related to torts: theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District's risk management program encompasses various means of protecting the District against loss by obtaining property, casualty, and liability coverage through commercial insurance carriers, self-insurance, and from participation in a risk pool. The District's participation in the risk pool is limited to payment of premiums.

The District provides health benefits to its employees and dependents through a self-insured employee health benefit plan, which is accounted for in the Internal Service Fund and is principally supported by contributions from the District and employees. The District makes contributions to cover a portion of the employees' premiums, and the employees are required to make contributions to cover their dependents. The District obtains stop loss coverage through a third-party insurance company for claims in excess of $450,000. The Internal Service Fund charges the General Fund and other funds for the District's portion of premiums for employees whose salaries are charged to those funds.

The District also provides workers' compensation to its employees through a self-insured plan which is accounted for in the Internal Service Fund. The Internal Service Fund charges the General Fund and other funds for premiums for the District's contribution. The District obtains stop loss coverage through a third-party insurance company for claims in excess of $400,000.

Settled claims have not exceeded insurance coverage in any of the previous three years. There has not been any significant reduction in insurance coverage from that of the previous year.

Estimates of claims payable and of claims incurred but not reported at June 30, 2017, are reflected as accrued expenses of the Fund. The liabilities include an amount for claims that have been incurred but were not reported until after June 30, 2017. Because actual claims liabilities depend on such complex factors as inflation, changes in legal requirements, and damage awards, the process used in computing claims liability is an estimate.

**Note 16 - Risk Management (continued)**

Analysis of claims liability for the fiscal years 2016 and 2017 are as follows:

| | Health Insurance | | Workers' Compensation | |
|---|---|---|---|---|
| | **2016** | **2017** | **2016** | **2017** |
| Beginning Accrual | $ 4,722,426 | $ 4,992,791 | $ 3,498,009 | $ 3,360,295 |
| Current Estimates | 58,696,044 | 62,646,328 | 854,065 | 517,173 |
| Payments for Claims | (58,425,679) | (62,246,456) | (991,779) | (964,394) |
| Ending Accrual | $ 4,992,791 | $ 5,392,663 | $ 3,360,295 | $ 2,913,074 |

**Note 17 - Compensated Absences**

***Sick Leave Policy***

The District has established policies regarding the compensation of employees for unused sick leave upon retirement from service. In order to be compensated for unused sick leave, an employee must have been in the District for ten years or more and must terminate employment as a result of retirement through the Teacher Retirement System of Texas. Compensation for unused sick leave is limited to a maximum of 150 days under the provisions of the District's sick leave accumulation policy, as outlined below:

1. Professional personnel shall be paid $75 per day for each day of accumulated sick leave.

2. Paraprofessional and auxiliary personnel shall be paid at the rate of 50% of their current daily salary, but not to exceed $50 per day for each day of unused local leave.

The District only records a liability at year-end in the fund financial statements for the amounts owed to employees who retired on or before the fiscal year end but who have not yet received payment. The total expenditures for the year ended June 30, 2017, paid on compensated absences was $412,758. Compensated absences are liquidated from the General Fund when due and payable. For the government-wide financial statements, the District estimates the total compensated absences liability based on the District's policy. The estimated compensated absences liability reported in the Government-wide statements at year end was $4.0 million.

**Note 18 - Litigation, Commitments and Contingencies**

From time to time, the District is a defendant in legal proceedings relating to its operations as a school district. In the best judgment of the District's management, the outcome of any present legal proceedings will not have any adverse effect on the accompanying financial statements. In the opinion of the District, there are neither significant contingent liabilities related to year 2017 issues nor future costs that will have a material effect on the financial statements of the District.

**Note 19 - Shared Service Arrangements**

The District is the fiscal agent for a Shared Services Arrangement ("SSA") which provides services for hearing impaired students of the District and member districts: Alief ISD, Angleton ISD, Brazosport ISD, Columbia-Brazoria ISD, Lamar CISD, Needville ISD, Stafford MSD and Sweeney ISD. All services are provided by the fiscal agent, and funds are received directly by the fiscal agent from the granting agency. According to guidance provided in TEA's Resource Guide, the District has accounted for the fiscal agent's activities of the SSA in the appropriate Special Revenue Funds and has accounted for these funds using Model 2 in the SSA section of the Resource Guide. Expenditures of the SSA are summarized below:

| | Fort Bend ISD | All Other School Districts |
|---|---|---|
| IDEA-B Discretionary | $ 52,665 | $ 87,031 |
| IDEA-B Deaf | 2,216 | 3,663 |
| IDEA-C Deaf (Early Intervention) | 1,711 | 2,828 |
| Regional Deaf Co-op | 421,159 | 695,973 |
| Regional Deaf Co-op (Member Share) | 647,839 | 1,070,564 |
| | $ 1,125,590 | $ 1,860,059 |

**Note 20 - Subsequent Events**

**Willowridge High School**

At the beginning of July 2017, the District found mold in parts of Willowridge High School while the school was shut down for planned construction. The District immediately took action and started working with environmental experts to clean and sanitize the building. Due to the length of time to remediate, students will attend Marshall High School for the fall semester of 2017. Remediation has been completed and the restoration process is underway.

**Debt Remarketing**

In August 2017, the District remarketed the 2015B Variable Rate Series Unlimited Tax Schoolhouse Bonds. The remarketing generated proceeds of $40,256,603 and the District contributed $203,397 to the closing. The new debt was issued with an initial interest rate of 1.35% for an initial rate period of two years. The bonds convert to a stepped-up interest rate of 6% after the initial two-year period in the event the bonds are not remarketed. Interest on the bonds accrue from the closing date of August 1, 2017 and are payable on each February 1 and August 1 thereafter, with the initial interest payment on February 1, 2018.

Due to prudent debt management, District paid an additional $7 million in principal using Debt Service fund balance for the August 1, 2017 debt service payment for the Series 2015B bonds.

In October 2017, the District refunded the second tranche of the Tax Exempt Commercial Paper (TECP) program that was established November 2016. The $95 million issued consisted of Series 2017C (Green) for $45 million and Series 2017D for $50 million. The refunding generated proceeds of $95,405,892 with the District contributing $613,477 to the closing. The new debt was issued with an initial interest rate of 1.35% for an initial rate period of three years for the Series 2017C (Green) and an initial interest rate of 1.50% for an initial rate period of four years for the Series 2017D. Both series of the bonds convert to a stepped-up interest rate of 7% after the initial period in the event the bonds are not remarketed.

**Note 20 - Subsequent Events (continued)**

**Hurricane Harvey**

On August 25, 2017, Hurricane Harvey, characterized as a Category 4 hurricane at its peak, made landfall in the Texas coast before stalling over the Houston-Galveston region (the “Region”) and producing significant flooding. Many residences and commercial and industrial properties in the Region sustained damage.

As a result of the Hurricane Harvey and the related flooding, District officials cancelled classes beginning on August 25, 2017, with classes scheduled to resume on September 12, 2017 at all District campuses scheduled to open other than Juan Seguin Elementary School. Students from Juan Seguin Elementary School will attend James Patterson Elementary (kindergarten through second grade) and Crockett Middle School (third through fifth grade). Two of the District’s schools, Marshall High School and Kempner High School, were utilized as shelters for residents displaced by Hurricane Harvey, but the residents served by such shelters have been relocated or returned home and school operations will resume at both campuses on September 12. The Texas Education Agency has notified districts in the disaster declared areas that they are eligible to apply for missed school day waivers for the time period that the District cancelled classes.

While the District experienced damage to some facilities, with the exception of damage to Juan Seguin Elementary School, such damage will not have a substantial negative affect on the operation of the facilities. The remediation and restoration at Juan Seguin Elementary School is estimated to cost $9 million and it is currently anticipated that the school will remain closed for the 2017-2018 school year to undergo reconstruction. Due to the significant unexpected damage to Juan Sequin Elementary, the District has determined the asset has been impaired and will write down the asset in fiscal year 2018 using the restoration method based on actual costs to remediate and restore the building. The estimated write down is $4 million based on the estimated costs to remediate and restore.

On August 25, 2017, the President of the United States issued a major disaster declaration, which was amended on August 27, 2017 to include Fort Bend County, where the District is located. The major disaster declaration made federal assistance available for debris removal and emergency protective measures, including direct federal assistance, under the Public Assistance program. The District expects to utilize the District’s general fund balance to initially cover Hurricane Harvey related expenses and to seek reimbursement from the Federal Emergency Management Agency for eligible disaster-related expenses. The District also intends to file insurance claims to cover eligible losses at sites that sustained damage. The District’s insurance policies generally carry a $100,000 deductible at each site, with some sites having additional flood-related deductibles.

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**REQUIRED SUPPLEMENTARY INFORMATION**

**FORT BEND INDEPENDENT SCHOOL DISTRICT** *Exhibit G-1*

***SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL***

***GENERAL FUND***

***For the Year Ended June 30, 2017***

| Data Control Codes | | Budgeted Amounts Original | Budgeted Amounts Final | Actual | Variance With Final Budget |
|---|---|---|---|---|---|
| | **Revenues** | | | | |
| 5700 | Local and Intermediate Sources | $ 364,151,685 | $ 365,744,660 | $ 363,641,297 | $ (2,103,363) |
| 5800 | State Program Revenues | 216,852,005 | 223,066,969 | 224,045,425 | 978,456 |
| 5900 | Federal Program Revenues | 7,800,000 | 9,073,409 | 9,226,988 | 153,579 |
| 5020 | **Total Revenues** | 588,803,690 | 597,885,038 | 596,913,710 | (971,328) |
| | **Expenditures** | | | | |
| | **Current:** | | | | |
| 0011 | Instruction | 357,479,300 | 353,980,360 | 351,605,814 | 2,374,546 |
| 0012 | Instructional Resources and Media Services | 8,086,620 | 7,942,952 | 7,353,704 | 589,248 |
| 0013 | Curriculum and Instructional Staff Development | 7,797,161 | 10,635,363 | 10,597,964 | 37,399 |
| 0021 | Instructional Leadership | 10,943,645 | 13,737,084 | 12,174,420 | 1,562,664 |
| 0023 | School Leadership | 40,041,866 | 40,227,373 | 39,656,488 | 570,885 |
| 0031 | Guidance, Counseling and Evaluation Services | 28,476,677 | 28,698,542 | 28,190,325 | 508,217 |
| 0032 | Social Work Services | 1,202,824 | 2,069,746 | 1,531,051 | 538,695 |
| 0033 | Health Services | 7,550,327 | 7,999,144 | 7,388,922 | 610,222 |
| 0034 | Student Transportation | 20,635,360 | 22,273,995 | 21,615,297 | 658,698 |
| 0036 | Cocurricular/Extracurricular Activities | 11,997,051 | 12,691,191 | 12,490,059 | 201,132 |
| 0041 | General Administration | 17,072,938 | 15,843,239 | 15,716,062 | 127,177 |
| 0051 | Facilities Maintenance and Operations | 55,893,783 | 60,022,856 | 60,249,514 | (226,658) |
| 0052 | Security and Monitoring Services | 7,767,409 | 7,893,177 | 7,538,739 | 354,438 |
| 0053 | Data Processing Services | 13,890,158 | 15,324,851 | 14,914,481 | 410,370 |
| 0061 | Community Services | 592,292 | 992,717 | 686,178 | 306,539 |
| 0081 | Facilities Acquisition and Construction | 25,000 | - | - | - |
| 0093 | Payments to Fiscal Agent/Member Districts of Shared Service Arrangements | 474,000 | 724,805 | 454,000 | 270,805 |
| 0099 | Payments to tax appraisal district | 2,700,000 | 3,014,482 | 2,845,274 | 169,208 |
| 6030 | **Total Expenditures** | 592,626,411 | 604,071,877 | 595,008,292 | 9,063,585 |
| 1100 | Excess (Deficiency) of Revenues Over (Under) Expenditures | (3,822,721) | (6,186,839) | 1,905,418 | 8,092,257 |
| | **Other Financing Sources (Uses)** | | | | |
| 7912 | Sale of Real and Personal Property | - | - | 119,375 | 119,375 |
| 7915 | Transfers in | 1,500,000 | 1,500,000 | 1,500,000 | - |
| 8911 | Transfers out | - | (816,199) | (732,817) | 83,382 |
| 7080 | **Total Other Financing Sources (Uses)** | 1,500,000 | 683,801 | 886,558 | 202,757 |
| 1200 | Net Change in Fund Balance | (2,322,721) | (5,503,038) | 2,791,976 | 8,295,014 |
| 0100 | **Fund Balance - Beginning** | 182,463,050 | 182,463,050 | 182,463,050 | - |
| 3000 | **Fund Balance - Ending** | $ 180,140,329 | $ 176,960,012 | $ 185,255,026 | $ 8,295,014 |

**Budgets and Budgetary Accounting**

Each school district in Texas is required by law to prepare annually a budget of anticipated revenues and expenditures for the General, National School Breakfast and Lunch Program, and Debt Service funds before the beginning of the fiscal year. For fiscal years beginning July 1, the Texas Education Code requires the budget to be prepared not later than June 20 and adopted by June 30 of each year. The District's administration determines budgetary funding priorities and the budgets are prepared in the same basis of accounting that is used for reporting in accordance with generally accepted accounting principles. Final budget allocations are determined by the Board, which subsequently establishes a tax rate sufficient to support the approved budget. The annual budget, which is prepared on the modified accrual basis of accounting, must be adopted by the Board at a scheduled meeting after giving ten days public notice of the meeting. The District annually adopts legally authorized appropriated budgets for the General, National School Breakfast and Lunch Program, and Debt Service funds.

The District's administration performs budget reviews during the year in which budget requirements are re-evaluated and revisions are recommended to the Board. The Board must approve amendments to the budget at the fund and functional expenditure categories or revenue object accounts as defined by the TEA. Expenditures may not legally exceed budgeted appropriations, as amended, at the function level by fund. Unexpended appropriations lapse at year-end.

Management may amend the budget without seeking Board approval if appropriations are not transferred between functions. During fiscal year 2017, General Fund revenues were increased by $9.1 million mainly due to increases in state aid, federal revenue and local revenues as follows:

- State aid increased by $6.2 million which comprised of a $4.6 million increase in TRS on-behalf revenue and $1.6 million in Foundation and Available School Fund increase mainly due to increases in the transportation allotment and student enrollment increases.
- Local revenues increased by $1.6 million which comprised of $1.2 million for increase in property tax revenue and $.4 million related to donations.
- Federal revenues increased by $1.3 million for increases in SHARS (School Health and Related Services program).

Budgeted appropriations for expenditures for the General Fund increased by $11.4 million due to:

- $3.94 million of purchase orders from fiscal year 2016 that were honored in fiscal year 2017
- $4.6 million for TRS on-behalf expense,
- $1.92 million for a one-time supplement for non-teaching staff members,
- $.6 million for a document management system and
- $.4 million for expenditures funded from donation revenue.

During the 2017 fiscal year the District's general fund maintenance and operations functional expenditures exceeded appropriations by $226,658.

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**FORT BEND INDEPENDENT SCHOOL** *Exhibit G-3*

**SCHEDULE OF THE DISTRICT'S**

**PROPORTIONATE SHARE OF THE NET**

**Teachers Retirement System of Texas**

***For the Last Three Measurement Years Ended August 31***

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| District's proportion of the net pension liability | 0.3933% | 0.4007% | 0.2282% |
| District's proportionate share of the net pension liability | $ 148,632,453 | $ 141,636,991 | $ 60,960,852 |
| State's proportionate share of the net pension liability associated with the District | 275,080,136 | 262,739,729 | 220,297,710 |
| Total | $ 423,712,589 | $ 404,376,720 | $ 281,258,562 |
| District's covered-employee payroll (for Measurement Year) | $ 436,161,926 | $ 419,053,098 | $ 373,070,445 |
| District's proportionate share of the net pension liability as a percentage of it's covered-employee payroll | 34.1% | 33.8% | 16.3% |
| Plan fiduciary net position as a percentage of the total pension liability | 78.00% | 78.43% | 83.25% |
| Plan's net pension liability as a percentage of covered-employee payroll | 92.75% | 91.94% | 72.89% |

Note: Ten years of data should be presented in this schedule but data is unavailable prior to 2014.
Net pension liability and related ratios will be presented prospectively as data becomes available.

**FORT BEND INDEPENDENT SCHOOL DISTRICT**
**SCHEDULE OF DISTRICT CONTRIBUTIONS**
**Teachers Retirement System of Texas**
***For the Last Nine Fiscal Years Ended June 30***

| | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Contractually required contributions | $ 12,540,010 | $ 12,542,835 | $ 10,814,570 | $ 5,611,198 |
| Contributions in relation to the contractual required contributions | 12,540,010 | 12,542,835 | 10,814,570 | 5,611,198 |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| District's covered employee payroll | $ 443,921,362 | $ 434,547,274 | $ 412,837,141 | $ 367,413,873 |
| Contributions as a percentage of covered employee payroll | 2.82% | 2.89% | 2.62% | 1.53% |

Note: Ten years of data should be presented in this schedule but data is unavailable prior to 2009.

## Notes to Required Supplementary Information

Effective September 1, 2014, employers who did not contribute Social Security for TRS-eligible employees were required to contribute an additional 1.5% of TRS-eligible compensation which nearly doubled the District’s contributions into the Plan. Because the District’s proportional share of the plan is determined by its proportional share of contributions, the District recognized a corresponding increase in its share of net pension liability.

## Changes of Assumptions

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

## Changes of Benefit Terms

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

| 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| $ 5,059,245 | $ 4,555,001 | $ 5,491,382 | $ 5,368,258 | $ 4,478,148 |
| 5,059,245 | 4,555,001 | 5,491,382 | 5,368,258 | 4,478,148 |
| $ - | $ - | $ - | $ - | $ - |
| $ 351,847,507 | $ 348,863,174 | $ 371,421,050 | $ 323,832,000 | $ 376,448,909 |
| 1.44% | 1.31% | 1.48% | 1.66% | 1.19% |

**APPENDIX C**

FORM OF BOND COUNSEL'S OPINION

[Closing Date]

WE HAVE ACTED as bond counsel for Fort Bend Independent School District (the "District"), in connection with the bonds hereinafter described:

> FORT BEND INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX REFUNDING BONDS, SERIES 2018, dated [_______], 2018, in the aggregate principal amount of [$______] (the "Bonds").
>
> The Bonds mature, bear interest, are subject to redemption, and may be transferred and exchanged as set out in the Bonds and in the order adopted by the Board of Trustees of the District authorizing their issuance (the "Bond Order") and the pricing certificate executed pursuant thereto (together with the Bond Order, the "Order").

WE HAVE ACTED as bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the excludability of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the District or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of proceedings pertaining to the authorization and issuance of the Bonds and the defeasance of the obligations of the District being refunded with the proceeds of the Bonds (the "Refunded Obligations"), on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the District; an escrow agreement (the "Escrow Agreement") between the District and ZB, National Association, dba Amegy Bank, as escrow agent (the "Escrow Agent"); a report of Grant Thornton LLP (the "Verification Agent"), verifying the sufficiency of the deposits made with the Escrow Agent for the defeasance of the Refunded Obligations (the "Report"); customary certificates of officers, agents and representatives of the District and other public officials; and other certified showings relating to the authorization and issuance of the Bonds and the refunding and defeasance of the Refunded Obligations. We have also examined such applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), court decisions, Treasury Regulations and published rulings of the Internal Revenue Service (the "Service") as we have deemed relevant. We have also examined executed Bond No. I-1 of this issue.

BASED ON SUCH EXAMINATIONS, IT IS OUR OPINION THAT:

(1) The transcript of certified proceedings evidences the complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective and, therefore, the Bonds constitute valid and legal binding obligations of the District;

(2) Firm banking and financial arrangements have been made for the discharge and final payment of the Refunded Obligations pursuant to the Order, the Escrow Agreement and the Report, and therefore such obligations are deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds provided therefor under the Escrow Agreement; and

(3) A continuing ad valorem tax, without limit as to rate or amount, has been levied and pledged irrevocably to the payment of and interest on the Bonds.

THE RIGHTS OF THE OWNERS of the Bonds are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

IT IS OUR FURTHER OPINION THAT, under existing law:

(4) Interest on the Bonds is excludable from gross income for federal income tax purposes; and

(5) The Bonds are not “private activity bonds” within the meaning of the Code, and as such, interest on the Bonds is not subject to the alternative minimum tax on individuals.

In providing the opinions set forth above, we have relied on the Sufficiency Certificate and representations of the District, the Financial Advisor and the underwriters of the Bonds with respect to matters solely within the knowledge of the District, the Financial Advisor and the underwriters of the Bonds, respectively, which we have not independently verified, and have assumed continuing compliance with the covenants in the Order pertaining to those sections of the Code that affect the excludability of interest on the Bonds from gross income for federal income tax purposes. We have further relied on the Report of the Verification Agent regarding the mathematical accuracy of certain computations. If such representations or the Report are determined to be inaccurate or incomplete or the District fails to comply with the foregoing provisions of the Order, interest on the Bonds could become includable in gross income from the date of original delivery, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership, or disposition of the Bonds.

Owners of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively connected earnings and profits (including tax-exempt interest such as interest on the Bonds).

The opinions set forth above 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 these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the District as the taxpayer. We observe that the District has covenanted in the Order not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.