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(See "Continuing Disclosure Information" herein)

PRELIMINARY OFFICIAL STATEMENT

Dated July 25, 2018

Ratings:
Moody's: "Applied For"
PSF Guarantee: "Approval Received"
(See "OTHER INFORMATION - Ratings"
and "THE PERMANENT SCHOOL FUND
GUARANTEE PROGRAM" herein)

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel to the District, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein.

THE BONDS WILL NOT BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS

\$30,585,000*
PRINCETON INDEPENDENT SCHOOL DISTRICT
(Collin County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018

Dated Date: August 1, 2018

Due: As shown on Page 2

Interest Accrual Date: Delivery Date

PAYMENT TERMS . . . Interest on the \$30,585,000* Princeton Independent School District Unlimited Tax School Building Bonds, Series 2018 (the "Bonds") will accrue from August 30, 2018* (the "Delivery Date"), will be payable February 15 and August 15 of each year commencing on February 15, 2019, until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued as fully registered obligations in the denominations of \$5,000 of principal amount or any integral multiple thereof for any one stated maturity. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in authorized denominations thereof. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** The principal 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. The initial Paying Agent/Registrar is UMB Bank, n.a., 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 1371, Texas Government Code, as amended, Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, an election held in the Princeton Independent School District (the "District") on May 6, 2017 (the "Election"), and a bond order (the "Bond Order") passed by the Board of Trustees of the District. In the Bond Order, the District delegated pricing of the Bonds and certain other matters to a "Pricing Officer" who will approve a "Pricing Certificate" which will contain the final terms of sale and will complete the sale of the Bonds. The Bonds are direct and voted obligations of the District, payable from an annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District (see "THE BONDS - Authority for Issuance"). **An application has been filed and the District has received conditional approval for the payment of the Bonds to be guaranteed by the Permanent School Fund of Texas (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").**

PURPOSE . . . Proceeds from the sale of the Bonds will be used (1) in accordance with the Election, for the purpose of acquiring, constructing and equipping of school buildings in the District and the purchase of school sites and (2) to pay the costs associated with the issuance of the Bonds.

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 McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel (see Appendix C, "Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriters by their counsel, Norton Rose Fulbright US LLP, Dallas, Texas.

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

MATURITY SCHEDULE
See Schedule on Page 2

RBC CAPITAL MARKETS

RAYMOND JAMES

* Preliminary, subject to change.

MATURITY SCHEDULE***CUSIP⁽¹⁾ Prefix:** _____

<u>Maturity (2/15)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP⁽¹⁾ Suffix</u>	<u>Maturity (2/15)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP⁽¹⁾ Suffix</u>
2035	\$ 530,000				2042	\$ 1,370,000			
2036	830,000				2043	1,525,000			
2037	1,015,000				2044	1,700,000			
2038	1,230,000				2045	1,535,000			
2039	945,000				2046	1,710,000			
2040	1,080,000				2047	1,900,000			
2041	1,215,000				2048	14,000,000			

(Interest to accrue from the Delivery Date)

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. None of the District, the Financial Advisor, or the Underwriters take any responsibility for the accuracy of CUSIP numbers.

* Preliminary, subject to change.

OPTIONAL REDEMPTION . . . The District reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 20__, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 20__, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE BONDS – Optional Redemption”).

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, this document constitutes an Official Statement of the District with respect to the Bonds that has been deemed “final” by the District as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

No dealer, broker, salesman or other person has been authorized by the District or the Underwriters to give any information, or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the District or the Underwriters. This Official Statement does not constitute an offer to sell Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

Certain information set forth herein has been obtained from the District and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Financial Advisor or the Underwriters. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof. See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM - PSF Continuing Disclosure Undertaking” and “CONTINUING DISCLOSURE INFORMATION” for a description of the undertakings of the Texas Education Agency (the “TEA”) and the District, respectively, to provide certain information on a continuing basis.

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

The cover page contains certain information for general reference only and is not intended as a summary of this offering. Investors should read the entire Official Statement, including all appendices attached hereto, to obtain information essential to making an informed investment decision.

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

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

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

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

PRELIMINARY 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 Princeton Independent School District (the “District”) is a political subdivision located in Collin County, Texas, and covers approximately 67 square miles in area (see “INTRODUCTION - Description of the District”).

- THE BONDS** The \$30,585,000* Unlimited Tax School Building Bonds, Series 2018 (the “Bonds”) are issued as serial bonds maturing on February 15 in the years 2035 through 2048 (see “THE BONDS - Description of the Bonds”).

- PAYMENT OF INTEREST** Interest on the Bonds accrues from the date of their delivery to the Underwriters and is due semiannually on February 15 and August 15 of each year commencing on February 15, 2019, until 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, including Chapter 1371, Texas Government Code, and Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, an election held in the District on May 6, 2017 (the “Election”), and a bond order (the “Bond Order”) passed by the Board of Trustees of the District in which the District delegated pricing of the Bonds and certain other matters to a “Pricing Officer” who will approve a “Pricing Certificate” which will contain the final terms of sale and will complete the sale of the Bonds (the Bond Order and the Pricing Certificate are jointly referred to as the “Order”) (see “THE BONDS - Authority for Issuance”).

- SECURITY FOR THE BONDS** The Bonds constitute direct and voted obligations of the District, payable from a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, on all taxable property within the District. Additionally, an application has been filed and the District has received conditional approval for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of Texas (see “THE BONDS - Security and Source of Payment”).

- PERMANENT SCHOOL FUND**
 - GUARANTEE** The District has applied for and has received conditional approval from the Texas Education Agency for the payment of 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”).

- OPTIONAL REDEMPTION** The District reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 20__, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 20__, 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 of the 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 the Bonds, or portions thereof, within such maturity to be redeemed (see “THE BONDS - Optional Redemption”).

- NOT QUALIFIED TAX-EXEMPT OBLIGATIONS**..... The Bonds will not be designated as “Qualified Tax-Exempt Obligations” for financial institutions.

- TAX EXEMPTION** In the opinion of Bond Counsel to the District, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under “TAX MATTERS” herein.

- USE OF PROCEEDS** Proceeds from the sale of the Bonds will be used (1) in accordance with the Election, for the purpose of acquiring, constructing and equipping of school buildings in the District and the purchase of school sites and (2) to pay the costs associated with the issuance of the Bonds.

* Preliminary, subject to change.

RATINGS The presently outstanding tax supported debt of the District is rated “A2” by Moody’s Investors Service, Inc. (“Moody’s”) without regard to credit enhancement. The District also has several issues outstanding which are rated “Aaa” by Moody’s and “AAA” by S&P Global Ratings, a division of S&P Global Inc. (“S&P”), solely by virtue of the guarantee of such issues by the Permanent School Fund of the State of Texas. **An application for a contract rating on the Bonds has been made to Moody’s only** (see “OTHER INFORMATION - Ratings” and “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).

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 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 8/31	Estimated District Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Per Capita Taxable Assessed Valuation	Tax Debt Outstanding at Fiscal Year End	Per Capita Tax Supported Debt	Ratio Tax Supported Debt to Taxable Assessed Valuation	% of Total Tax Collections
2014	17,323	\$ 529,167,508	\$ 30,547	\$ 85,455,068	\$ 4,933	16.15%	99.34%
2015	18,093	577,071,983	31,895	102,277,732	5,653	17.72%	100.07%
2016	18,432	636,093,741	34,510	99,864,016	5,418	15.70%	103.42%
2017	19,732	743,481,589	37,679	137,205,641	6,953	18.45%	101.74%
2018	20,861	951,245,818	45,599	167,302,329 ⁽³⁾	8,020 ⁽³⁾	17.59% ⁽³⁾	100.98% ⁽⁴⁾

- (1) Source: Municipal Advisory Council of Texas.
- (2) As reported by the Collin Central Appraisal District on the District’s Annual State Property Tax Reports; subject to change during the ensuing year.
- (3) Projected, includes the Bonds. The amount of outstanding tax-supported debt shown in the table above includes the principal amount of current interest bonds and capital appreciation bonds as of the issuance date thereof and excludes interest accreted on the outstanding capital appreciation bonds.
- (4) Partial year collections as of May 31, 2018.

For additional information regarding the District, please contact:

<p>Philip Anthony Superintendent Princeton Independent School District 321 Panther Parkway Princeton, Texas 75407 (972) 734-3504</p>	or	<p>Jeff Robert Managing Director Hilltop Securities Inc. 1201 Elm Street, Ste. 3500 Dallas, Texas 75270 (214) 953-8744</p>
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DISTRICT OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>Board of Trustees</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Carol Bodwell President	28 Years	Nov., 2019	Adult Education Teacher
Bob Lovelady Vice President	5 Years	Nov., 2018	School Administration
John Murray Secretary	5 Years	Nov., 2020	Accountant
Lisa Caldwell Trustee	3 Years	Nov., 2020	Financial Controller
Ricky Gillespie Trustee	7 Years	Nov., 2019	Line Locator
Chad Jones Trustee	1 Year	Nov., 2018	Construction Manager
Kyle Strickland Trustee	11 Years	Nov., 2018	Police Officer

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Service in Current Position</u>	<u>Total School District Service</u>
Philip Anthony	Superintendent	17 Years	17 Years
Dr. Jackie Hendricks	Deputy Superintendent	13 Years	17 Years
Jona Boitmann	Assistant Superintendent of Operations and Finance	1 Year	15 Years
Donald McIntyre	Assistan Superintendent of Secondary Instruction	3 Years	17 Years
Rene Mullins	Assistant Superintendent of Elementary Instruction	3 Years	13 Years

CONSULTANTS AND ADVISORS

AuditorsMorgan, Davis and Company, P.C.
Greenville, Texas

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

Financial Advisor Hilltop Securities Inc.
Dallas, Texas

**PRELIMINARY OFFICIAL STATEMENT
RELATING TO
\$30,585,000*
PRINCETON INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018**

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$30,585,000* Princeton Independent School District Unlimited Tax School Building Bonds, Series 2018 (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Order (hereinafter defined) authorizing the issuance and sale of the Bonds, except as otherwise indicated herein. In the bond order (the "Bond Order") authorizing the issuance of the Bonds, the Board of Trustees of the District (the "Board") delegated pricing of the Bonds and certain other matters to a "Pricing Officer" who will approve a "Pricing Certificate" which will contain the final terms of sale and will complete the sale of the Bonds (the Bond Order and the Pricing Certificate are jointly referred to as the "Order").

There follows in this Official Statement descriptions of the Bonds and certain information regarding the Princeton Independent School District (the "District") and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District's Financial Advisor, Hilltop Securities Inc., Dallas, Texas.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the Official Statement (defined herein) will be deposited with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access ("EMMA") system. See "CONTINUING DISCLOSURE 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 located in Collin County, Texas. The District is governed by a seven-member Board of Trustees, the members of which serve staggered three-year terms with elections being held in November 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 Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors. The District covers approximately 67 square miles in Collin County, encompassing the City of Princeton.

THE BONDS

DESCRIPTION OF THE BONDS . . . The Bonds will be dated August 1, 2018 and will mature on the dates and in the amounts shown on page 2 of this Official Statement. Interest will accrue from the date of their delivery to the Underwriters and will be computed on the basis of a 360-day year of twelve 30-day months. Such interest will be payable on February 15 and August 15, commencing on February 15, 2019, until maturity or prior redemption. The definitive 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 ("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, 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" herein.

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

AUTHORITY FOR ISSUANCE . . . The Bonds are issued and the tax levied for their payment pursuant to authority conferred by the Constitution and the laws of the State of Texas, including Chapter 1371, Texas Government Code, as amended, Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended; an election held in the District on May 6, 2017 (the "Election"), and by the order (the "Bond Order") adopted by the Board. In the Bond Order, the Board delegated to certain officers of the District authority to complete the sale of the Bonds. The terms of the sale will be included in a "Pricing Certificate," which will complete the sale of the Bonds (the Bond Order as supplemented by the Pricing Certificate is referred to herein as the "Order").

* Preliminary, subject to change.

SECURITY AND SOURCE OF PAYMENT . . . All taxable property within the District is subject to a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, sufficient to provide for the payment of principal of and interest on the Bonds. Additionally, the District has applied for and has received conditional approval for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of Texas.

PERMANENT SCHOOL FUND GUARANTEE . . . In connection with the sale of the Bonds, the District has submitted an application to the Texas Education Agency and has received conditional approval from the Commissioner of Education for guarantee of the Bonds under the Permanent School Fund Guarantee Program (Chapter 45, Subchapter C of the Texas Education Code). Subject to satisfying certain conditions discussed under the heading “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein, the payment of the Bonds will be absolutely and unconditionally guaranteed by the corpus of the Permanent School Fund of the State of Texas. In the event of default by the District in the scheduled payments of the Bonds, registered owners will receive all payments due from the corpus of the Permanent School Fund.

PURPOSE . . . Proceeds from the sale of the Bonds will be used (1) in accordance with the Election, for the purpose of acquiring, constructing and equipping of school buildings in the District and the purchase of school sites and (2) to pay the costs associated with the issuance of the Bonds.

OPTIONAL REDEMPTION . . . The District reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 20__, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 20__, 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 of the 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 the Bonds, or portions thereof, within such maturity to be redeemed.

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

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

The Paying Agent/Registrar and the District, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Order or other notices only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owner, shall not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Bonds from the beneficial owners. Any such selection of Bonds to be redeemed will not be governed by the Order and will not be conducted by the District or the Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Bonds for redemption (see “THE BONDS - Book-Entry-Only System”).

DEFEASANCE . . . The Order provides for the defeasance of the Bonds when payment of the principal amount of the Bonds plus interest accrued on the Bonds to their due date (whether such due date be by reason of stated maturity, redemption or otherwise), is provided by irrevocably depositing with a paying agent, or other authorized escrow agent, in trust (1) money in an amount sufficient to make such payment and/or (2) Defeasance Securities, that will mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary

and proper fees, compensation and expenses of the paying agent for the Bonds, and thereafter the District will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased Bonds, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The District has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance. The Order provides that “Defeasance Securities” means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Bonds. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District authorizes the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Order does not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used for defeasance purposes or that for any other Defeasance Security will be maintained at any particular rating category.

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

Upon defeasance, such defeased Bonds shall no longer be regarded to be Outstanding or unpaid and the Bonds will no longer be guaranteed by the Texas Permanent School Fund.

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

BOOK-ENTRY-ONLY SYSTEM . . . *This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by DTC, 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, the Financial Advisor and the Underwriters cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Bonds or any 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 any 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.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered Bonds registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

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

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

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

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

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

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. All payments on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District and the Underwriters believe to be reliable, but neither the District nor the Underwriters take any responsibility for the accuracy thereof.

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

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

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is UMB Bank, n.a., Dallas, Texas. In the Order, the District retains the right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid, and any successor Paying Agent/Registrar shall be a bank or trust company, financial institution, 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.

In the event the Book-Entry-Only System should be discontinued, interest on the Bonds will be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest will be paid (i) by check sent United States mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Bonds will be paid to the registered owner at the stated maturity or, upon prior redemption, upon presentation to the designated payment/transfer office of the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, payments of principal of the Bonds and interest on the Bonds will be made as described in "THE BONDS - Book-Entry-Only System" above.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, printed Bond certificates will be delivered to registered owners and thereafter the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender of such printed certificates to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, 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 of principal amount 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. The Paying Agent/Registrar shall not be required to make any such transfer or exchange (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or (ii) within 45 days prior to its redemption date.

RECORD DATE FOR INTEREST PAYMENT . . . The record date (“Record Date”) for the interest payable on the Bonds on any interest payment date means the close of business on the last business day of the preceding month.

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

BONDHOLDERS’ REMEDIES . . . The Order establishes specific events of default with respect to the Bonds, and provides that if the District defaults in the payment of principal or interest on the Bonds when due, or if it fails to make payments into any fund or funds created in the Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order and the continuation thereof for a period of 60 days after notice of default is given by the District by any owner, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or the Order covenants and the District’s obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court has ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the District’s sovereign immunity from a suit for money damages, registered owners may not be able to bring such a suit against the District for breach of the Bonds or Order covenants in the absence of District action. Chapter 1371, Texas Government Code (“Chapter 1371”), which pertains to the issuance of public securities by issuer such as the District, permits the District to waive sovereign immunity in the proceedings authorizing its bonds, but in connection with the issuance of the Bonds, although the District is using Chapter 1371 as legal authority in connection with its issuance of the Bonds, the District has not waived sovereign immunity pursuant to the legal authority provided by Chapter 1371. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District’s property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code (“Chapter 9”). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors by general principles of equity which permit the exercise of judicial discretion and by governmental immunity.

SOURCES AND USES OF PROCEEDS . . . The proceeds from the sale of the Bonds will be applied approximately as follows:

<u>Sources of Funds</u>	
Par Amount of the Bonds	\$ -
Reoffering Premium	-
Total Sources of Funds	<u>\$ -</u>
 <u>Uses of Funds</u>	
Deposit to the Construction Fund	\$ -
Costs of Issuance and Underwriters' Discount	-
Total Uses of Funds	<u>\$ -</u>

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 the Texas Education Agency and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the District or the Underwriters.

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

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

HISTORY AND PURPOSE

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

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

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

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

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

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

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

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

THE TOTAL RETURN CONSTITUTIONAL AMENDMENT

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

fiscal year may not exceed 6% of the average of the market value of the Fund or the Ten Year Total Return. In accordance with GA-0707, in the event that the Ten Year Total Return is exceeded during a fiscal year, transfers to the ASF will be halted. However, if the Ten Year Total Return subsequently increases during that biennium, transfers may be resumed, if the SBOE has provided for that contingency, and made in full during the remaining period of the biennium, subject to the limit of 6% in any one fiscal year. Any shortfall in the transfer that results from such events from one biennium may not be paid over to the ASF in a subsequent biennium as the SBOE would make a separate payout determination for that subsequent biennium.

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

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

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

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

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

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

the Fund's asset allocation policy, including the timing and manner of the selection of any external managers and other consultants.

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

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

MANAGEMENT AND ADMINISTRATION OF THE FUND

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

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

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

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

investment portfolios, the PSF has implemented an incentive compensation plan that may provide additional compensation for investment personnel, depending upon the criteria relating to the investment performance of the Fund.

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

CAPACITY LIMITS FOR THE GUARANTEE PROGRAM

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

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

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

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

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

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

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

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

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

THE SCHOOL DISTRICT BOND GUARANTEE PROGRAM

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

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

If a school district fails to pay principal or interest on a bond as it is stated to mature, other amounts not due and payable are not accelerated and do not become due and payable by virtue of the district’s default. The School District Bond Guarantee Program

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

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

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

THE CHARTER DISTRICT BOND GUARANTEE PROGRAM

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

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

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

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

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

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

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

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

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

2017 LEGISLATIVE CHANGES TO THE CHARTER DISTRICT BOND GUARANTEE PROGRAM

The CDBG 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 CDBG 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 CDBG 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 CDBG 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 CDBG 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 CDBG 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 CDBG 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 CDBG 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 CDBG 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 CDBG 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 CDBG Capacity expire September 1, 2022. If the SBOE makes a determination for any year based upon the potential ratings impact on the Bond Guarantee Program and modifies the increase that would otherwise be implemented under SB 1480 for that year, the SBOE may also make appropriate adjustments to the schedule for subsequent years to reflect the modification, provided that the CDBG Capacity for any year may not exceed the limit provided in the schedule set forth in SB 1480. In September 2017 and June 2018, the SBOE authorized the full 20% increase in the amount of charter district bonds that may be guaranteed for fiscal years 2018 and 2019, respectively, which increases the relative capacity of the Charter District Bond Guarantee Program to the School District Bond Guarantee Program for those fiscal years.

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

In addition to modifying the manner of determining the CDBG 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 CDBG Rules previously required the Commissioner to make an investigation of the accreditation status and certain financial criteria for a charter district applying for a bond guarantee, which remain in place.

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the “Charter District Reserve Fund”). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10 percent of the savings to the charter district that is a result of the lower interest rate on its bonds due to the guarantee by the PSF. SB 1480 modified the Act insofar as it pertains to the Charter District Reserve Fund. Effective September 1, 2017, the Act provides that a charter district that has a bond guaranteed must remit to the Commissioner, for deposit in the Charter District

Reserve Fund, an amount equal to 20 percent of the savings to the charter district that is a result of the lower interest rate on the bond due to the guarantee by the PSF. The amount due shall be paid on receipt by the charter district of the bond proceeds. However, the deposit requirement will not apply if the balance of the Charter District Reserve Fund is at least equal to three percent (3.00%) of the total amount of outstanding guaranteed bonds issued by charter districts. As of August 31, 2017, the Charter District Reserve Fund represented approximately 0.23% of the guaranteed charter district bonds. SB 1480 also authorized the SBOE to manage the Charter District Reserve Fund in the same manner as it manages the PSF. Previously, the Charter District Reserve Fund was held by the Comptroller, but effective April 1 2018, the management of the Reserve Fund was transferred to the PSF division of TEA, where it will be held and invested as a non-commingled fund under the administration of the PSF staff.

CHARTER DISTRICT RISK FACTORS

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

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

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

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

POTENTIAL IMPACT OF HURRICANE HARVEY ON THE PSF

Hurricane Harvey struck coastal Texas on August 26, 2017, resulting in historic levels of rainfall. The Governor designated the impacted area for disaster relief, and TEA believes that the storm impacted more than 1.3 million students enrolled in some 157 school districts, and approximately 58,000 students in 27 charter schools in the designated area. Many of the impacted school districts and two charter districts have bonds guaranteed by the PSF. It is possible that the affected districts will need to borrow

to repair or replace damaged facilities, which could require increased bond issuance and applications to the TEA for PSF bond guarantees. In addition, the storm damage and any lingering economic damage in the area could adversely affect the tax base (for school districts) and credit quality of school districts and charter districts with bonds that are or will be guaranteed by the PSF.

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

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

RATINGS OF BONDS GUARANTEED UNDER THE GUARANTEE PROGRAM

Moody’s Investors Service, 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 May 31, 2018, the PSF had a book value of \$33,178,779,673 and a market value of \$43,191,172,031. May 31, 2018 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds

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

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

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

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

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

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

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

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

DISCUSSION AND ANALYSIS PERTAINING TO FISCAL YEAR ENDED AUGUST 31, 2017

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

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

managed real asset investment funds, and the one-year, three-year, and five-year annualized total returns for the PSF(SLB) real assets, including cash, were 10.35%, 7.19%, and 7.77%, respectively.

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

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

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

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

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

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

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

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

2011 CONSTITUTIONAL AMENDMENT

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

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

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

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

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

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

OTHER EVENTS AND DISCLOSURES

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

In addition, the GLO has established processes and controls over its administration of real estate transactions and is subject to provisions of the Texas Natural Resources Code and its own internal procedures in administering real estate transactions for assets it manages for the Fund. A report of the State Auditor released in March 2016 noted that based on an audit of certain real estate transactions managed by the GLO, during the period from September 2009 to May 2015, the GLO failed to comply with

certain of such legal requirements relating to conflict of interest reporting, complying with written procedures and maintenance of documentation and other statutory and procedural requirements. That report, which includes the response of GLO management agreeing to the recommendations of the report, is available at <http://www.sao.texas.gov/reports/main/16-018.pdf>.

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

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

PSF CONTINUING DISCLOSURE UNDERTAKING

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

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

ANNUAL REPORTS

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

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

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

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

MATERIAL EVENT NOTICES

The TEA will also provide timely notices of certain events to the MSRB. Such notices will be provided not more than ten business days after the occurrence of the event. The TEA will provide notice of any of the following events with respect to the Guarantee Program: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if such event is material within the meaning of the federal securities laws; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax-exempt status of the Guarantee Program, or other material events affecting the tax status of the Guarantee Program; (7) modifications to rights of holders of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (8) bond calls, if such event is material within the meaning of the federal securities laws, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the Guarantee Program (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Guarantee Program in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Guarantee Program, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Guarantee Program); (13) the consummation of a merger, consolidation, or acquisition involving the Guarantee Program or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) the appointment of a successor or additional trustee with respect to the Guarantee Program or the change of name of a trustee, if such event is material within the meaning of the federal securities laws. (Neither the Act nor any other law, regulation or instrument pertaining to the Guarantee Program make any 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 v. The Texas Taxpayer & Student Fairness Coal.*, 490 S.W.3d 826 (Tex. 2016) (“*Morath*”). The plaintiffs and intervenors in the case had alleged that the Finance System, as modified by the Legislature in part in response to prior decisions of the Court, violated article VII, section 1 and article VIII, section 1-e of the Texas Constitution. In its opinion, the Court held that “despite the imperfections of the current school funding regime, it meets minimum constitutional requirements.” The Court also noted that:

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

POSSIBLE EFFECTS OF CHANGES IN LAW ON DISTRICT BONDS

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

Although, as a matter of law, the Bonds, upon issuance and delivery, will be entitled to the protections afforded previously existing contractual obligations under the Contract Clauses, the District can make no representations or predictions concerning

the effect of future legislation, or any litigation that may be associated with such legislation, on the District's financial condition, revenues or operations. While the enactment of future legislation to address school funding in Texas could adversely affect the financial condition, revenues or operations of the District, the District does not anticipate that the security for payment of the Bonds, specifically, the District's obligation to levy an unlimited debt service tax 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 INFORMATION - Tax Rate Limitations" herein). As noted above, because property values vary widely among school districts, the amount of local funding generated by the same tax rate is also subject to wide variation among school districts.

LOCAL FUNDING FOR SCHOOL DISTRICTS

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

STATE FUNDING FOR SCHOOL DISTRICTS

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

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

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

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

Tier Two supplements the basic funding of Tier One and provides two levels of enrichment with different guaranteed yields (i.e., guaranteed levels of funding by the State) depending on the district's local tax effort. The first six cents of tax effort that exceeds the compressed tax rate (for most districts, M&O tax rates ranging from \$1.00 to \$1.06 per \$100 of taxable value) will, for most districts, generate a guaranteed yield of \$99.41 and \$106.28 per cent per weighted student in average daily attendance ("WADA") in the 2017-18 and 2018-19 State fiscal years, respectively.

The second level of Tier Two is generated by tax effort that exceeds the district's compressed tax rate plus six cents (for most districts eligible for this level of funding, M&O tax rates ranging from \$1.06 to \$1.17 per \$100 of taxable value) and has a guaranteed yield per cent per WADA of \$31.95 for the 2018-19 State fiscal biennium. Property-wealthy school districts that have an M&O tax rate that exceeds the district's compressed tax rate plus six cents are subject to recapture above this tax rate level at the equivalent wealth per student of \$319,500 (see "Wealth Transfer Provisions" below).

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

In addition to the operations funding components of the Foundation School Program discussed above, the Foundation School Program provides a facilities funding component consisting of the Instructional Facilities Allotment (IFA) program and the Existing Debt Allotment (EDA) program. These programs assist school districts in funding facilities by, generally, equalizing a district's I&S tax effort. The IFA guarantees each awarded school district a specified amount per student (the "IFA Guaranteed Yield") in State and local funds for each cent of tax effort to pay the principal of and interest on eligible bonds issued to

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

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

2006 LEGISLATION

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

2017 LEGISLATION

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

WEALTH TRANSFER PROVISIONS

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

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

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

THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

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

A district’s wealth per student must be tested for each future school year and, if it exceeds the maximum permitted level, must be reduced by exercise of one of the permitted wealth equalization options. Accordingly, if the District’s wealth per student should exceed the maximum permitted level in future school years, it will be required each year to exercise one or more of the wealth reduction options. If the District were to consolidate (or consolidate its tax base for all purposes) with a property-poor district, the outstanding debt of each district could become payable from the consolidated district’s combined property tax base, and the District’s ratio of taxable property to debt could become diluted. If the District were to detach property voluntarily, a portion of its outstanding debt (including the Bonds) could be assumed by the district to which the property is annexed, in which case timely payment of the Bonds could become dependent in part on the financial performance of the annexing district.

TAX INFORMATION

AD VALOREM TAX LAW . . . The appraisal of property within the District is the responsibility of the Collin 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 Title I of the Texas Tax Code (the "Property Tax Code") 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 the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. Effective January 1, 2010, State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount that would not exceed the lesser of (1) the market value of the property for the most recent tax year that the market value was determined by the appraisal office 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 in 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 members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the respective 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 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 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; 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 who are 65 years of age or older or disabled, to the extent that such persons are eligible for 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 who are 65 years of age or older or disabled is also transferable to a different residence homestead. If improvements (other than repairs or improvements required to comply with 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. 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 was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse and the spouse was 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. 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 either or both of the following:

- (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.

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

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

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 a disabled veteran who receives 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 is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. In addition, subject to certain conditions, surviving spouses of a deceased veteran who had received a disability rating of 100% will be entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries.

Article VIII provides that eligible owners of both agricultural land (Section 1-d) and open-space land (Section 1-d-1), 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.

Nonbusiness personal property, such as automobiles or light trucks, are exempt from ad valorem taxation unless the governing body of a political subdivision elects to tax this property. Boats owned as nonbusiness property are exempt from ad valorem taxation.

Article VIII, Section 1-j of the Texas Constitution 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.

Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit" is defined by Section 11.253 of the Tax Code, which is effective for tax years 2008 and thereafter, 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. Section 11.253 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 exemption or the goods-in-transit exemption 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. In addition, credit will not be given by the Commissioner of Education in determining a district's property value wealth per student for (1) the appraised value, in excess of the "frozen" value, of property that is located in a TIF created after May 31, 1999 (except in certain limited circumstances where the 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 TIF of its intention to create the TIF and the TIF was created and had its final project and financing plan approved by the municipality prior to August 31, 1999), or (2) for the loss of value of abated property under any abatement agreement entered into after May 31, 1993. Notwithstanding the foregoing, in 2001 the Legislature enacted legislation known as the Texas Economic Development Act, which provides incentives for school districts to grant limitations on appraised property values and provide ad valorem tax credits to certain corporations and limited liability companies to encourage economic development within the district. Generally, during the last eight years of the ten-year term of a tax limitation agreement, the school district may only levy and collect ad valorem taxes for maintenance and operation purposes on the agreed-to limited appraised

property value. The taxpayer is entitled to a tax credit from the school district for the amount of taxes imposed during the first two years of the tax limitation agreement on the appraised value of the property above the agreed-to limited value. Additional State funding is provided to a school district for each year of such tax limitation in the amount of the tax credit provided to the taxpayer. During the first two years of a tax limitation agreement, the school district may not adopt a tax rate that exceeds the district's rollback tax rate (see "TAX INFORMATION - Public Hearing and Rollback Tax Rate" and "TAX INFORMATION – District Application of Tax Code").

TAX RATE LIMITATIONS . . . A school district is authorized to levy maintenance and operation ("M&O") taxes subject to approval of a proposition submitted to district voters. 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 May 3, 2003, under Chapter 45, Texas Education Code.

The maximum tax rate per \$100 of assessed valuation that may be adopted by the District may not exceed the lesser of (A) \$1.50 and (B) the sum of (1) the rate of \$0.17, and (2) the product of the "State Compression Percentage" multiplied by \$1.50. For the 2018-19 State fiscal biennium, the State Compression Percentage has been set, and will remain, at 66.67%. 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 a proposition submitted to the voters under Section 45.003(b)(1), Texas Education Code, as amended, which provides a tax unlimited as to rate or amount for the support 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, 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. 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 used various amounts of State Tier One allotment to satisfy this threshold test in connection with prior issues of bonds with the maximum amount used in prior test being approximately \$5.2 million. In connection with the issuance of the Bonds, the District anticipates using approximately \$6 million of Tier One funding to satisfy the test.

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

(a) After July, penalty remains at 12%, and interest accrues at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid. A delinquent tax continues to accrue interest as long as the tax remains unpaid, regardless of whether a judgment for the delinquent tax has been rendered. The purpose of imposing such interest penalty is to compensate the taxing unit for revenue lost because of the delinquency. In addition, if an account is delinquent in July, an attorney's collection fee of up to 20% may be added to the total tax penalty and interest charge.

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. Except with respect to taxpayers who are 65 years of age or older or disabled. 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 the State-mandated exemptions of \$25,000 for general homestead and an additional \$10,000 for persons 65 years of age and older and the disabled.

The District has not granted any part of the additional exemption of 20% of the market value of residence homesteads; the minimum exemption that could be received being \$5,000.

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

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 non-business personal property; and the Collin County Tax Assessor/Collector collects taxes for the District.

The District does permit split payments of taxes, and discounts for early payment of taxes are allowed for taxpayers over age 65 or disabled.

The District does not tax freeport property.

The District does not tax goods-in-transit.

The District does not participate in any TIFs.

The District has not entered into any tax abatement or tax limitation agreements.

TABLE 1 - VALUATION, EXEMPTIONS AND TAX SUPPORTED DEBT

2018/19 Market Valuation Established by Collin County Appraisal District (excluding totally exempt property)		\$ 1,650,129,649
Less Exemptions/Reductions at 100% Market Value:		
State Mandated General Homestead Exemptions	\$ 92,563,082	
State Mandated Over 65 Exemptions	9,232,128	
State Mandated Disabled Exemptions	1,618,883	
State Mandated Disabled Veteran Exemptions	8,801,577	
Freeport Exemption	94,957	
Freeze Value Loss	48,331,907	
Capped Value Loss	67,756,114	
Productivity Loss	218,605,780	<u>(447,004,428)</u>
2018/19 Taxable Assessed Valuation		\$ 1,203,125,221
Debt Payable from Ad Valorem Taxes (as of 8/30/18)		
Outstanding Debt ⁽¹⁾	\$ 136,717,329	
The Bonds ⁽²⁾	<u>30,585,000</u>	
Debt Payable from Ad Valorem Taxes (as of 8/30/18)		\$ 167,302,329
Ratio Tax Supported Debt to Taxable Assessed Valuation		13.91%

Current Estimated Population - 20,861
Per Capita Taxable Assessed Valuation - \$57,673
Per Capita Debt Payable from Ad Valorem Taxes - \$8,020

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

(2) Preliminary, subject to change.

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

Category	Taxable Appraised Value for Fiscal Year Ended August 31,					
	2019		2018		2017	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 1,026,867,500	62.23%	\$ 821,761,888	61.80%	\$ 629,915,969	58.98%
Real, Residential, Multi-Family	33,451,776	2.03%	25,484,832	1.92%	22,685,618	2.12%
Real, Vacant Lots/Tracts	20,884,476	1.27%	21,928,595	1.65%	15,252,457	1.43%
Real, Acreage (Land Only)	223,002,038	13.51%	190,813,892	14.35%	184,111,029	17.24%
Real, Farm and Ranch Improvements	139,687,658	8.47%	107,850,123	8.11%	87,188,974	8.16%
Real, Commercial	84,191,632	5.10%	69,178,979	5.20%	56,647,807	5.30%
Real, Industrial	14,021,584	0.85%	12,281,465	0.92%	10,724,214	1.00%
Real & Tangible Personal, Utilities	18,295,153	1.11%	16,037,808	1.21%	15,065,843	1.41%
Personal, Commercial	37,978,340	2.30%	33,995,949	2.56%	24,065,006	2.25%
Personal, Industrial	-	0.00%	-	0.00%	-	0.00%
Tangible Personal, Mobile Homes	12,711,070	0.77%	12,358,898	0.93%	8,400,990	0.79%
Residential & Special Inventory	39,038,422	2.37%	18,012,124	1.35%	13,962,510	1.31%
Total Appraised Value Before Exemptions	\$ 1,650,129,649	100.00%	\$ 1,329,704,553	100.00%	\$ 1,068,020,417	100.00%
Less: Total Exemptions/Reductions	(447,004,428)		(378,458,735)		(323,722,012)	
Adjustments	-		-		(816,816)	
Taxable Assessed Value	<u>\$ 1,203,125,221</u>		<u>\$ 951,245,818</u>		<u>\$ 743,481,589</u>	

Category	Taxable Appraised Value for Fiscal Year Ended August 31,			
	2016		2015	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 548,171,873	58.23%	\$ 469,250,865	55.40%
Real, Residential, Multi-Family	18,204,305	1.93%	13,330,661	1.57%
Real, Vacant Lots/Tracts	14,958,453	1.59%	15,132,821	1.79%
Real, Acreage (Land Only)	179,102,432	19.02%	183,273,930	21.64%
Real, Farm and Ranch Improvements	78,913,543	8.38%	66,232,249	7.82%
Real, Commercial	40,892,489	4.34%	38,415,923	4.54%
Real, Industrial	9,400,802	1.00%	9,160,111	1.08%
Real & Tangible Personal, Utilities	14,220,928	1.51%	14,224,575	1.68%
Personal, Commercial	20,916,739	2.22%	22,844,683	2.70%
Personal, Industrial	247,358	0.03%	276,727	0.03%
Tangible Personal, Other	8,179,220	0.87%	7,829,431	0.92%
Residential & Special Inventory	8,242,276	0.88%	7,121,188	0.84%
Total Appraised Value Before Exemptions	\$ 941,450,418	100.00%	\$ 847,093,164	100.00%
Less: Total Exemptions/Reductions	(295,319,291)		(264,453,386)	
Adjustments	(10,037,386)		(5,567,795)	
Taxable Assessed Value	<u>\$ 636,093,741</u>		<u>\$ 577,071,983</u>	

Valuations shown are certified assessed values reported by the Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

TABLE 3 - VALUATION AND TAX SUPPORTED DEBT HISTORY

Fiscal Year Ended 8/31	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	Tax Debt Outstanding at Fiscal Year End	Ratio of Tax Debt to Taxable Assessed Valuation	Tax Debt Per Capita
2015	18,093	\$ 577,071,983	\$ 31,895	\$ 102,277,732	17.72%	\$ 5,653
2016	18,432	636,093,741	34,510	99,864,016	15.70%	5,418
2017	19,732	743,481,589	37,679	137,205,641	18.45%	6,953
2018	20,861	951,245,818	45,599	167,302,329 ⁽³⁾	17.59% ⁽³⁾	8,020 ⁽³⁾
2019	20,861	1,203,125,221	57,673	166,293,384 ⁽³⁾	13.82% ⁽³⁾	7,971 ⁽³⁾

(1) Source: Municipal Advisory Council of Texas.

(2) As reported by the Collin Central Appraisal District on the District's annual State Property Tax Reports. Such values are subject to change during the ensuing year.

(3) Projected, includes the Bonds but excludes interest accreted on outstanding capital appreciation bonds. Preliminary, subject to change.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 8/31	Tax Rate Breakdown			Tax Levy	% Current Collections	% Total Collections
	Tax Rate	Local Maintenance	Interest & Sinking			
2014	\$ 1.51000	\$ 1.04000	\$ 0.47000	\$ 7,990,429	98.14%	99.34%
2015	1.62000	1.17000 ⁽¹⁾	0.45000	9,348,566	98.39%	100.07%
2016	1.62000	1.17000	0.45000	10,304,719	98.63%	103.42%
2017	1.62000	1.17000	0.45000	12,044,402	98.83%	101.74%
2018	1.62000	1.17000	0.45000	15,084,290	99.65% ⁽²⁾	100.98% ⁽²⁾

(1) The levy of a \$1.17 tax rate for maintenance and operations was approved by the voters in the District at a tax ratification election held on June 24, 2014. Prior to such ratification, the District was limited to a \$1.04 tax rate for maintenance and operations. See discussion under "TAX INFORMATION - Tax Rate Limitations" herein.

(2) Partial year collections as of May 31, 2018.

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2017/18 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Wal-Mart Real Estate Business Trust	Real Estate	\$ 16,689,163	1.75%
Wal-Mart Stores Texas LLC	Retail	9,575,362	1.01%
D R Horton - Texas LTD	Real Estate	7,072,498	0.74%
Charley's Concrete Company, Inc.	Manufacturing and Supply	6,955,073	0.73%
Edison Development Co.	Real Estate	5,111,556	0.54%
JDFIU Princeton LLC	Real Estate	4,608,549	0.48%
Frankum LTD	Real Estate	4,338,021	0.46%
Texas-New Mexico Power Co.	Electric Utility	4,217,332	0.44%
Oncor Electric Delivery Company	Electric Utility	4,192,871	0.44%
Spinnerhawk Southern Cross LLC	Real Estate	3,068,206	0.32%
		<u>\$ 65,828,631</u>	<u>6.90%</u>

TABLE 6 - 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 debt ("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 Tax Debt since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional Tax Debt, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the District.

Taxing Jurisdiction	2017/18 Taxable Assessed Value	2017/18 Tax Rate	Total Tax Supported Debt as of 8/30/2018	Estimated % Applicable	District's Overlapping Tax Supported Debt as of 8/30/2018
Princeton ISD	\$ 1,203,125,221 ⁽¹⁾	\$ 1.62000	\$ 167,302,329 ⁽²⁾	100.00%	\$ 167,302,329 ⁽²⁾
Collin County	124,035,906,716	0.19200	301,610,000	0.78%	2,352,558
Collin County CCD	127,699,204,661	0.08000	248,840,000	0.78%	1,940,952
City of Lucas	1,123,948,657	0.31800	17,675,000	0.14%	24,745
City of Princeton	661,833,056	0.69000	25,175,000	96.82%	24,374,435
City of Wylie	3,787,554,052	0.78100	89,910,000	0.33%	296,703
Total Direct and Overlapping Tax Supported Debt					\$ 196,291,722
Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation					16.32%
Per Capita Direct and Overlapping Tax Supported Debt					\$ 9,409.51

(1) Represents the District's 2018/19 Taxable Assessed Value.

(2) Projected, includes the Bonds. The amounts of outstanding tax-supported debt shown in the table above include the principal amount of current interest bonds and capital appreciation bonds as of the issuance date thereof and excludes interest accreted on outstanding capital appreciation bonds. Preliminary, subject to change.

DEBT INFORMATION

TABLE 7 - PRO-FORMA TAX SUPPORTED DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 8/31	Outstanding Debt ⁽¹⁾			The Bonds ⁽²⁾			Total Debt Service Requirements	% of Principal Retired
	Principal	Interest	Total	Principal	Interest	Total		
2018	\$ 488,312	\$ 8,355,620	\$ 8,843,931	\$ -	\$ -	\$ -	\$ 8,843,931	0.29%
2019	1,008,946	7,463,104	8,472,050	-	1,525,002	1,525,002	9,997,052	0.89%
2020	1,372,602	7,155,560	8,528,163	-	1,529,250	1,529,250	10,057,413	1.71%
2021	2,125,149	6,373,476	8,498,625	-	1,529,250	1,529,250	10,027,875	2.98%
2022	2,224,014	6,333,861	8,557,875	-	1,529,250	1,529,250	10,087,125	4.30%
2023	2,333,313	6,268,687	8,602,000	-	1,529,250	1,529,250	10,131,250	5.69%
2024	2,471,932	6,253,893	8,725,825	-	1,529,250	1,529,250	10,255,075	7.17%
2025	2,658,066	6,237,660	8,895,725	-	1,529,250	1,529,250	10,424,975	8.75%
2026	2,839,256	6,225,269	9,064,525	-	1,529,250	1,529,250	10,593,775	10.44%
2027	2,910,887	6,185,238	9,096,125	-	1,529,250	1,529,250	10,625,375	12.18%
2028	3,160,609	6,023,467	9,184,075	-	1,529,250	1,529,250	10,713,325	14.06%
2029	3,095,955	6,105,771	9,201,725	-	1,529,250	1,529,250	10,730,975	15.91%
2030	3,236,295	6,019,255	9,255,550	-	1,529,250	1,529,250	10,784,800	17.83%
2031	3,228,738	5,920,662	9,149,400	-	1,529,250	1,529,250	10,678,650	19.76%
2032	3,396,569	5,812,181	9,208,750	-	1,529,250	1,529,250	10,738,000	21.78%
2033	3,910,000	4,918,831	8,828,831	-	1,529,250	1,529,250	10,358,081	24.11%
2034	3,910,000	4,733,878	8,643,878	-	1,529,250	1,529,250	10,173,128	26.44%
2035	4,155,000	4,543,269	8,698,269	530,000	1,516,000	2,046,000	10,744,269	29.24%
2036	4,405,000	4,340,753	8,745,753	830,000	1,482,000	2,312,000	11,057,753	32.36%
2037	4,670,000	4,125,831	8,795,831	1,015,000	1,435,875	2,450,875	11,246,706	35.74%
2038	5,165,000	3,885,531	9,050,531	1,230,000	1,379,750	2,609,750	11,660,281	39.56%
2039	5,615,000	3,620,006	9,235,006	945,000	1,325,375	2,270,375	11,505,381	43.47%
2040	6,180,000	3,334,038	9,514,038	1,080,000	1,274,750	2,354,750	11,868,788	47.79%
2041	6,775,000	3,018,863	9,793,863	1,215,000	1,217,375	2,432,375	12,226,238	52.55%
2042	7,420,000	2,672,444	10,092,444	1,370,000	1,152,750	2,522,750	12,615,194	57.79%
2043	8,105,000	2,292,494	10,397,494	1,525,000	1,080,375	2,605,375	13,002,869	63.53%
2044	8,830,000	1,874,206	10,704,206	1,700,000	999,750	2,699,750	13,403,956	69.81%
2045	9,625,000	1,401,881	11,026,881	1,535,000	918,875	2,453,875	13,480,756	76.46%
2046	10,485,000	873,994	11,358,994	1,710,000	837,750	2,547,750	13,906,744	83.73%
2047	11,405,000	299,381	11,704,381	1,900,000	747,500	2,647,500	14,351,881	91.66%
2048	-	-	-	14,000,000	350,000	14,350,000	14,350,000	100.00%
	<u>\$ 137,205,641</u>	<u>\$ 142,669,103</u>	<u>\$ 279,874,744</u>	<u>\$ 30,585,000</u>	<u>\$ 40,181,877</u>	<u>\$ 70,766,877</u>	<u>\$ 350,641,621</u>	

(1) Outstanding Debt excludes other obligations (see "Table 10 – Other Obligations").

(2) Interest calculated at an average rate of 4.277% for purposes of illustration only. Preliminary, subject to change.

TABLE 8 - INTEREST AND SINKING FUND BUDGET PROJECTION ⁽¹⁾

Tax Supported Debt Service Requirements, Fiscal Year Ending 8/31/18		\$ 8,843,931
Interest and Sinking Fund Balance as of 8/31/17	\$ 1,112,802	
Budgeted Interest and Sinking Fund Tax Levy Collections	3,378,343	
General Fund Transfer	1,677,489	
State Existing Debt Allotment	2,010,272	
State Instructional Facilities Allotment	<u>1,215,596</u>	<u>\$ 9,394,502</u>
Estimated Fund Balance, Fiscal Year Ending 8/31/18		<u>\$ 550,571</u>

(1) Preliminary, subject to change.

TABLE 9 - AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS

<u>Purpose</u>	<u>Date Authorized</u>	<u>Amount Authorized</u>	<u>Amount Issued to Date</u>	<u>Amount Being Issued</u>	<u>Unissued Balance</u>
School Building	5/6/2017	\$ 93,600,000	\$ 21,500,000	\$ 33,800,000 ⁽¹⁾	\$ 38,300,000

(1) Amount being issued will include the Bonds and an anticipated allocation of the original issue premium relating thereto being deposited to the District’s construction fund, and therefor being applied towards the amount of authorization. Preliminary, subject to change.

ANTICIPATED ISSUANCE OF ADDITIONAL UNLIMITED TAX DEBT . . . The District does not have any plans to issue additional unlimited tax debt within the next 12 months.

TABLE 10 - OTHER OBLIGATIONS

As of the date of this Official Statement, the District does not have any outstanding unfunded obligations.

PENSION FUND . . . Pension funds for employees of Texas school districts, and any employee in public education in Texas, are administered by the Teacher Retirement System of Texas (the “System”). The individual employees contribute a fixed amount of their salary to the System, currently 6.4%, and the State of Texas contributes funds to the System based on statutory required minimum salary for certified personnel, except any District personnel paid by Federally funded programs. For more detailed information concerning the retirement plan, see Appendix B, “Excerpts from the District’s Annual Financial Report” - Note M.

RETIREE HEALTH CARE . . . In addition to its participation in the System, the District contributes to the Texas Public School Retired Employees Group Insurance Program (the “TRS-Care Retired Plan”), a cost-sharing multiple-employer defined benefit post-employment health care plan. The TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. For more detailed information concerning the District’s funding policy and contributions in connection with the TRS-Care Retired Plan, see Appendix B, “Excerpts from the District’s Annual Financial Report”, Note N.

OTHER POST EMPLOYMENT BENEFITS . . . As a result of its participation in the System and the TRS-Care Retired Plan and having no other post-employment benefit plans, the District has no obligations for other post-employment benefits within the meaning of Governmental Accounting Standards Board Statement 45.

FINANCIAL INFORMATION

TABLE 11 – SCHEDULE OF CHANGES IN NET ASSETS

	Fiscal Year Ended August 31,				
	2017	2016	2015	2014	2013
<u>Program Revenues:</u>					
Charges for Services	\$ 1,709,825	\$ 1,579,882	\$ 1,263,196	\$ 1,209,584	\$ 1,128,910
Operating Grants & Contributions	4,901,204	5,076,342	3,925,412	3,867,704	3,316,870
<u>General Revenues:</u>					
Maintenance and Operations Taxes	8,698,467	7,442,068	6,751,534	5,503,008	5,150,084
Debt Service Taxes	3,345,935	2,862,651	2,597,032	2,487,421	2,178,910
State Aid - Formula Grants	29,809,575	28,857,950	25,889,967	23,294,075	20,136,704
Grants and Contributions (Not Restricted)	292,662	364,528	339,262	285,678	781,537
Investment Earnings	258,827	146,912	51,133	39,087	46,077
Miscellaneous	694,425	240,697	71,512	130,872	76,009
Total Revenues	<u>\$ 49,710,920</u>	<u>\$ 46,571,030</u>	<u>\$ 40,889,048</u>	<u>\$ 36,817,429</u>	<u>\$ 32,815,101</u>
<u>Expenses:</u>					
Instruction, curriculum and media services	\$ 25,573,471	\$ 24,391,685	\$ 20,978,237	\$ 19,671,743	\$ 17,818,750
Instructional and school leadership	3,726,383	3,516,909	2,669,828	2,494,651	2,256,457
Student support services	2,893,024	2,664,840	2,471,528	2,269,238	2,268,359
Food services	2,500,881	2,413,825	1,956,359	1,911,983	1,824,108
Co-curricular activities	2,137,542	1,942,265	1,862,976	1,854,831	1,688,255
General administration	1,038,694	898,676	863,909	871,647	906,506
Plant maintenance, security & data processing	4,061,499	3,385,122	3,403,341	3,327,490	3,001,771
Community services	291,132	283,270	68,785	42,033	41,179
Debt services	5,405,297	7,267,750	5,926,182	4,206,815	3,800,421
Payments to Fiscal Agents	-	-	-	4,600	-
Other intergovernmental charges	87,116	76,178	68,452	61,503	58,405
Total Expenses	<u>\$ 47,715,039</u>	<u>\$ 46,840,520</u>	<u>\$ 40,269,597</u>	<u>\$ 36,716,534</u>	<u>\$ 33,664,211</u>
Increase (decrease) in net assets before transfers and special items	\$ 1,995,881	\$ (269,490)	\$ 619,451	\$ 100,895	\$ (849,110)
Special Items - Gain/Loss on Asset Sale	2,500	-	20,850	-	(2,319)
Beginning Net Assets	6,198,185	6,467,675	9,757,653	9,656,758	10,508,187 ⁽¹⁾
Prior Period Adjustment	-	-	(3,930,279)	-	-
Ending Net Assets	<u>\$ 8,196,566</u>	<u>\$ 6,198,185</u>	<u>\$ 6,467,675</u>	<u>\$ 9,757,653</u>	<u>\$ 9,656,758</u>

(1) Restated.

TABLE 11-A – SCHEDULE OF GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Years Ended August 31,				
	2017	2016	2015	2014	2013
Revenues:					
Local and Intermediate Sources	\$ 9,410,015	\$ 8,190,305	\$ 7,189,408	\$ 5,902,536	\$ 5,519,948
State Sources	27,621,265	27,153,572	24,109,089	21,438,406	18,462,751
Federal Sources	279,401	353,012	328,124	269,484	776,662
Total Revenues	\$ 37,310,681	\$ 35,696,889	\$ 31,626,621	\$ 27,610,426	\$ 24,759,361
Expenditures:					
Instruction and Instructional-Related Services	\$ 20,823,059	\$ 20,267,614	\$ 18,019,775	\$ 16,196,123	\$ 14,854,269
Instructional and School Leadership	3,325,979	3,067,594	2,382,405	2,172,898	1,971,860
Support Services - Student (Pupil)	3,898,560	3,208,427	3,260,183	2,892,937	2,756,443
Administrative Support Services	907,893	782,248	772,252	769,661	773,303
Support Services - Nonstudent Based	3,457,810	3,082,009	3,070,595	2,948,613	2,688,579
Ancillary Services	234,772	50,144	44,473	42,033	41,179
Intergovernmental Charges	87,116	76,178	68,452	66,103	58,405
Total Expenditures	\$ 32,735,189	\$ 30,534,214	\$ 27,618,135	\$ 25,088,368	\$ 23,144,038
Other Resources and (Uses) & Special Items Excess (Deficiency) of	\$ (4,745,156) ⁽¹⁾	\$ (3,210,000) ⁽¹⁾	\$ (4,040,327) ⁽¹⁾	\$ (1,400,000) ⁽¹⁾	\$ (1,575,246) ⁽¹⁾
Revenues Over Expenditures	\$ (169,664)	\$ 1,952,675	\$ (31,841)	\$ 1,122,058	\$ 40,077
Beginning Fund Balance on September 1	\$ 8,672,821	\$ 6,720,146	\$ 6,751,987	\$ 5,629,929	\$ 5,589,852
Ending Fund Balance on August 31	\$ 8,503,157	\$ 8,672,821	\$ 6,720,146	\$ 6,751,987	\$ 5,629,929

(1) Represents funds transferred to the Capital Projects Fund.

FINANCIAL POLICIES

Summary of Significant Accounting Policies . . . The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local government units in conjunction with the Texas Education Agency’s Financial Accountability System Resource Guide (FAR). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Basis of Presentation . . . *Government-wide financial statements* - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal Service fund activity is eliminated to avoid overstatement of revenues and expenses. The statements distinguish between governmental and business-type activities of the District.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore are clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. All taxes and revenues not classified as program revenues are presented as general revenues of the District.

Fund Financial Statements - Fund financial statements report detailed information about the District. Their focus is on major funds rather than reporting funds by type. Each major governmental aid fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Basis of Accounting . . . Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing related to 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 are reported using the *current financial resources measurement focus* and the *modified basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting.

Revenues from state and federal grants are recognized as earned when the related program expenditures are incurred. Revenues from local sources consist primarily of property taxes. Property tax revenues are recognized under the susceptible to accrual concept. Funds received but unearned are reflected as deferred revenues, and funds expended but not yet received are shown as receivables. For state entitlements, the District has adopted a budgetary basis of accounting for Foundation School Program revenues. Such entitlements are recorded as received.

Interest revenue and building rentals are recorded when earned since they are measurable and available. Other revenues such as fees, tuition, local food service revenue, and miscellaneous revenues are accounted for on the cash basis.

Expenditures are recognized in the accounting period in which the fund liability is incurred when measurable, except expenditures for debt service including unmatured interest on long-term debt. Expenditures for principal and interest on long-term debt are recognized when due.

Budgetary Data . . . Budgets are presented on the modified accrual basis of accounting for the General and Debt Service funds. The budget is prepared and controlled at the function level.

The official school budget is prepared for adoption for required governmental funds prior to August 20 of the preceding fiscal year for the subsequent fiscal year beginning September 1. The Board formally adopts the budget at a public meeting held at least ten days after public notice has been given. Once adopted, the budget can be amended by subsequent Board action. The Board properly amended the budget throughout the year.

Such amendments are before the fact and are reflected in the official minutes of the Board.

INVESTMENTS

The District invests its 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 are 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) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) (i) that are issued by or through an institution that has its main office or a branch office 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 (6) or in any other manner and amount provided by law for District deposits; or (ii) that are invested by the District through a depository institution that has

its main office or a branch office in the State of Texas and otherwise meet the requirements of the Public Funds Investment Act; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (9) 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; (10) 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; (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; and (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent. If specifically authorized in the authorizing document, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

Governmental bodies in the State are authorized to implement 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) of the first paragraph under this subcaption, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm not less than "A" or its equivalent, or (c) cash invested in obligations that are described in clauses (1) through (6) and (10) through (12) of the first paragraph under this subcaption, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the governmental body, held in the name of the governmental body 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. 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.

As a school district that qualifies as an "issuer" under Chapter 1371, the District is also authorized to purchase, sell, and invest its funds in corporate bonds, but only if the District has formally amended its investment policy to authorize such investments. 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 bond that is convertible into stocks or shares in the entity issuing the bond (or an affiliate or subsidiary thereof) or any unsecured debt. Corporate bonds must finally mature not later than 3 years from their date of purchase by the school district. A school district may not (1) invest more than 15% of its monthly average fund balance (excluding bond proceeds, reserves, and other funds held for the payment of debt service) in corporate bonds; or (2) invest more than 25% of the funds invested in corporate bonds in any one domestic business entity (including subsidiaries and affiliates thereof). Corporate bonds held by a school district must be sold if they are at any time downgraded below "AA-" (or the equivalent thereof) or, with respect to a corporate bond rated "AA-" (or the equivalent thereof), such corporate bond is placed on negative credit watch. Corporate bonds are not an eligible investment for a public funds investment pool.

INVESTMENT POLICIES . . . Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for District funds, maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Public Funds Investment Act. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each 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, ending market value and fully accrued interest for the reporting period for each pooled fund group, (4) the book value and market value of each separately listed asset at the 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 District 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 12 - CURRENT INVESTMENTS

As of May 31, 2018, the District's investable funds were invested in the following categories:

<u>Description of Investment</u>	<u>Percent</u>	<u>Market Value</u>
LoneStar Investment Pool	91.00%	\$ 15,298,183
Checking Accounts	9.00%	1,513,407
TOTAL	100.00%	\$ 16,811,590

TAX MATTERS

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

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the District, including information and representations contained in the District's federal tax certificate, (b) covenants of the District contained in the Bond documents relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed therewith and (c) the certificate with respect to arbitrage by the Commissioner of Education regarding the allocation and investment of certain investments in the Permanent School Fund. Failure by the District to observe the aforementioned representations or covenants could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

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

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

A ruling was not sought from the Internal Revenue Service by the Issuer with respect to the Bonds or the facilities financed or refinanced with the proceeds of the Bonds. Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the representations of the Issuer that it deems relevant to render such opinion and is not a guarantee of a result.

No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an audit is commenced, under current procedures the Internal Revenue Service is likely to treat the Issuer as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

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

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

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

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

equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

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

COLLATERAL FEDERAL INCOME TAX CONSEQUENCES...The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

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

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

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

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

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

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

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

CONTINUING DISCLOSURE INFORMATION

In the Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds pursuant to the United States Securities and Exchange Commission's (the "SEC") 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"). See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" for a description of the TEA's continuing disclosure undertaking to provide certain updated financial information and operating data annually with respect to the Permanent School Fund and the State of Texas, as the case may be, and to provide timely notice of certain specified events related to the guarantee to the MSRB.

ANNUAL REPORTS . . . The District will provide certain updated financial information and operating data annually to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under Tables numbered 1 through 5 and 7 through 12 (such information being the "Annual Operating Report"). The District will additionally provide financial statements of the District (the "Financial Statements"), that will be (i) prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation and shall be in substantially the form included in Appendix B and (ii) audited, if the District commissions an audit of such Financial Statements and the audit is completed within the period during which they must be provided. The District will update and provide the Annual Operating Report within six months after the end of each fiscal year and the Financial Statements within 12 months of the end of each fiscal year, in each case beginning with the fiscal year ending in and after 2018. The District may provide the Financial Statements earlier, including at the time it provides its Annual Operating Report, but if the audit of such Financial Statements is not complete within 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 Financial Statements becomes available.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the Rule.

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

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

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

AVAILABILITY OF INFORMATION FROM MSRB . . . 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 of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell the 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 and beneficial owners of the Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if (1) the agreement, as amended would have permitted an underwriter to purchase or sell the Bonds in the offering made hereby in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances, and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provisions of the Order that authorizes such amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the District (such as nationally recognized bond counsel) determined that such amendment will not materially impair the interest of the registered owners and beneficial owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule 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 in the primary offering of the Bonds. If the District amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in type of information and data provided.

FORMAT, IDENTIFYING INFORMATION, AND INCORPORATION BY REFERENCE...All financial information, operating data, financial statements, and notices required to be provided to the MSRB shall be provided in an electronic format and be accompanied by identifying information prescribed by the MSRB.

Financial information and operating data to be provided as set forth above under the subcaption "Annual Reports" may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document) available to the public on the MSRB's Internet Web site or filed with the SEC.

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

OTHER INFORMATION

RATINGS

The presently outstanding tax supported debt of the District is rated "A2" by Moody's Investors Service, Inc. ("Moody's") without regard to credit enhancement. The District also has several issues outstanding which are rated "Aaa" by Moody's and "AAA" by S&P Global Ratings, a division of S&P Global Inc. ("S&P"), solely by virtue of the guarantee of such issues by the Permanent School Fund of the State of Texas. **An application for a contract rating on the Bonds has been made to Moody's only.** An explanation of the significance of any rating 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. There is no assurance that any rating will continue for any given period of time or that a rating will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both of such companies, circumstances so warrant. Any such downward revision or withdrawal of any rating 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 condition of the District. At the time of the initial delivery of the Bonds, the District will provide the Underwriters with a certificate to the effect that no litigation of any nature has been filed or is then pending challenging the issuance of the Bonds or that affects the payment and security of the Bonds or in any other manner questioning the issuance, sale or delivery of the Bonds.

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, investment securities 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. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. In accordance with the Public Funds Investment Act, Chapter 2256, Texas Government Code, the Bonds must be rated not less than "A" or its equivalent as to investment quality by a national rating agency in order for most municipalities or other political subdivisions or public agencies of the State of Texas to be authorized to invest in the Bonds, except for purchases for interest and sinking funds of such entities. See "OTHER INFORMATION -- Ratings" herein. Moreover, municipalities or other political subdivisions or public agencies of the State of Texas that have adopted investment policies and guidelines in accordance with the Public Funds Investment Act may have other, more stringent requirements for purchasing securities, including the Bonds. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

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

LEGAL MATTERS

The District will furnish the Underwriters a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas as to the Bonds to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel to the District to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "Tax Matters" herein, a form of which opinion is attached to this Official Statement as Appendix C. Though it represents the Financial Advisor and the Underwriters from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the District in connection with the issuance of the Bonds. Bond Counsel also advises the TEA in connection with its disclosure obligations under the Federal securities laws, but Bond Counsel has not passed upon any TEA disclosures contained in this Official Statement. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds which would affect the provision made for their payment or security, or in any manner questioning the validity of said Bonds will also be furnished. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the captions and subcaptions "THE BONDS" (excluding the information under the subcaptions "Permanent School Fund Guarantee", "Book-Entry-Only System", "Bondholders' Remedies" and "Sources and Uses of Proceeds"), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" (excluding the information under the subcaption "The School Finance System as Applied to the District"), "TAX INFORMATION - Tax Rate Limitations" (first paragraph only), "TAX MATTERS", "CONTINUING DISCLOSURE INFORMATION" (excluding the information under the subcaption "Compliance with Prior Undertakings"), "OTHER INFORMATION - Registration and Qualification of Bonds for Sale", "OTHER INFORMATION - Legal Investments and Eligibility to Secure Public Funds in Texas", and "OTHER INFORMATION - Legal Matters" (excluding the last sentence of the first paragraph thereof) in the Official Statement and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the provisions of the Order. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon

for the Underwriters by their counsel, Norton Rose Fulbright US LLP, Dallas, Texas, whose legal fees are contingent upon the sale and delivery of the Bonds.

The legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that 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

Hilltop Securities Inc., 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. Hilltop Securities Inc., in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

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.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the District at a price equal to the initial offering price to the public, as shown on page 2 hereof, 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 pursuant to, their respective responsibilities to investors under federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information.

RBC Capital Markets, LLC ("RBCCM") has provided the following information for inclusion in this Official Statement. RBCCM is a full-service financial institution engaged in various activities, that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, RBCCM may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). RBCCM may engage in transactions for its own accounts involving the securities and instruments made the subject of this securities offering or other offerings of the District. RBCCM may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the District. RBCCM may make a market in credit default swaps with respect to municipal securities in the future.

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 Bond Order authorized the Pricing Officer to approve the form and content of this Official Statement and any addenda, supplement or amendment thereto and authorized its further use in the re-offering of the Bonds by the Underwriters. This Official Statement will be approved by the Pricing Officer of the District for distribution in accordance with the provisions of Rule 15c2-12.

Pricing Officer
Princeton Independent School District

APPENDIX A

GENERAL INFORMATION REGARDING THE DISTRICT

THE DISTRICT

Princeton Independent School District (the “District”) is a political subdivision of the State of Texas, located in an agricultural area that includes a portion of Lake Lavon and the city of Princeton. The District encompasses an area of approximately 67 square miles. The city of Princeton is a retail center located approximately 40 miles northeast of Dallas on U.S. Highway 380. The city of Princeton’s 2014 estimated population is 8,679 which is almost a 150% increase since 2000.

Collin County is located in northeastern Texas thirty miles south of the Red River, which forms the Texas-Oklahoma Border. McKinney, the county seat, is thirty-four miles northeast of Dallas. Collin County's area of 851 square miles lies entirely within the Blackland Prairie region of Texas.

HISTORICAL DISTRICT ENROLLMENT

FYE <u>8/31</u>	Total <u>Enrollment</u>	Average Daily <u>Attendance</u>
2014	3,622	3,400
2015	3,827	3,672
2016	3,862	3,724
2017	4,146	3,980
2018	4,381	4,198

Source: The District.

CAMPUS INFORMATION

<u>Campus</u>	<u>Number of Schools</u>	<u>Capacity</u>	<u>Number of Portables</u>
Elementary Schools	4	2,600	4
Middle Schools	2	1,000	0
High Schools	1	1,800	4
Totals	<u>7</u>	<u>5,400</u>	<u>8</u>

Source: The District.

SCHOOL AND EMPLOYEE INFORMATION

Number of teachers holding masters degrees	50
Number of teachers holding bachelors degrees	207
Employee Information	
Number of Employees	448
Number of Teachers	283
Pupil/Teacher Ratios:	
Elementary Schools	15.5/1
Middle Schools	16.0/1
High School	16.2/1

Source: The District.

LABOR FORCE ESTIMATES

	Annual Averages				
	2017	2016	2015	2014	2013
Collin County					
Civilian Labor Force	527,317	506,100	487,091	473,380	458,385
Total Employment	509,347	488,282	469,393	451,840	433,202
Unemployment	17,970	17,818	17,698	21,540	25,183
Percent Unemployment	3.4%	3.5%	3.6%	4.6%	5.5%
State of Texas					
Civilian Labor Force	13,538,385	13,284,623	13,044,089	13,004,345	12,872,204
Total Employment	12,960,595	12,671,801	12,463,031	12,340,567	12,070,808
Unemployment	577,790	612,822	581,058	663,778	801,396
Percent Unemployment	4.3%	4.6%	4.5%	5.1%	6.2%

Source: Texas Workforce Commission.

APPENDIX B

EXCERPTS FROM THE
PRINCETON INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
For the Year Ended August 31, 2017

The information contained in this Appendix consists of excerpts from the Princeton Independent School District Annual Financial Report for the Year Ended August 31, 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.

Morgan, Davis, & Company, P.C.

Post Office Box 8158
Greenville, Texas 75404

**Unmodified Opinions on Basic Financial Statements Accompanied by Required Supplementary Information,
Supplementary Information, and Other Information**

Independent Auditor's Report

Princeton Independent School District
321 Panther Parkway
Princeton, Texas 75407

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information:

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6-10 and the Schedules contained in Exhibits G-1, G-2, & G-3 on pages 50-52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information:

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Princeton Independent School District's basic financial statements. The Combining Statements for Nonmajor Governmental Funds contained in Exhibits H-1 & H-2 on pages 56-63, and the Schedule of Expenditures of Federal Awards as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, on page 79 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combining Statements for Nonmajor Governmental Funds and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Statements for Nonmajor Governmental Funds and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Texas Education Agency requires school districts to include certain information in the Annual Financial and Compliance Report in conformity with laws and regulations of the State of Texas. This information is in Exhibits identified in the Table of Contents as J-1, J-2, & J-3. We have applied certain limited procedures to this supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted on inquiries of management about 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2017 on our consideration of Princeton Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Princeton Independent School District's internal control over financial reporting and compliance.

/s/ Morgan, Davis, & Company, P.C.

Morgan, Davis, & Company, P.C.
Greenville, Texas

November 25, 2017

PRINCETON INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2017

In this section of the Annual Financial and Compliance Report, we, the administrators of Princeton Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2017. Please read it in conjunction with the District's Basic Financial Statements which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total combined net position increased by \$1,998,381 as a result of this year's operations.
- The District's assets exceeded its liabilities at the close of the most recent fiscal year by \$8,196,566 which represents the District's total combined net position. Of this amount, \$11,835,225 (unrestricted net position) may be used to meet the District's ongoing obligations.
- As of August 31, 2017, the District's governmental funds reported a combined fund balance of \$61,287,766 compared to \$20,085,137 for the last fiscal year. Included in this increase is \$43,482,857 of unspent bond proceeds during the current fiscal year in the Bond Construction Fund. The General Fund reported a fund balance of \$8,503,157 this fiscal year compared to \$8,672,821 the last fiscal year.
- The District's total tax rate for the 2016-2017 school year was \$ 1.62 with \$ 1.17 for maintenance & operation and \$ 0.45 for debt service.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 12 and 13). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 14) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the district.

The notes to the financial statements (starting on page 26) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for nonmajor funds contain even more information about the District's individual funds. These are not required by T.E.A. The section labeled Required Texas Education Agency Schedules contains data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 12. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The District's revenues are divided into those provided by outside parties who share the costs of some programs, such as tuition received from students from outside the district and grants provided by the U.S. Department of Education to assist children with disabilities or from disadvantaged backgrounds (program revenues), and revenues provided by the taxpayers or by TEA in equalization funding processes (general revenues). All the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the District's net position and changes in them. The District's net position (the difference between assets and liabilities) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider non-financial factors as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

In the Statement of Net Position and the Statement of Activities, the District has one kind of activity:

- Governmental activities—All of the District's basic services are reported here, including the instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services, and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 14 and provide detailed information about the most significant funds—not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the ESEA Title I Part A from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes. The District's two kinds of funds—governmental and proprietary—use different accounting approaches.

- Governmental funds—Most of the District's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

- Proprietary funds—The District reports the activities for which it charges users (whether outside customers or other units of the District) in proprietary funds using the same accounting methods employed in the Statement of Net Position and the Statement of Activities. The internal service funds (a category of proprietary funds) report activities that provide services for the District's other programs and activities—such as the District's self-insurance programs.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position on page 25. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The District is presenting government-wide financial analysis in the form of current year data and prior year data and the changes in these accounts. Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental activities.

Net position of the District's governmental activities increased from \$6,198,185 last year to \$8,196,566 at August 31, 2017. Unrestricted net position – 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 – decreased from \$13,595,805 last year to \$11,835,225 at August 31, 2017.

Changes in net position of the District's governmental activities were a \$269,490 decrease last year compared to a \$1,998,381 increase at August 31, 2017.

Table I
Princeton Independent School District
NET POSITION

	Governmental Activities 8/31/2017	Governmental Activities 8/31/2016	Net Change
Current and other assets	\$65,485,085	\$23,816,664	\$41,668,421
Capital assets	114,120,095	105,597,242	8,522,853
Total assets	<u>\$179,605,180</u>	<u>\$129,413,906</u>	<u>\$50,191,274</u>
Deferred Outflows	\$4,383,852	\$3,783,612	\$600,240
Current and other liabilities	\$3,649,263	\$3,376,092	\$273,171
Long-term liabilities	163,042,131	115,857,989	47,184,142
Net Pension Liability (District's Share)	8,605,009	7,227,424	1,377,585
Total liabilities	<u>\$175,296,403</u>	<u>\$126,461,505</u>	<u>\$48,834,898</u>
Deferred Inflows	\$496,063	\$537,828	(\$41,765)
Net Position:			
Net Investment in Capital Assets	(\$5,439,179)	(\$8,351,658)	\$2,912,479
Restricted	1,800,520	954,038	846,482
Unrestricted	11,835,225	13,595,805	(1,760,580)
Total Net Position	<u><u>\$8,196,566</u></u>	<u><u>\$6,198,185</u></u>	<u><u>\$1,998,381</u></u>

Table II
Princeton Independent School District
CHANGES IN NET POSITION

	Governmental Activities Yr Ended 8/31/2017	Governmental Activities Yr Ended 8/31/2016	Net Change
Revenues:			
Program Revenues:			
Charges for Services	\$1,709,825	\$1,579,882	\$129,943
Operating grants and contributions	4,901,204	5,076,342	(175,138)
General Revenues:			
Maintenance and operations taxes	8,698,467	7,442,068	1,256,399
Debt service taxes	3,345,935	2,862,651	483,284
State aid - formula grants	29,809,575	28,857,950	951,625
Grants & Contributions not restricted to specific functions	292,662	364,528	(71,866)
Investment Earnings	258,827	146,912	111,915
Miscellaneous	694,425	240,697	453,728
Total Revenue	\$49,710,920	\$46,571,030	\$3,139,890
Expenses:			
Instruction, curriculum and media services	\$25,573,471	\$24,391,685	\$1,181,786
Instructional and school leadership	3,726,383	3,516,909	209,474
Student support services	2,893,024	2,664,840	228,184
Child nutrition	2,500,881	2,413,825	87,056
Co curricular activities	2,137,542	1,942,265	195,277
General administration	1,038,694	898,676	140,018
Plant maintenance, security & data processing	4,061,499	3,385,122	676,377
Community services	291,132	283,270	7,862
Debt services	5,405,297	7,267,750	(1,862,453)
Other intergovernmental charges	87,116	76,178	10,938
Total Expenses	\$47,715,039	\$46,840,520	\$874,519
Increase in net position before transfers and special items	\$1,995,881	(\$269,490)	\$2,265,371
Transfers	0	0	0
Special Items - Gain on Asset Sale	2,500	0	2,500
Net Position at Beginning of Fiscal Year	6,198,185	6,467,675	(269,490)
Net Position at End of Fiscal Year	\$8,196,566	\$6,198,185	\$1,998,381

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in Exhibit C-3 on page 18) reported a combined fund balance of \$61,287,766 compared to \$20,085,137 for the last fiscal year. The District's General Fund reported a fund balance decrease of \$169,664, ending the year with \$8,503,157. The District's Special Revenue Funds reported a fund balance increase of \$10,529, ending the year with \$543,984. The District's Debt Service Fund reported a fund balance increase of \$747,941, ending the year with \$1,112,802. The District's Capital Projects Fund reported a fund balance decrease of \$959,946, ending the year with \$7,644,966. The District's Bond Construction Fund reported a fund balance increase of \$41,573,769, ending the year with \$43,482,857.

Over the course of the year, the Board of Trustees revised the District's budget several times. These budget amendments included amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect the actual beginning balances (versus the amounts we estimated in August 2016) and amendments moving funds from programs that did not need all the resources originally appropriated to them to programs with resource needs.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

During the year ended August 31, 2017, the District invested \$12,985,210 in capital assets, consisting of land purchased, construction in progress, various facility improvements, various equipment & furnishings, four school buses, and a suburban.

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

	<u>Beginning</u>			
	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Land	\$2,406,375	\$2,763,636	\$0	\$5,170,011
Buildings & Improvements	96,176,865	16,105,197	0	112,282,062
Equipment	3,517,795	546,755	0	4,064,550
Vehicles	3,082,836	406,941	(32,428)	3,457,349
Construction in Progress	35,964,774	(6,837,319)	0	29,127,455
Totals at Historical Cost	<u>141,148,645</u>	<u>12,985,210</u>	<u>(32,428)</u>	<u>154,101,427</u>
Less accumulated depreciation for:				
Buildings & Improvements	(32,362,576)	(3,762,111)	0	(36,124,687)
Equipment	(1,159,433)	(430,328)	0	(1,589,761)
Vehicles	(2,029,394)	(269,918)	32,428	(2,266,884)
Total accumulated depreciation	<u>(35,551,403)</u>	<u>(4,462,357)</u>	<u>32,428</u>	<u>(39,981,332)</u>
Capital Assets, Net	<u>\$105,597,242</u>	<u>\$8,522,853</u>	<u>\$0</u>	<u>\$114,120,095</u>

Debt:

At year-end August 31, 2017, the District had \$163,042,131 outstanding in bonds compared to \$115,857,988 last year. During the current fiscal year, the District issued Series 2016A refunding bonds of \$17,735,000 to early redeem Series 2007 bonds of \$19,710,000. The net present value of savings on the refunding transaction was \$2,837,653. The refunding bonds are payable over the next 15 years at 2.00-5.00% interest. The District also issued Series 2017 building bonds of \$42,330,000, payable over the next 30 years at 2.85-5.25% interest.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the fiscal-year 2017 budget, and tax rates. Several of those factors were the economy, the District's population growth, and unemployment. These factors were taken into account when adopting the General Fund budget for 2017. Amounts available for appropriation in the General Fund budget are \$7,003,157. The District has added no major new programs or initiatives to the 2017 budget.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show 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 business office, at Princeton Independent School District, 321 Panther Parkway, Princeton, Texas.

BASIC FINANCIAL STATEMENTS

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

EXHIBIT A-1

Data Control Codes	Primary Government
	Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 1,431,650
1120 Current Investments	59,868,031
1220 Property Taxes Receivable (Delinquent)	558,381
1230 Allowance for Uncollectible Taxes	(6,545)
1240 Due from Other Governments	3,633,568
Capital Assets:	
1510 Land	5,170,011
1520 Buildings, Net	76,157,375
1530 Equipment, Net	2,474,789
1540 Vehicles, Net	1,190,465
1580 Construction in Progress	29,127,455
1000 Total Assets	179,605,180
DEFERRED OUTFLOWS OF RESOURCES	
1705 Deferred Outflow Related to TRS	4,383,852
1700 Total Deferred Outflows of Resources	4,383,852
LIABILITIES	
2110 Accounts Payable	1,490,174
2140 Interest Payable	427,002
2160 Accrued Wages Payable	1,622,857
2180 Due to Other Governments	33,302
2200 Accrued Expenses	40,793
2300 Unearned Revenue	35,135
Noncurrent Liabilities	
2501 Due Within One Year	488,312
2502 Due in More Than One Year	162,553,819
2540 Net Pension Liability (District's Share)	8,605,009
2000 Total Liabilities	175,296,403
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflow Related to TRS	496,063
2600 Total Deferred Inflows of Resources	496,063
NET POSITION	
3200 Net Investment in Capital Assets	(5,439,179)
3820 Restricted for Federal and State Programs	282,226
3850 Restricted for Debt Service	1,256,536
3870 Restricted for Campus Activities	109,002
3880 Restricted for Scholarships	152,756
3900 Unrestricted	11,835,225
3000 Total Net Position	\$ 8,196,566

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

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

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
Codes	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 25,210,833	\$ 293,333	\$ 2,957,927	\$ (21,959,573)
12 Instructional Resources and Media Services	274,358	-	-	(274,358)
13 Curriculum and Staff Development	88,280	-	5,148	(83,132)
21 Instructional Leadership	1,196,491	-	88,107	(1,108,384)
23 School Leadership	2,529,892	-	-	(2,529,892)
31 Guidance, Counseling and Evaluation Services	1,249,745	-	218,019	(1,031,726)
33 Health Services	425,496	-	-	(425,496)
34 Student (Pupil) Transportation	1,217,783	-	-	(1,217,783)
35 Food Services	2,500,881	561,416	1,632,003	(307,462)
36 Extracurricular Activities	2,137,542	658,471	-	(1,479,071)
41 General Administration	1,038,694	-	-	(1,038,694)
51 Facilities Maintenance and Operations	3,882,589	15,490	-	(3,867,099)
52 Security and Monitoring Services	121,016	-	-	(121,016)
53 Data Processing Services	57,894	-	-	(57,894)
61 Community Services	291,132	181,115	-	(110,017)
72 Debt Service - Interest on Long Term Debt	4,814,862	-	-	(4,814,862)
73 Debt Service - Bond Issuance Cost and Fees	590,435	-	-	(590,435)
99 Other Intergovernmental Charges	87,116	-	-	(87,116)
[TP] TOTAL PRIMARY GOVERNMENT:	<u>\$ 47,715,039</u>	<u>\$ 1,709,825</u>	<u>\$ 4,901,204</u>	<u>(41,104,010)</u>

Data Control Codes	General Revenues:		
	Taxes:		
MT	Property Taxes, Levied for General Purposes		8,698,467
DT	Property Taxes, Levied for Debt Service		3,345,935
SF	State Aid - Formula Grants		29,809,575
GC	Grants and Contributions not Restricted		292,662
IE	Investment Earnings		258,827
MI	Miscellaneous Local and Intermediate Revenue		694,425
SI	Special Item - Gain on Asset Sale		2,500
TR	Total General Revenues and Special Items		<u>43,102,391</u>
CN	Change in Net Position		1,998,381
NB	Net Position - Beginning		<u>6,198,185</u>
NE	Net Position--Ending		<u>\$ 8,196,566</u>

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

PRINCETON INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2017

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
ASSETS			
1110 Cash and Cash Equivalents	\$ (26,497)	\$ 67,079	\$ 208,672
1120 Investments - Current	6,990,444	1,077,478	8,621,910
1220 Property Taxes - Delinquent	405,342	153,039	-
1230 Allowance for Uncollectible Taxes (Credit)	(4,751)	(1,794)	-
1240 Receivables from Other Governments	3,052,935	1,129	-
1000 Total Assets	<u>\$ 10,417,473</u>	<u>\$ 1,296,931</u>	<u>\$ 8,830,582</u>
LIABILITIES			
2110 Accounts Payable	\$ 8,200	\$ -	\$ 1,185,616
2160 Accrued Wages Payable	1,474,445	-	-
2180 Due to Other Governments	418	32,884	-
2200 Accrued Expenditures	30,662	-	-
2300 Unearned Revenues	24,869	9,566	-
2000 Total Liabilities	<u>1,538,594</u>	<u>42,450</u>	<u>1,185,616</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	375,722	141,679	-
2600 Total Deferred Inflows of Resources	<u>375,722</u>	<u>141,679</u>	<u>-</u>
FUND BALANCES			
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	-	-
3470 Capital Acquisition and Contractual Obligation	-	-	-
3480 Retirement of Long-Term Debt	-	1,112,802	-
3490 Other Restricted Fund Balance	-	-	-
Committed Fund Balance:			
3510 Construction	1,500,000	-	7,644,966
3545 Other Committed Fund Balance	-	-	-
3600 Unassigned Fund Balance	7,003,157	-	-
3000 Total Fund Balances	<u>8,503,157</u>	<u>1,112,802</u>	<u>7,644,966</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 10,417,473</u>	<u>\$ 1,296,931</u>	<u>\$ 8,830,582</u>

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

60 Bond Construction	Other Governmental Funds	Total Governmental Funds
\$ 447,525	\$ 123,723	\$ 820,502
43,178,199	-	59,868,031
-	-	558,381
-	-	(6,545)
-	579,504	3,633,568
<u>\$ 43,625,724</u>	<u>\$ 703,227</u>	<u>\$ 64,873,937</u>
\$ 142,867	\$ -	\$ 1,336,683
-	148,412	1,622,857
-	-	33,302
-	10,131	40,793
-	700	35,135
<u>142,867</u>	<u>159,243</u>	<u>3,068,770</u>
-	-	517,401
-	-	517,401
-	282,226	282,226
43,482,857	-	43,482,857
-	-	1,112,802
-	152,756	152,756
-	-	9,144,966
-	109,002	109,002
-	-	7,003,157
<u>43,482,857</u>	<u>543,984</u>	<u>61,287,766</u>
<u>\$ 43,625,724</u>	<u>\$ 703,227</u>	<u>\$ 64,873,937</u>

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

Total Fund Balances - Governmental Funds	\$ 61,287,766
1 The District uses internal service funds to charge the costs of certain activities, such as self-insurance, to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. The net effect of this consolidation is to increase(decrease) net position.	457,657
2 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$141,148,645 and the accumulated depreciation was \$35,551,403. In addition, long-term liabilities, including bonds payable of \$115,857,989, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. Accrued interest payable on long term debt of \$252,681 is not shown in the fund financial statements, but are shown in the government-wide financial statements. The net effect of including the beginning balances for capital assets (net of depreciation), and long-term debt in the governmental activities, is to increase (decrease) net position.	(10,513,428)
3 Current year capital outlays of \$12,985,210 and long-term debt principal payments of \$3,013,375 are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. Accretion on capital appreciation bonds of \$42,950, amortization of bond premiums of \$852,718, and interest payable of \$174,321 are recorded in the government-wide financial statements. The net effect of including the current year capital outlays and debt principal payments is to increase (decrease) net position.	16,634,032
4 The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(4,462,357)
5 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes of \$517,401 as revenue, eliminating interfund transactions, reclassifying net bond proceeds & bond premiums of \$51,007,285, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.	(50,489,884)
6 The District is required to recognize its proportionate share of the net pension liability required by GASB 68 in the amount of \$8,605,009, a deferred resource inflow related to TRS in the amount of \$496,063, and a deferred resource outflow related to TRS in the amount of \$4,383,852. The net effect of including the net pension liability, deferred resource inflows, and deferred resource outflows, is to increase (decrease) net position.	(4,717,220)
19 Net Position of Governmental Activities	<u>\$ 8,196,566</u>

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

PRINCETON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 9,410,015	\$ 3,471,121	\$ 84,437
5800 State Program Revenues	27,621,265	3,638,280	-
5900 Federal Program Revenues	279,401	-	-
5020 Total Revenues	<u>37,310,681</u>	<u>7,109,401</u>	<u>84,437</u>
EXPENDITURES:			
Current:			
0011 Instruction	20,590,124	-	-
0012 Instructional Resources and Media Services	232,935	-	-
0013 Curriculum and Instructional Staff Development	83,132	-	-
0021 Instructional Leadership	974,564	-	-
0023 School Leadership	2,268,283	-	-
0031 Guidance, Counseling and Evaluation Services	897,906	-	-
0033 Health Services	382,062	-	-
0034 Student (Pupil) Transportation	1,276,058	-	-
0035 Food Services	-	-	-
0036 Extracurricular Activities	1,342,534	-	-
0041 General Administration	907,893	-	-
0051 Facilities Maintenance and Operations	3,457,810	-	-
0052 Security and Monitoring Services	121,016	-	-
0053 Data Processing Services	57,894	-	-
0061 Community Services	55,862	-	-
Debt Service:			
0071 Principal on Long Term Debt	-	3,013,375	-
0072 Interest on Long Term Debt	-	5,025,241	-
0073 Bond Issuance Cost and Fees	-	590,435	-
Capital Outlay:			
0081 Facilities Acquisition and Construction	-	-	4,044,383
Intergovernmental:			
0099 Other Intergovernmental Charges	87,116	-	-
6030 Total Expenditures	<u>32,735,189</u>	<u>8,629,051</u>	<u>4,044,383</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>4,575,492</u>	<u>(1,519,650)</u>	<u>(3,959,946)</u>
OTHER FINANCING SOURCES (USES):			
7901 Refunding Bonds Issued	-	17,743,284	-
7911 Capital Related Debt Issued (Regular Bonds)	-	-	-
7912 Sale of Real and Personal Property	2,500	-	-
7915 Transfers In	-	1,677,090	3,000,000
7916 Premium or Discount on Issuance of Bonds	-	2,982,285	-
8911 Transfers Out (Use)	(4,747,656)	-	-
8940 Payment to Bond Refunding Escrow Agent (Use)	-	(20,135,068)	-
7080 Total Other Financing Sources (Uses)	<u>(4,745,156)</u>	<u>2,267,591</u>	<u>3,000,000</u>
1200 Net Change in Fund Balances	(169,664)	747,941	(959,946)
0100 Fund Balance - September 1 (Beginning)	<u>8,672,821</u>	<u>364,861</u>	<u>8,604,912</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 8,503,157</u>	<u>\$ 1,112,802</u>	<u>\$ 7,644,966</u>

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

60 Bond Construction	Other Governmental Funds	Total Governmental Funds
\$ 63,814	\$ 1,352,992	\$ 14,382,379
-	324,034	31,583,579
-	2,939,418	3,218,819
<u>63,814</u>	<u>4,616,444</u>	<u>49,184,777</u>
-	1,351,725	21,941,849
-	-	232,935
-	5,148	88,280
-	88,107	1,062,671
-	-	2,268,283
-	218,019	1,115,925
-	-	382,062
-	-	1,276,058
-	2,238,776	2,238,776
-	580,859	1,923,393
-	-	907,893
-	-	3,457,810
-	-	121,016
-	-	57,894
-	193,847	249,709
-	-	3,013,375
-	-	5,025,241
-	-	590,435
8,490,045	-	12,534,428
-	-	87,116
<u>8,490,045</u>	<u>4,676,481</u>	<u>58,575,149</u>
<u>(8,426,231)</u>	<u>(60,037)</u>	<u>(9,390,372)</u>
-	-	17,743,284
42,330,000	-	42,330,000
-	-	2,500
-	70,566	4,747,656
7,670,000	-	10,652,285
-	-	(4,747,656)
-	-	(20,135,068)
<u>50,000,000</u>	<u>70,566</u>	<u>50,593,001</u>
41,573,769	10,529	41,202,629
1,909,088	533,455	20,085,137
<u>\$ 43,482,857</u>	<u>\$ 543,984</u>	<u>\$ 61,287,766</u>

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

Total Net Change in Fund Balances - Governmental Funds	\$	41,202,629
<p>The District uses internal service funds to charge the costs of certain activities, such as self-insurance, to appropriate functions in other funds. The net income (loss) of internal service funds are reported with governmental activities. The net effect of this consolidation is to increase (decrease) net position.</p>		
		50,126
<p>Current year capital outlays of \$12,985,210 and long-term debt principal payments of \$3,013,375 are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. Accretion on capital appreciation bonds of \$42,950, amortization of bond premiums of \$852,718, and interest payable of \$174,321 are recorded in the government-wide financial statements. The net effect of including the current year capital outlays and debt principal payments is to increase (decrease) net position.</p>		
		16,634,032
<p>Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.</p>		
		(4,462,357)
<p>Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue by \$316,816 to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying net bond proceeds & bond premiums of \$51,007,285, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.</p>		
		(50,690,469)
<p>Current year changes due to GASB 68 increased revenues in the amount of \$201,043, but also increased expenses in the amount of \$936,623. The impact of these items is to increase (decrease) the change in net position.</p>		
		(735,580)
Change in Net Position of Governmental Activities	\$	1,998,381

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

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

	Governmental Activities -
	Internal Service Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 611,148
Total Assets	611,148
LIABILITIES	
Current Liabilities:	
Accounts Payable	153,491
Total Liabilities	153,491
NET POSITION	
Unrestricted Net Position	457,657
Total Net Position	\$ 457,657

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

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

	Governmental Activities -
	Internal Service Fund
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 230,450
Total Operating Revenues	230,450
OPERATING EXPENSES:	
Other Operating Costs	180,324
Total Operating Expenses	180,324
Operating Income	50,126
Total Net Position - September 1 (Beginning)	407,531
Total Net Position - August 31 (Ending)	\$ 457,657

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

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

	Governmental Activities -
	Internal Service Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 230,450
Cash Payments for Insurance Claims	(148,284)
Net Cash Provided by Operating Activities	82,166
Net Increase in Cash and Cash Equivalents	82,166
Cash and Cash Equivalents at Beginning of Year	528,982
Cash and Cash Equivalents at End of Year	\$ 611,148
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Provided by Operating Activities:</u>	
Operating Income:	\$ 50,126
Effect of Increases and Decreases in Current Assets and Liabilities:	
Increase (decrease) in Accounts Payable	32,040
Net Cash Provided by Operating Activities	\$ 82,166

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

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

	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 104,370
Total Assets	<u>\$ 104,370</u>
LIABILITIES	
Due to Student Groups	\$ 104,370
Total Liabilities	<u>\$ 104,370</u>

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

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

Note A. Summary of Significant Accounting Policies

Princeton Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the "Board") elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and other authoritative sources identified in *Statement on Auditing Standards No. 69* 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") and the requirements of contracts and grants of agencies from which it receives funds.

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.

As of August 31, 2017, Princeton Independent School District retrospectively and prospectively applied Governmental Accounting Standards Board ("GASB") Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

1. Reporting Entity

The Board of Trustees has governance responsibilities over all activities related to public elementary and secondary public education within the jurisdiction of Princeton Independent School District. The members of the Board of Trustees are elected by the public, have the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. The District is not included in any other "governmental entity" as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, *The Financial Reporting Entity.* There are no component units included within the reporting entity. The District receives funding from local, state, and federal governmental sources and must comply with the requirements of these funding source entities.

2. 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 Princeton Independent School District's nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, state foundation 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 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" 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 tuition paid by students not residing in the district, school lunch charges, etc. The "grants and contributions" column includes amounts paid by organizations outside the District to help meet the operational or capital requirements of a given function. Examples include grants under the Elementary and Secondary Education Act Title I. If revenue is not program revenue, it is general revenue used to support all of the District's functions. Property 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 & other uses” on the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance 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. Interfund activities between governmental funds and fiduciary funds remain as “due to & due from” on the government-wide Statement of Activities.

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.

3. 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 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. Revenues are considered to be available when they are collectible within 60 days after year-end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept, that is, when they are both measurable and available. The District considers them available if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

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 deferred 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.

The Proprietary Fund Types and Fiduciary Funds 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. Agency Funds apply the accrual basis of accounting, but do not have a measurement focus. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Position. The fund equity is segregated into net investment in capital assets, restricted net position, and unrestricted net position

4. Fund Accounting

The District's accounts are organized on the basis of funds, each of which 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 are comprised of each fund's assets, liabilities, equity, revenues and expenditures.

The District reports the following **major** governmental funds:

General Fund – This governmental fund is established to account for resources financing the fundamental operations of the District, in partnership with the community, in enabling and motivating students to reach their full potential. All revenues and expenditures not required to be accounted for in other funds are included here. This is a budgeted fund and any fund balances are considered resources available for current operations. Fund balances may be appropriated by the Board of Trustees to implement its responsibilities

Debt Service Fund – This governmental fund is established to account for payment of principal and interest on long-term general obligation debt and other long-term debts for which a tax has been dedicated. This is a budgeted fund and a separate bank account is maintained for this fund. Any unused sinking fund balances are transferred to the General Fund after all of the related debt obligations have been met. It is considered major because its resources exceed 10% of the District's total resources.

Capital Projects Fund – This governmental fund is established to account for proceeds from local resources to be used for Board authorized acquisition, construction, or renovation, as well as, furnishing and equipping of major capital facilities. It is considered major because its resources exceed 10% of the District's total resources.

Bond Construction Fund – This governmental fund is established to account for proceeds from bonds to be used for Board authorized acquisition, construction, or renovation, as well as, furnishing and equipping of major capital facilities. It is considered major because its resources exceed 10% of the District's total resources.

Additionally, the District reports the following **nonmajor** fund types:

Governmental Fund Types:

Special Revenue Funds – These governmental funds are established to account for resources restricted to, or designated for, specific purposes by the District or a grantor in a Special Revenue Fund. Most federal and some state financial assistance is accounted for in a Special Revenue Fund and sometimes unused balances must be returned to the grantor at the close of specified project periods. Project accounting is employed to maintain integrity of the various sources of funds.

The District's Food Service Fund is considered a special revenue fund since it meets the following criteria: (1) User fees are charged to supplement the National School Lunch Program, (2) The General Fund subsidizes the Food Service Program for all expenditures in excess of the National School Lunch Program, and (3) The District does not consider the Food Service Program completely self-supporting. Food Service fund balances are used exclusively for child nutrition program purposes.

Proprietary Funds:

Internal Service Fund – This fund is established to account for revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis. The District's Internal Service Fund is for Workers Compensation Self-Insurance.

Fiduciary Funds:

Agency Funds – These funds are established to account for resources held for others in a custodial capacity. Financial resources for the Agency funds are recorded as assets and liabilities; therefore, these funds do not include revenues and expenditures and have no fund equity. The District's Agency Funds are for Student Activity Funds.

5. Cash and Cash Equivalents

For purposes of the statement of cash flows for proprietary funds, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased. Cash and cash equivalents in the Internal Service fund was \$611,148 as of August 31, 2017.

6. Investments

Investments are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

7. Inventories

All inventories are valued at cost using the first in/first out (FIFO) method. The District purchases of supplies as expenditures. If any supplies are on hand at the end of the year, their cost is recorded as inventory and fund balance is reserved for the same amount.

8. Asset Capitalization and Useful Lives

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<u>Assets</u>	<u>Years</u>
Buildings	39-50
Building Improvements	15-40
Vehicles & Buses	5-10
Equipment	5-7

9. Compensated Absences

It is the District's policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

10. Long-Term Debt

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 assets. 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. Bond issuance costs are expenses when incurred.

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 bonded debt issued plus the premiums/discounts

received on the issuance of bonds are reported as other financing sources. The amounts of issuance costs are reported as expenditures.

11. Fund Balance

In accordance with GASB 54 and school board policy, the District is reporting its fund balances in the governmental fund financial statements in each of the following categories:

Non-spendable fund balance – represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaids) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted fund balance – represents amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, other governments, etc.) or imposed by enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

Committed fund balance – represents amounts that can only be used for specific purposes imposed by a formal action of the District’s highest level of decision-making authority, the School Board. Committed resources cannot be used for any other purposes unless the Board removes or changes the specific use by taking the same formal action that imposed the constraint originally.

Assigned fund balance – represents amounts the District intends to use for specific purposes as expressed by the Board or an official delegated with the authority. The Board has delegated the authority to assign fund balances to the Superintendent.

Unassigned fund balance – represents the residual classification for the general fund or deficit balances in other funds.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, committed fund balance, assigned fund balance, and then unassigned fund balance.

As of August 31, 2017, the District’s fund balances are classified as follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Bond Construction</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Restricted for:						
State & Federal Grants					\$282,226	\$282,226
Capital Projects				43,482,857		43,482,857
Debt Service		\$1,112,802				1,112,802
Scholarships					152,756	152,756
Committed for:						
Construction	1,500,000		7,644,966			9,144,966
Campus Activity Funds					109,002	109,002
Unassigned	7,003,157					7,003,157
Total Fund Balances	<u>\$8,503,157</u>	<u>\$1,112,802</u>	<u>\$7,644,966</u>	<u>\$43,482,857</u>	<u>\$543,984</u>	<u>\$61,287,766</u>

12. Functions

School Districts are required to report all expenses by function, except certain indirect expenses. General administration, data processing services, and other intergovernmental charges functions (data control codes 41, 53, and 99 respectively) include expenses that are indirect expenses of other functions. These indirect expenses are not allocated to other functions.

13. Restricted Assets

When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.

14. 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.

15. Risk Management – Claims and Judgments

In the normal course of operations, the District is exposed to risks of loss from a number of sources including fire and casualty losses, errors or omissions by board members and employees, and injuries to employees during the course of performing their duties. The District attempts to cover these losses by the purchase of insurance. Significant losses are covered by commercial insurance for property and liability programs. For insured programs, there have been no significant reductions in coverage. Settlement amounts have not exceeded insurance coverage for the current year or the past three years.

Health Care Coverage

During the year ended August 31, 2017, employees of the District were covered by a uniform statewide health care program for public education employees. The District contributed \$225 per month, which includes \$75 per month which is reimbursed by the State of Texas, per employee to the Plan. Employees, at their option, may authorize payroll withholdings to pay the remaining balance of the premium for employee coverage and/or dependents. All contributions/premiums were paid to the statewide health care program. The Plan was authorized by House Bill 3343 and is administered by the Teacher Retirement System of Texas (TRS).

Workers Compensation Coverage

The District has entered into an agreement with the Texas Educational Insurance Association to self-fund their workers compensation plan. The agreement is administered by Claims Administrative Services, Inc. Transactions related to the plan are accounted for in the Workers Compensation Insurance Fund (the "Fund"), an internal service fund of the District. The District makes all contributions to the fund. Claims Administrative Services, Inc. obtained excess loss insurance, which limited annual claims paid from the entire fund for the year ended August 31, 2017, to \$225,000 for any individual participant.

Estimates of claims payable and of claims incurred, but not reported at August 31, 2017, are reflected as accounts and claims payable of the Fund. The plan is funded to discharge liabilities of the Fund as they become due.

Changes in the balances of claims liabilities during the past two years are as follows:

	<u>Year Ended August 31, 2017</u>	<u>Year Ended August 31, 2016</u>
Unpaid claims, beginning of fiscal year	\$121,451	\$162,148
Incurred claims (including IBNR's)	180,324	82,747
Claim payments	(148,284)	(123,444)
Unpaid claims, end of fiscal year	<u>\$153,491</u>	<u>\$121,451</u>

16. Estimates and Assumptions

The preparation 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 and

disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note B. Reconciliation of Government-Wide and Fund Financial Statements

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets:

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net assets for governmental activities as reported in the government-wide statement of net position.

One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details for these elements are as follows:

<u>Capital Assets at the Beginning of the year</u>	<u>Historic Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Value at the Beginning of the Year</u>	<u>Change in Net Position</u>
Land	\$2,406,375		\$2,406,375	
Buildings	96,176,865	(32,362,576)	63,814,289	
Equipment	3,517,795	(1,159,433)	2,358,362	
Vehicles	3,082,836	(2,029,394)	1,053,442	
Construction in Progress	35,964,774		35,964,774	
Change in Net Position				\$105,597,242
<u>Long-term Liabilities at the Beginning of the year</u>			<u>Payable at the Beginning of the year</u>	
Bonds Payable			\$115,857,989	
Bond Interest Payable			252,681	
Change in Net Assets				(\$116,110,670)
Net Adjustment to Net Position				<u>(\$10,513,428)</u>

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities:

Exhibit C-4 provides reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net position of governmental activities as reported on the government-wide statement of activities.

One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. These adjustments affect both the net position balance and the change in net assets. The details of these adjustments are as follows:

	<u>Amount</u>	<u>Adjustments to Changes in Net Position</u>	<u>Adjustments to Net Position</u>
<u>Current Year Capital Outlay</u>			
Land	\$2,763,636		
Buildings & Improvements	16,105,197		
Equipment	546,755		
Vehicles	406,941		
Construction in Progress	(6,837,319)		
Total Capital Outlay	<u>\$12,985,210</u>	\$12,985,210	\$12,985,210
<u>Debt Service Payments</u>			
Bond Principal	\$3,013,375		
Bond Interest Payable	(174,321)		
Accretion on Capital Appreciation Bonds	(42,950)		
Amortization of Bond Premiums	852,718		
Total Principal Payments	<u>\$3,648,822</u>	\$3,648,822	\$3,648,822
Total Adjustment to Net Position		<u>\$16,634,032</u>	<u>\$16,634,032</u>

Another element of the reconciliation on Exhibit C-4 is described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details for this element are as follows:

	<u>Amount</u>	<u>Adjustments to Changes in Net Position</u>	<u>Adjustments to Net Position</u>
<u>Adjustments to Revenue and Unavailable Revenue</u>			
Net Property Tax Revenue Adjustment	\$316,816	\$316,816	\$517,401
<u>Reclassify Bond Proceeds</u>			
Reclassify Net Bond Proceeds to Bonds Payable	(5,107,285)	(51,007,285)	(51,007,285)
Totals		<u>(\$50,690,469)</u>	<u>(\$50,489,884)</u>

Note C. Stewardship, Compliance, and Accountability

Budgetary Data

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the Food Service Fund (which is included in the Special Revenue Funds). The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1 and the other two reports are in Exhibit J-2 and J-3.

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

1. Prior to August 20, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to September 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. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. 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. However, none of these were significant. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are amended by the Board. All budget appropriations lapse at year-end.

A reconciliation of fund balances for both appropriated budget and nonappropriated budget special revenue funds is as follows:

<u>August 31, 2017 Fund Balance</u>	
Appropriated Budget Funds - Food Service	\$282,226
Nonappropriated Budget Funds-Campus Activity Funds	109,002
Nonappropriated Budget Funds-Local Scholarship Funds	<u>152,756</u>
All Special Revenue Funds	<u><u>\$543,984</u></u>

Note D. Cash, Cash Equivalents, and Investments

District Policies and Legal and Contractual Provisions Governing Deposits and Investments:

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas and its agencies; (2) guaranteed or secured certificates of deposit issued by state and national banks domiciled in Texas, (3) obligations of states, counties, cities, and other political subdivisions of any state having been rated as to investment quality not less than “A”; (4) no load money market funds with a weighted average maturity of 90 days or less; (5) fully collateralized repurchase agreements; (6) commercial paper having a stated maturity of 270 days or less from the date of issuance and is not rated less than A-1 or P-1 by two nationally credit rating agencies or one nationally recognized credit agency and is fully secured by an irrevocable letter of credit; (7) secured corporate bonds rated not lower than “AA-“ or the equivalent; (8) public funds investment pools; and (9) guaranteed investment contracts for bond proceeds investment only, with a defined termination date and secured by U.S. Government direct or agency obligations approved by the Texas Public Funds Investment Act in an amount equal to the bond proceeds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. Princeton Independent School District is in substantial compliance with the requirements of the Act and with local policies.

Additional policies and contractual provisions governing investments for Princeton Independent School District are specified below:

Credit Risk – To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations, the District limits investments in certificates of deposits, no-load money market accounts, and public investment pools. As of August 31, 2017, the District’s investments in public funds investment pools were rated AAAM by Standard & Poor’s.

Custodial Credit Risk for Deposits – State law requires the District to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the District and held by the entity or its agent. Since the District complies with this law, it has no custodial risk for deposits

Custodial Credit Risk for Investments – To limit the risk that, in the event of the failure of the counterparty to a transaction, the District will not be able to recover the value of investment or collateral securities that are in possession of an outside party the District requires counterparties to register the securities in the name of the District and hand them over to the District or its designated agent. This includes securities lending transactions. All of the securities are in the District’s name and held by the District or its agent.

Concentration of Credit Risk – To limit the risk of loss attributed to the magnitude of the District’s investment in a single issuer, the District diversifies in terms of investment instruments, maturity scheduling, and financial institutions to reduce the risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific issuer.

Interest Rate Risk – To limit the risk of changes in interest rates will adversely affect the fair value of investments, the District requires invested instruments maturities do not exceed one year from the time of purchase except when a longer maturity may be specifically authorized by the Board for a given investment provided legal limits are not exceeded

Foreign Currency Risk – The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit by not investing in foreign currency.

Fair Value Measurements:

The District categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. 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. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances where inputs used to measure fair value fall into different levels in the below hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The District’s assessment of the significance of particular inputs to these fair value measurements requires judgement and considers factors specific to each asset.

Princeton Independent School District has the following recurring fair value measurements as of August 31, 2017:

Cash & Cash Equivalents of \$61,299,681 are valued using quoted market prices (Level 1 inputs)

The District has no investments measured at the Net Asset Value (NAV) per Share or its equivalent.

Deposit Collateral Information

At August 31, 2017, the carrying amount of the District’s deposits (cash, certificates of deposit, and interest bearing savings accounts) was \$61,299,681, which includes Lone Star Investment pool accounts of \$16,689,832, and Logic Investment pool accounts of \$43,179,199. The District’s cash deposits at August 31, 2017 and during the year ended August 31, 2017 were entirely covered by FDIC insurance or by pledged deposit collateral held by the District’s agent bank in the District’s name, or by letters of credit.

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

- a. Depository: Independent Bank, Farmersville, Texas
- b. The highest combined balance of cash, savings, and time deposits accounts amounted to \$3,169,085 and occurred during the month of September 2016.
- c. The market value of securities pledged as of the date of the highest combined balance on deposit was \$4,020,096.

d. Total amount of FDIC coverage at the time of the highest combined balance was \$320,675.

Note E. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when collected.

The assessed value of the tax roll on January 1, 2016, upon which the tax levy for the 2017 fiscal year was based, was \$743,481,589. The tax rates assessed for the year ended August 31, 2017 to finance general fund operations and the payment of principal & interest on general obligation bonds were \$ 1.17 and \$ 0.45 per \$ 100 valuation, respectively, for a total of \$ 1.62 per \$ 100 valuation. Current year (including prior year delinquent) tax collections for the year ended August 31, 2017 were 101.74% of the tax levy.

Note F. Delinquent Taxes Receivable

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

Note G. Disaggregation of Receivables and Payables

Receivables at August 31, 2017, were as follows:

	<u>Property Taxes</u>	<u>Due from Other Governments</u>	<u>Due from Other Funds</u>	<u>Other</u>	<u>Total Receivables</u>
Governmental Activities:					
General Fund	\$405,342	\$3,052,935	\$0	\$0	\$3,458,277
Debt Service Fund	153,039	1,129	0	0	154,168
Nonmajor Governmental Funds	0	579,504	0	0	579,504
Total Governmental Activities	<u>\$558,381</u>	<u>\$3,633,568</u>	<u>\$0</u>	<u>\$0</u>	<u>\$4,191,949</u>
Amounts not scheduled for collection during the subsequent year	<u>(\$6,545)</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$6,545)</u>

Payables at August 31, 2017, were as follows:

	<u>Accounts</u>	<u>Salaries & Benefits</u>	<u>Due to Other Funds</u>	<u>Due to Other Governments</u>	<u>Other</u>	<u>Total Payables</u>
Governmental Activities:						
General Fund	\$8,200	\$1,474,445	\$0	\$418	\$30,662	\$1,513,725
Debt Service Fund	0	0	0	32,884	0	32,884
Capital Projects Fund	1,185,616	0	0	0	0	1,185,616
Bond Construction Fund	142,867	0	0	0	0	142,867
Nonmajor Governmental Funds	0	148,412	0	0	10,131	158,543
Total Governmental Activities	<u>\$1,336,683</u>	<u>\$1,622,857</u>	<u>\$0</u>	<u>\$33,302</u>	<u>\$40,793</u>	<u>\$3,033,635</u>
Amounts not scheduled for collection during the subsequent year	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

Note H. Capital Asset Activity

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

	<u>Beginning</u>			<u>Ending Balance</u>
	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	
Land	\$2,406,375	\$2,763,636	\$0	\$5,170,011
Buildings & Improvements	96,176,865	16,105,197	0	112,282,062
Equipment	3,517,795	546,755	0	4,064,550
Vehicles	3,082,836	406,941	(32,428)	3,457,349
Construction in Progress	35,964,774	(6,837,319)	0	29,127,455
Totals at Historical Cost	<u>141,148,645</u>	<u>12,985,210</u>	<u>(32,428)</u>	<u>154,101,427</u>
Less accumulated depreciation for:				
Buildings & Improvements	(32,362,576)	(3,762,111)	0	(36,124,687)
Equipment	(1,159,433)	(430,328)	0	(1,589,761)
Vehicles	(2,029,394)	(269,918)	32,428	(2,266,884)
Total accumulated depreciation	<u>(35,551,403)</u>	<u>(4,462,357)</u>	<u>32,428</u>	<u>(39,981,332)</u>
Capital Assets, Net	<u>\$105,597,242</u>	<u>\$8,522,853</u>	<u>\$0</u>	<u>\$114,120,095</u>

Depreciation expense for the current year was charged to governmental functions as follows:

11 Instruction	\$473,541
12 Instructional Resources & Media Services	41,924
21 Instructional Leadership	125,773
23 School Leadership	251,546
31 Guidance, Counseling, & Evaluation Services	125,773
33 Health Services	41,924
34 Student (Pupil) Transportation	353,767
35 Food Services	251,546
36 Cocurricular/Extracurricular Activities	209,622
41 General Administration	125,773
51 Plant Maintenance & Operations	419,244
61 Community Services	41,924
Total Depreciation Expense	<u>\$2,462,357</u>

Note I. Changes in Long-Term Liabilities

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

	<u>Beginning</u>			<u>Ending Balance</u>	<u>Amounts Due</u> <u>within One</u> <u>Year</u>
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>		
Governmental Activities:					
General Obligation Bonds	\$99,864,016	\$60,065,000	(\$22,723,375)	\$137,205,641	\$488,312
Accumulated Accretion on CABs	1,372,599	297,535	(254,585)	1,415,549	
Unamortized Bond Premiums	14,621,374	10,652,285	(852,718)	24,420,941	
Toal Bonds Payable, Government-Wide	<u>\$115,857,989</u>	<u>\$71,014,820</u>	<u>(\$23,830,678)</u>	<u>\$163,042,131</u>	
Total Governmental Activities	<u>\$115,857,989</u>	<u>\$71,014,820</u>	<u>(\$23,830,678)</u>	<u>\$163,042,131</u>	<u>\$488,312</u>

Note J. Bonds Payable & Debt Service Requirements

The District has entered into a continuing disclosure undertaking to provide annual reports and material event notices to the State Information Depository of Texas (SID), which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the District.

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2017.

In the governmental fund financial statements, current requirements for principal and interest expenditures are accounted for in the Debt Service Fund. The proceeds from the sale of bonds are shown in the governmental fund financial statements as Other Resources and principal payments are shown as expenditures.

A summary of changes in bonds for the year ended August 31, 2017 is as follows:

<u>Description</u>	<u>Interest Rates Payable</u>	<u>Amounts of Original Issue</u>	<u>Interest Current Year</u>	<u>Beginning Amounts Outstanding</u>		<u>Issued</u>	<u>Retired</u>	<u>Ending Amounts Outstanding</u>
				<u>9/01/16</u>	<u>8/31/17</u>			
Unlimited Tax Bldg Bonds-Series 2005	3.25-4.25%	\$1,500,000	36,588	825,000		0	(110,000)	715,000
Capital Appreciation Bonds-Series 2006	4.18%	\$566,688	787,400	7,672		0	(4,736)	2,936
Unlimited Tax Refunding Bonds - Series 2007	4.59%	\$35,270,000	904,439	20,160,000		0	(20,160,000)	0
Capital Appreciation Bonds-Series 2007	4.59%	\$212,553	0	212,553		0	0	212,553
Capital Appreciation Bonds-Series 2008	7.50%	\$3,819,907	66,154	78,010		0	(18,639)	59,371
Unlimited Tax Bldg Bonds-Series 2010	2.00-3.00%	\$2,680,000	78,625	2,000,000		0	(140,000)	1,860,000
Unlimited Tax Refunding Bonds - Series 2011	2.00-3.50%	\$1,765,000	31,500	610,000		0	(610,000)	0
Unlimited Tax Refunding Bonds - Series 2011A	2.00-4.00%	\$3,250,000	107,700	3,115,000		0	(75,000)	3,040,000
Unlimited Tax Bldg Bonds-Series 2012	3.13%	\$3,000,000	93,750	3,000,000		0	0	3,000,000
Unlimited Tax Bldg Bonds-Series 2013	5.00%	\$9,490,000	474,500	9,490,000		0	0	9,490,000
Unlimited Tax Bldg Bonds-Series 2014	4.00%	\$7,090,000	283,600	7,090,000		0	0	7,090,000
Unlimited Tax Refunding Bonds - Series 2015	2.00-5.00%	\$11,960,000	489,450	11,855,000		0	0	11,855,000
Unlimited Tax Bldg Bonds-Series 2015	2.00-3.15%	\$18,655,000	1,034,580	17,730,000		0	(1,305,000)	16,425,000
Unlimited Tax Refunding Bonds - Series 2016	5.00%	\$22,320,000	353,400	22,320,000		0	0	22,320,000
Capital Appreciation Bonds-Series 2016	1.82-3.52%	\$1,509,971	5,810	1,370,781		0	0	1,370,781
Unlimited Tax Refunding Bonds - Series 2016A	2.00-5.00%	\$17,735,000	0	0	17,735,000		(300,000)	17,435,000
Unlimited Tax Bldg Bonds-Series 2017	2.85-5.25%	\$42,330,000	0	0	42,330,000		0	42,330,000
Total General Obligation Bonds			\$4,747,496	\$99,864,016	\$60,065,000	(\$22,723,375)	\$137,205,641	
Accumulated Accretion on CABS				1,372,599	297,535		(254,585)	1,415,549
Unamortized Bond Premiums on CABS				5,468,686	0		(540,679)	4,928,007
Unamortized Bond Premiums on GOBs				9,152,688	10,652,285		(312,039)	19,492,934
Government-Wide Financials				\$115,857,989	\$71,014,820	(\$23,830,678)	\$163,042,131	

During the current fiscal year, the District issued Series 2017 refunding bonds of \$17,735,000 to early redeem Series 2007 bonds of \$19,710,000. The aggregate difference in debt service between the refunding debt and the refunded debt is a savings of \$3,547,943, which is a net present value economic gain of \$2,837,653.

A portion of the above bonds were capital appreciation bonds, commonly referred to as “premium compound interest bonds”. These bonds were issued at a discount to their par or maturity value and will accrete interest until maturity. The accreted value equals the par value plus accreted interest plus the unamortized bond premium.

Summary information for the capital appreciation bonds is as follows:

<u>Series</u>	<u>Capital Appreciation Bonds</u>	
	<u>Stated Value</u>	<u>Accreted Value, 8/31/17</u>
2006	\$2,936	\$782,779
2007	\$212,553	\$2,830,091
2008	\$59,371	\$59,371
2016	\$1,370,781	\$4,316,956

Debt service requirements for general obligation bonds are as follows:

<u>Year Ending August 31,</u>	<u>General Obligation Bonds</u>		<u>Total Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2018	\$488,312	\$8,355,619	\$8,843,931
2019	1,008,946	7,463,104	8,472,050
2020	1,372,602	7,155,560	8,528,162
2021	2,125,149	6,373,476	8,498,625
2022	2,224,014	6,333,861	8,557,875
2023-2027	13,213,453	31,170,747	44,384,200
2028-2032	16,118,165	29,881,335	45,999,500
2033-2037	21,050,000	22,662,563	43,712,563
2038-2042	31,155,000	16,530,881	47,685,881
2043-Maturity	48,450,000	6,741,956	55,191,956
Total General Obligation Bonds	<u>\$137,205,641</u>	<u>\$142,669,102</u>	<u>\$279,874,743</u>

Note K. Long Term Notes and Capital Leases Payable

Long-Term Notes:

There were no long-term notes outstanding during the year ended August 31, 2017.

Capital Leases:

There were no capital leases outstanding during the year ended August 31, 2017.

Note L. Accumulated Unpaid Vacation and Sick Leave Benefits

District employees are entitled to certain compensated absences based upon their length of employment. Sick leave accrues at various rates established by the State of Texas and adopted by the Board of Trustees. Sick leave does not vest, but accumulates and is recorded as an expenditure as it is used and paid.

A summary of changes in the accumulated sick leave and vacation leave liability follows:

	<u>Sick Leave</u>	<u>Vacation Leave</u>
Balance, September 1, 2016	\$0	\$0
Additions - New Entrants and Salary Increments	0	0
Deductions - Payments to Participants	0	0
Balance, August 31, 2017	<u>\$0</u>	<u>\$0</u>

Note M. Defined Benefit Pension Plan (TRS)

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

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

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

Benefits Provided. TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan Description above.

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

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

	<u>Contribution Rates</u>	
	<u>2016</u>	<u>2017</u>
Member	7.2%	7.2%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%

Princeton ISD FY2017 Employer Contributions	\$ 896,865
Princeton ISD FY2017 Member Contributions	\$ 1,831,080
Princeton ISD FY2016 NECE On-Behalf Contributions	\$ 1,349,366

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).

As the non-employer contributing entity for public education, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers including public schools are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment
- When any part or all of an employee's salary is paid by federal funding source or a privately sponsored source.

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

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

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

Valuation Date	August 31, 2016
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Inflation	2.5%
Salary Increases Including Inflation	3.5% to 9.5%
Payroll Growth Rate	2.5%
Benefit Changes During the Year	None
Ad hoc Employment Benefit Changes	None

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

Discount Rate. The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was

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

Asset Class	Target Allocation	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return*
Global Equity			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Hedge Funds (Stable Value)	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	<u>5%</u>	<u>6.7%</u>	<u>0.3%</u>
Inflation Expectations			2.2%
Alpha			1.0%
Total	100%		8.7%

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

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

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
District's proportionate share of the net pension liability:	\$13,317,659	\$8,605,009	\$4,607,734

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2017, Princeton Independent School District reported a liability of \$8,605,009 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to Princeton Independent School District. The amount recognized by Princeton Independent School 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 Princeton Independent School District were as follows:

District's Proportionate share of the collective net pension liability	\$ 8,605,009
State's proportionate share that is associated with the District	<u>13,002,658</u>
Total	<u>\$ 21,607,667</u>

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

At August 31, 2016, the employer's proportion of the collective net pension liability was 0.000227715% which was an increase of 0.000023254% from its proportion measured as of August 31, 2015.

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

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

For the year ended August 31, 2017, Princeton Independent School District recognized pension expense of \$1,349,366 and revenue of \$1,349,366 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experience	\$ 134,925	\$ 256,941
Changes in actuarial assumptions	262,265	238,519
Difference between projected and actual investment earnings, net	728,654	0
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	2,361,143	603
Contributions paid to TRS subsequent to the measurement date	896,865	0
Total	\$4,383,852	\$496,063

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

Year ended August 31:	Pension Expense Amount
2018	\$ 519,932
2019	519,932
2020	984,703
2021	484,220
2022	345,809
Thereafter	<u>136,329</u>
Total	\$2,990,925

Note N. School District Retiree Health Plan (TRS-Care)

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

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

Contribution Rates and Contribution Amounts

Year	Member Contributions		State Contributions		District Contributions	
	Rate	Amount	Rate	Amount	Rate	Amount
2017	0.65%	\$154,572	1.000%	\$237,803	0.55%	\$130,791
2016	0.65%	\$146,919	1.000%	\$226,030	0.55%	\$124,316
2015	0.65%	\$127,582	1.000%	\$196,280	0.55%	\$107,954

Note O. Medicare Part D (TRS-Care)

Federal Government Retiree Drug Subsidy – The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. The allocation of these on-behalf payments is based on the ratio of a reporting entity’s covered payroll to the entire payroll reported by all reporting entities. TRS based this allocation percentage on the completed report submissions by reporting entities for the month of May. State Contributions for Medicare Part D made on behalf of Princeton Independent School District’s employees were \$109,532, \$86,259, and \$79,495, respectively for fiscal years ended August 31, 2017, 2016, and 2015.

Note P. Due from Other Governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2017, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from State Agencies.

<u>Fund</u>	<u>State Entitlements</u>	<u>Federal Grants</u>	<u>Other Governments</u>	<u>Totals</u>
General Fund	\$3,046,522	\$0	\$6,413	\$3,052,935
Debt Service Funds	0	0	1,129	1,129
Special Revenue Funds	201,223	378,281	0	579,504
Totals	\$3,247,745	\$378,281	\$7,542	\$3,633,568

Note Q. Due to Other Governments

As of August 31, 2017, the District had \$418 due to the Texas Education Agency for 2016-2017 state foundation revenue overpaid. The District also had \$23,738 due to T.E.A. for 2016-2017 Existing Debt Allotment overpayment, and \$9,146 due to T.E.A. for 2016-2017 Instructional Facilities Allotment overpayment. The Texas Education Agency will deduct these amounts from 2017-2018 state funding.

Note R. Unearned Revenue & Unavailable Revenue

Unearned revenue is that portion of the net revenue receivable which is expected to be collected within the first 60 days following the fiscal year end. Unavailable revenue is that portion of the net revenue receivable which is not expected to be collected within the first 60 days following the fiscal year end.

Unearned revenue and Unavailable revenue at August 31, 2017 consisted of the following:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Totals</u>
Unearned Revenue:				
Property Tax Revenue	\$24,869	\$0	\$9,566	\$34,435
State Literacy Achievement Grants	0	700	0	700
Total Unearned Revenue	\$24,869	\$700	\$9,566	\$35,135
Unavailable Revenue:				
Property Tax Revenue	\$375,722	\$0	\$141,679	\$517,401
Total Unavailable Revenue	\$375,722	\$0	\$141,679	\$517,401

Note S. Commitments and Contingencies

Litigation – The District may be subjected to loss contingencies arising principally in the normal course of operations. In the opinion of the administration, the outcome of any lawsuits will not have a material adverse effect on the accompanying financial statements and accordingly no provision for losses has been recorded.

Grant Programs – The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at August 31, 2017 may be impaired. In the opinion of the District, there are no significant contingent liabilities related to compliance with rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Construction – The District has total construction in progress of \$29,127,455 as of August 31, 2017 for construction of various facility projects. The total cost of the High School Addition & Renovation project is projected to be \$24,285,412, the retainage payable as of August 31, 2017 was \$1,149,178, and the balance to finish including retainage is \$1,149,178. The total cost of the Concession project is projected to be \$796,576, the retainage payable as of August 31, 2017 was \$36,438, and the balance to finish including retainage is \$36,478. The total cost of the Lacy, Godwin, & Harper Renovations project is projected to be \$2,996,836, the retainage payable as of August 31, 2017 was \$142,867, and the balance to finish including retainage is \$142,867.

Note T. Revenue from Local and Intermediate Sources

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

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Fund</u>	<u>Capital Projects Funds</u>	<u>Totals</u>	
Property Taxes	\$8,846,882		\$0	\$3,406,869	\$0	\$12,253,751
Penalties, Interest, & Other Tax						
Related Income	115,631	0	41,845	0		157,476
Investment Income	89,459	2,151	18,966	148,251		258,827
Services to Other LEAs	178,181	0	0	0		178,181
Tuition	10,190	171,662	0	0		181,852
Rent	15,490	0	0	0		15,490
Gifts & Bequests	2,500	29,100	0	0		31,600
Food Service Sales	0	561,416	0	0		561,416
Athletics	69,808	0	0	0		69,808
Co-curricular	0	588,663	0	0		588,663
Other	81,874	0	3,441	0		85,315
Totals	\$9,410,015	\$1,352,992	\$3,471,121	\$148,251		\$14,382,379

Note U. Interfund Balances and Transfers In & Out

Interfund balances at August 31, 2017, consisted of the following amounts:

None

Interfund transfers for the year ended August 31, 2017, consisted of the following individual amounts:

Transfers to Debt Service Fund from:

General Fund	<u>\$1,677,090</u>
Total Transferred to Debt Service Fund from Other Funds	<u><u>\$1,677,090</u></u>

Transfers to Capital Projects Fund from:

General Fund	<u>\$3,000,000</u>
Total Transferred to Capital Projects Fund from Other Funds	<u><u>\$3,000,000</u></u>

Transfers to Nonmajor Governmental Funds from:

General Fund	<u>\$70,566</u>
Total Transferred to Nonmajor Funds from Other Funds	<u><u>\$70,566</u></u>

Note V. Joint Ventures – Shared Service Arrangements

The District participates in shared services arrangements for educational services, with other school districts. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, nor does the district have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Princeton Independent School District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement.

Note W. Subsequent Events

In reviewing its financial statements, management has evaluated events subsequent to the balance sheet date through November 25, 2017, which is the date the financial statements were available to be issued.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION



Proposed Form of Opinion of Bond Counsel

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

**PRINCETON INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX REFUNDING BONDS, SERIES 2018
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$ _____**

AS BOND COUNSEL for the Princeton Independent School District (the "Issuer"), the issuer of the Bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds, at the rates and payable on the dates as stated in the text of the Bonds, maturing, unless redeemed prior to maturity in accordance with the terms of the Bonds, serially, all in accordance with the terms and conditions stated in the text of the Bonds.

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

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

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on and assume continuing compliance with, certain representations contained in the federal tax certificate of the Issuer and covenants set forth in the order adopted by the Issuer to authorize the issuance of the Bonds, relating to, among other matters, the use of the project and the investment and expenditure of the proceeds and certain other amounts used to pay or to secure the payment of debt service on the Bonds, and the certificate with respect to arbitrage by the Commissioner of Education

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F 214.754.9250

700 N. St. Mary's Street, Suite 1525
San Antonio, Texas 78205
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F 210.225.2984



regarding the allocation and investment of certain investments in the Permanent School Fund, the accuracy of which we have not independently verified. We call your attention to the fact that if such representations are determined to be inaccurate or if the Issuer fails to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

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

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

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

Respectfully,

Financial Advisory Services
Provided By

