

OFFICIAL STATEMENT
Dated August 7, 2018

NEW ISSUE – BOOK ENTRY ONLY

Ratings: ENHANCED/UNENHANCED S&P: AAA/A+
PSF Guaranteed
(See “THE PERMANENT SCHOOL
FUND GUARANTEE PROGRAM” and “OTHER
PERTINENT INFORMATION - Municipal Bond Rating” herein)

In the opinion of Powell & Leon, LLP, Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes and the Bonds are not “private activity bonds.” See “TAX MATTERS” herein.

THE BONDS HAVE BEEN DESIGNATED AS “QUALIFIED TAX-EXEMPT OBLIGATIONS” FOR FINANCIAL INSTITUTIONS



\$3,975,000
HAWKINS INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Wood County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018

Dated Date: September 1, 2018
(Interest to accrue from the date of initial delivery)

Due: February 15, as shown on page ii

The Hawkins Independent School District Unlimited Tax School Building Bonds, Series 2018 (the “Bonds”) are direct obligations of the Hawkins Independent School District (the “District”) and are payable from an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District. The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the “State”), particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, an election held in the District on May 5, 2018 (the “Election”), and an order authorizing the issuance of the Bonds (the “Order”), adopted by the Board of Trustees (the “Board”) of the District on August 7, 2018. See “THE BONDS – Authority for Issuance” herein.

Interest on the Bonds will accrue from their date of initial delivery (the “Delivery Date”), will be payable until stated maturity or prior redemption on February 15 and August 15 of each year, commencing February 15, 2019, and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds will be issued as fully registered obligations in principal denominations of \$5,000, or integral multiples thereof within a stated maturity. The Bonds will be issued in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York. DTC will act as securities depository (the “Securities Depository”). Book-entry interests in the Bonds will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Bonds (“Beneficial Owners”) will not receive physical delivery of certificates representing their interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the Paying Agent/Registrar, initially UMB Bank, N.A., Houston, Texas, to the Securities Depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds. See “BOOK-ENTRY-ONLY SYSTEM” herein.

Proceeds from the sale of the Bonds will be used (i) for the construction, acquisition, renovation and equipment of school buildings in the District, the purchase of new school buses, and the purchase of technology; and (ii) to pay the costs of issuance of the Bonds. See “PLAN OF FINANCING – Sources and Uses” herein.

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

For Maturity Schedule see page -ii- herein

The Bonds are offered for delivery when, as and if issued and received by the initial purchaser named below (the “Underwriter”) and are subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Powell & Leon, LLP, Austin, Texas, Bond Counsel (see “LEGAL MATTERS”; “APPENDIX D – FORM OF BOND COUNSEL’S OPINION” hereto) Certain matters will be passed upon for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas. It is expected that the Bonds will be available for delivery through the services of DTC on or about September 5, 2018.

OPPENHEIMER & Co.

\$3,975,000

HAWKINS INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Wood County, Texas)

UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018

MATURITY SCHEDULE

CUSIP No. ⁽¹⁾ Prefix 420272

Stated Maturity (February 15)	Principal Amount	Interest Rate	Initial Yield	CUSIP No. ⁽¹⁾ Suffix
2019	\$160,000	2.000%	1.550%	ES1
2020	155,000	3.000%	1.750%	ET9
2021	150,000	3.000%	1.950%	EU6
2022	165,000	4.000%	2.100%	EV4
2023	125,000	4.000%	2.200%	EW2
2024	135,000	4.000%	2.300%	EX0
2025	140,000	4.000%	2.450%	EY8

(Interest to accrue from the initial date of delivery)

TERM BONDS

				CUSIP⁽¹⁾
\$295,000	5.00%	Term Bond due February 15, 2027	Priced to yield 2.500%⁽²⁾	420272EZ5
\$290,000	4.00%	Term Bond due February 15, 2029	Priced to yield 2.700%⁽²⁾	420272FA9
\$280,000	4.00%	Term Bond due February 15, 2031	Priced to yield 2.800%⁽²⁾	420272FB7
\$305,000	4.00%	Term Bond due February 15, 2033	Priced to yield 2.900%⁽²⁾	420272FC5
\$325,000	4.00%	Term Bond due February 15, 2035	Priced to yield 3.000%⁽²⁾	420272FD3
\$550,000	4.00%	Term Bond due February 15, 2038	Priced to yield 3.100%⁽²⁾	420272FE1
\$900,000	4.00%	Term Bond due February 15, 2043	Priced to yield 3.350%⁽²⁾	420272FF8

The District reserves the option to redeem the Bonds maturing on and after February 15, 2027, in whole or in part before their respective scheduled maturity dates, in the principal amount of \$5,000 or any integral multiple thereof, on February 15, 2025, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption. Additionally, Bonds maturing on February 15 in the years 2027, 2029, 2031, 2033, 2035, 2038 and 2043 (the "Term Bonds") are subject to mandatory sinking fund redemption. See "THE BONDS – Mandatory Sinking Fund Redemption"

⁽¹⁾ CUSIP numbers are included solely for the convenience of the owners of the Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global 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 Underwriter, the District, or the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

⁽²⁾ Yield shown to first call date of February 15, 2025.

HAWKINS INDEPENDENT SCHOOL DISTRICT
179 Hawk Drive
Hawkins, Texas 75765

BOARD OF TRUSTEES

<u>Name</u>	<u>Position</u>	<u>Term Expiration</u>	<u>Occupation</u>
Robbie White	President	2020	Contractor
Blake Warren	Vice President	2021	Business Owner
Janice Vonner	Secretary	2020	Retired
Ashley Conner	Assistant Secretary	2019	Associate Pastor
Ed Tunnell	Member	2019	Retired
Matthew Dacus	Member	2019	Assistant Manager-CBS
Gloria Holland	Member	2021	Retired

ADMINISTRATION – FINANCE CONNECTED

<u>Name</u>	<u>Position</u>
Morris Lyon	Superintendent
Robert Fair	Chief Financial Officer

CONSULTANTS AND ADVISORS

<u>Name</u>	<u>Position</u>
Auditors	Rutherford, Taylor & Company, P.C. Greenville, Texas
Bond Counsel	Powell & Leon, LLP, Austin, Texas
Financial Advisor	Live Oak Public Finance, LLC, Austin, Texas

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USE OF INFORMATION IN THE OFFICIAL STATEMENT

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

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

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the information or opinions set forth herein after the date of this Official Statement. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – PSF Continuing Disclosure Undertaking" and "CONTINUING DISCLOSURE" for a description of the undertakings of the Texas Education Agency ("TEA") and the District, respectively, to provide certain information on a continuing basis.

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

The Financial Advisor provided the following sentence for inclusion in this Official Statement. The Financial Advisor reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to the District and 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.

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

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

Neither the District, the Financial Advisor, or the Underwriter make any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company ("DTC") or its book-entry-only system described under the caption "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 DTC and the TEA, respectively.

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

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

OFFICIAL STATEMENT SUMMARY INFORMATION

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

THE DISTRICT	Hawkins ISD, located in Wood County, is an oil producing area which includes the City of Hawkins. The District is located approximately 20 miles north of Tyler near the intersection of Hwy 80 and F/M 14. The District was created under State statute and is governed by a seven-member Board of Trustees (the "Board"). Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors.
THE BONDS	<p>The Bonds mature on February 15 in each of the years 2019 through 2025, inclusive, and in the years 2027, 2029, 2031, 2033, 2035, 2038, and 2043.</p> <p>Interest on the Bonds shall accrue from the initial date of delivery (identified below) and is payable semiannually on February 15 and August 15, commencing February 15, 2019, until stated maturity or prior redemption.</p>
DATED DATE	September 1, 2018.
REDEMPTION	The District reserves the option to redeem the Bonds maturing on and after February 15, 2027, in whole or in part before their respective scheduled maturity dates, in the principal amount of \$5,000 or any integral multiple thereof, on February 15, 2025, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption. Additionally, Bonds maturing on February 15 in the years 2027, 2029, 2031, 2033, 2035, 2038 and 2043 (the "Term Bonds") are subject to mandatory sinking fund redemption. See "THE BONDS – Mandatory Sinking Fund Redemption"
SECURITY FOR THE BONDS	The Bonds constitute direct obligations of the District payable from a continuing, direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District.
TAX MATTERS	In the opinion of Powell & Leon, LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and the bonds are not "private activity bonds." See "TAX MATTERS" herein for a discussion of the opinion of Bond Counsel.
PERMANENT SCHOOL FUND GUARANTEE	The District has received conditional approval from the Texas Education Agency for the payment of principal of and interest on the Bonds to be guaranteed under the Permanent School Fund Guarantee Program, which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.
PAYING AGENT/REGISTRAR	The initial Paying Agent/Registrar is UMB Bank, N.A., Houston, Texas.
MUNICIPAL BOND RATING ...	S&P Global Ratings ("S&P") has assigned a municipal bond rating of "AAA" to the bonds by virtue of the guarantee of the Permanent School Fund of the State of Texas of the Bonds. In addition, S&P has assigned its underlying, unenhanced rating of "A" to the Bonds. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "OTHER PERTINENT INFORMATION – Municipal Bond Rating" herein.
FUTURE BOND ISSUES	The District does not anticipate the issuance of additional ad valorem tax-supported debt in the calendar year 2018.
PAYMENT RECORD	The District has never defaulted on the payment of its bonded indebtedness.
DELIVERY	When issued, anticipated to occur on or about September 5, 2018 (the "Delivery Date").
LEGALITY	The Bonds are subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Powell & Leon, LLP, Austin, Texas, Bond Counsel (see "APPENDIX D – FORM OF BOND COUNSEL'S OPINION" herein).

OFFICIAL STATEMENT

relating to

\$3,975,000

HAWKINS INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Wood County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018

INTRODUCTION

This Official Statement of Hawkins Independent School District (the "District") is provided to furnish certain information in connection with the sale of the District's 3,975,000 Unlimited Tax School Building Bonds, Series 2018 (the "Bonds").

This Official Statement, which includes the cover page and the appendices hereto, provides certain information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained upon request from the District and, during the offering period, from the District's Financial Advisor, Live Oak Public Finance, LLC, 915 W. Annie Street, Austin, Texas 78704, by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

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

PLAN OF FINANCING

Purpose

The Bonds are being issued (i) for the construction, acquisition, renovation and equipment of school buildings in the District, the purchase of new school buses, and the purchase of technology; and (ii) to pay the costs of issuance of the Bonds.

Sources and Uses of Funds

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

<u>Sources of Funds:</u>	
Par Amount of Bonds	\$3,975,000.00
Reoffering Premium	<u>\$237,491.70</u>
TOTAL SOURCES	<u>\$4,212,491.70</u>
<u>Uses of Funds:</u>	
Deposit to Construction Fund	\$4,100,000.00
Underwriter's Discount	\$27,159.53
Costs of Issuance	<u>\$85,332.17</u>
TOTAL USES	<u>\$4,212,491.70</u>

THE BONDS

General Description

The Bonds will be dated September 1, 2018 (the "Dated Date") and will accrue interest from the initial date of delivery (the "Delivery Date"), and such interest shall be payable on February 15 and August 15 in each year, commencing

February 15, 2019), until stated maturity or prior redemption. The Bonds will mature on the dates and in the principal amounts and will bear interest at the rates set forth on page -ii- of this Official Statement.

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

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

Authority for Issuance

The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, an election held in the District on May 5, 2018 (the "Election"), and an order authorizing the issuance of the Bonds (the "Order") adopted by the Board of Trustees (the "Board") of the District on August 7, 2018.

Security for Payment

The Bonds constitute direct obligations of the District payable from a continuing, direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. The District has received conditional approval from the Texas Education Agency for the payment of principal of and interest on the Bonds to be guaranteed under the Permanent School Fund Guarantee Program which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.

Permanent School Fund Guarantee

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

Optional Redemption Provisions of the Bonds

The District reserves the option to redeem the Bonds maturing on and after February 15, 2027, in whole or in part before their respective scheduled maturity dates, in the principal amount of \$5,000 or any integral multiple thereof, on February 15, 2025, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption.

Mandatory Sinking Fund Redemption

The Bonds maturing on February 15, in the years 2027, 2029, 2031, 2033, 2035, 2038 and 2043 (the "Term Bonds") are subject to mandatory sinking fund redemption prior to their scheduled maturity, and will be redeemed by the District, in part at a redemption price equal to the principal amount thereof, without premium, plus interest accrued to the redemption date, on the dates and in the principal amounts as set forth below:

<u>Term Bonds Stated to Mature on February 15, 2027</u>	
<u>Redemption Date</u>	<u>Principal Amount</u>
February 15, 2026	\$145,000
February 15, 2027	150,000*

**Term Bonds Stated to
Mature on February 15, 2029**

<u>Redemption Date</u>	<u>Principal Amount</u>
February 15, 2028	\$160,000
February 15, 2029	130,000*

**Term Bonds Stated to
Mature on February 15, 2031**

<u>Redemption Date</u>	<u>Principal Amount</u>
February 15, 2030	\$135,000
February 15, 2031	145,000*

**Term Bonds Stated to
Mature on February 15, 2033**

<u>Redemption Date</u>	<u>Principal Amount</u>
February 15, 2032	\$150,000
February 15, 2033	155,000*

**Term Bonds Stated to
Mature on February 15, 2035**

<u>Redemption Date</u>	<u>Principal Amount</u>
February 15, 2034	\$160,000
February 15, 2035	165,000*

**Term Bonds Stated to
Mature on February 15, 2038**

<u>Redemption Date</u>	<u>Principal Amount</u>
February 15, 2036	\$175,000
February 15, 2037	185,000
February 15, 2038	190,000*

**Term Bonds Stated to
Mature on February 15, 2043**

<u>Redemption Date</u>	<u>Principal Amount</u>
February 15, 2039	\$165,000
February 15, 2040	175,000
February 15, 2041	180,000
February 15, 2042	185,000
February 15, 2043	495,000*

**Payable at stated maturity*

The principal amount of Term Bonds required to be redeemed on any redemption date pursuant to operation of the mandatory sinking fund redemption provisions shall be reduced, at the option of the District, by the principal amount of any Term Bonds which, at least 45 days prior to the mandatory sinking fund redemption date (i) shall have been acquired by the District at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, or (ii) shall have been redeemed pursuant to the optional redemption provisions of the Order and not previously credited to a mandatory sinking fund redemption.

Selection of Bonds for Redemption

If less than all of the Bonds are to be redeemed, the District shall determine the amounts and maturities thereof to be redeemed and shall direct the Paying Agent/Registrar to call by lot or any other customary random selection method the Bonds, or portions thereof, 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 each registered owner of a Bond to be redeemed, in whole or in part, at the address of the holder appearing on the Bond Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE OF REDEMPTION SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER ONE OR MORE BONDHOLDERS FAILED TO RECEIVE SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

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

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 will, at the option of the District, be 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.

Defeasance

The Order provides that the District reserves the right to defease, refund, or discharge the Bonds in any manner now or hereafter permitted by law. Under current Texas law, such discharge may be accomplished either by (i) depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium if any, and all interest to accrue on the Bonds to maturity or prior redemption or (ii) by depositing with a paying agent, or other authorized escrow agent, amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (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 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; or (iii) any combination of (i) and (ii) above. The foregoing obligations may be in book-entry form, and shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds, as the case may be. If any of the Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for the payment to the registered owners of such Bonds at the date of maturity or prior redemption of the full amount to which such owner would be entitled and for giving notice of redemption as provided in the Order.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid and will cease to be outstanding obligations secured by the Order or treated as debt of the District for purposes of taxation or applying any limitation on the District's ability to issue debt or for any other purpose. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the

terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished 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.

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 may 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 as Government Securities or that for any other Government Security will be maintained at any particular rating category.

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

Amendments

The District may, without the consent of or notice to any registered owners, from time to time and at any time, amend the Order 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 consent of registered owners who own a majority of the aggregate principal amount of the Bonds then outstanding affected thereby, amend, add to, or rescind any of the provisions of the Order; provided that, without the consent of all registered owners of Bonds affected, no such amendment, addition, or rescission shall (i) extend the time or times of payment of the principal of, premium, if any, 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, premium, if any, or interest on the Bonds, (ii) give any preference to any Bond over any other Bond, or (iii) reduce the aggregate principal amount of Bonds required to be held for consent to any amendment, addition, or rescission.

Default and Remedies

The Order does not establish specific events of default with respect to the Bonds or provide for the appointment of a trustee to represent the interests of the bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition. Under Texas law, there is no right to the acceleration of maturity of the Bonds upon the failure of the District to observe any covenant under the Order. Such registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the District to levy, assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Bonds as it becomes due. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis.

On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) ("Tooke") that a waiver of sovereign immunity must be provided for by statute in "clear and unambiguous" language. In so ruling, the Court declared that statutory language such as "sue and be sued", in and of itself, did not constitute a clear and unambiguous waiver of sovereign immunity. In *Tooke*, the Court noted the enactment in 2005 of sections 271.151-.160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities in certain circumstances." The Local Government Immunity Waiver Act covers school districts and relates to contracts entered into by school districts for providing goods or services to school districts.

Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether *Tooke* will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally-imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract).

The District is also 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 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 another federal or state court); and, the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. 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 of political subdivisions of the State relative to their creditors and may be limited by general principles of equity which permit the exercise of judicial discretion.

See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due.

Payment Record

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

Legality

The Bonds are offered when, as, and if issued, and subject to the approval of legality by the Attorney General of the State of Texas and the opinion of the District's Bond Counsel, Powell & Leon, LLP, Austin, Texas ("Bond Counsel").

Delivery

When issued; anticipated to occur on or about September 5, 2018.

Future Issues

The District does not anticipate the issuance of additional ad valorem tax-supported debt in calendar year 2018.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is UMB Bank, N.A., Houston, Texas. The Bonds will be issued in fully registered form in multiples of \$5,000 or integral multiple thereof for any one stated maturity, and principal and interest will be paid by the Paying Agent/Registrar. If the date for the payment of the principal of or interest on, or redemption price of, the Bonds shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the Paying Agent/ Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

Successor Paying Agent/Registrar

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

Record Date

The record date ("Record Date") for determining the registered owner entitled to receive a payment of interest on a Bond is the last business day of the month next preceding each interest payment date.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received. Notice of the Special Record Date and of the scheduled

payment date of the past due interest (which shall be 15 days after the Special Record Date) shall be sent at least five (5) business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each registered owner of a Bond appearing on the Bond Register at the close of business on the last business day next preceding the date of mailing of such notice.

Registration, Transferability and Exchange

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

Limitation on Transfer of Bonds

Neither the District nor the Paying Agent/Registrar are required to transfer or exchange any Bond called for redemption within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

Replacement Bonds

In the event the Book-Entry-Only System has been discontinued, and any Bond is mutilated, apparently destroyed, wrongfully taken or lost, a new Bond of like kind and in the same maturity and amount as the Bond so mutilated, apparently destroyed, wrongfully taken or lost will be issued. The Order provides that if any Bond is lost, apparently destroyed or wrongfully taken, the District, pursuant to the applicable laws of the State and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, will execute and the Paying Agent/Registrar will authenticate and deliver a replacement Bond of like tenor and principal amount, bearing a number not contemporaneously outstanding; provided that the registered owner first complies with the following requirements: (a) furnishes to the District and the Paying Agent/Registrar satisfactory evidence of the ownership of and the circumstances of the loss, destruction or theft of such Bond; (b) furnishes such security or indemnity as may be required by the Paying Agent/Registrar and the District to save them harmless; (c) pays all expenses and charges in connection therewith, including, but not limited to, printing costs, legal fees, fees of the Paying Agent/Registrar and any tax or other governmental charge that may be imposed; and (d) satisfies any other reasonable requirements of the District and the Paying Agent/Registrar. In the case of a damaged or mutilated Bond, such new Bond will be delivered only upon the presentation and surrender to the Paying Agent/Registrar of such damaged or mutilated Bond.

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

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

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

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

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

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and

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

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

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

Use of Certain Terms in Other Sections of This Official Statement

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

Effect of Termination of Book-Entry-Only System

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

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

History and Purpose

The PSF was created with a \$2,000,000 appropriation by the Texas Legislature (the "Legislature") in 1854 expressly for the benefit of the public schools of Texas. The Constitution of 1876 stipulated that certain lands and all proceeds from the sale of these lands should also constitute the PSF. Additional acts later gave more public domain land and rights to the PSF. In 1953, the U.S. Congress passed the Submerged Lands Act that relinquished to coastal states all rights of the U.S. navigable waters within state boundaries. If the state, by law, had set a larger boundary prior to or at the time of admission to the Union, or if the boundary had been approved by Congress, then the larger boundary applied. After three years of litigation (1957-1960), the U. S. Supreme Court on May 31, 1960, affirmed Texas' historic three marine leagues (10.35 miles) seaward boundary. Texas proved its submerged lands property rights to three leagues into the Gulf of Mexico by citing historic laws and treaties dating back to 1836. All lands lying within that limit belong to the PSF. The proceeds from the sale and the mineral-related rental of these lands, including bonuses, delay rentals and royalty payments, become the corpus of the Fund. Prior to the approval by the voters of the State of an

amendment to the constitutional provision under which the Fund is established and administered, which occurred on September 13, 2003 (the "Total Return Constitutional Amendment"), and which is further described below, the PSF had as its main sources of revenues capital gains from securities transactions and royalties from the sale of oil and natural gas. The Total Return Constitutional Amendment provides that interest and dividends produced by Fund investments will be additional revenue to the PSF. The State School Land Board ("SLB") maintains the land endowment of the Fund on behalf of the Fund and is authorized to manage the investments of the capital gains, royalties and other investment income relating to the land endowment. The SLB is a three member board, the membership of which consists of the Commissioner of the Texas General Land Office (the "Land Commissioner") and two citizen members, one appointed by the Governor and one by the Texas Attorney General (the "Attorney General"). As of August 31, 2017, the General Land Office (the "GLO") managed approximately 21% of the PSF, as reflected in the fund balance of the PSF at that date.

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

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

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

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

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

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

Audited financial information for the PSF is provided annually through the PSF Comprehensive Annual Financial Report (the "Annual Report"), which is filed with the Municipal Securities Rulemaking Board ("MSRB"). The Annual Report includes the Message of the Executive Administrator of the Fund (the "Message") and the Management's Discussion and Analysis ("MD&A"). The Annual Report for the year ended August 31, 2017, when filed with the MSRB in accordance with the PSF undertaking and agreement made in accordance with Rule 15c2-12 ("Rule 15c2-12") of the federal Securities and Exchange Commission (the "SEC"), as described below, is hereby incorporated by reference into this disclosure. Information included herein for the year ended August 31, 2017 is derived from the audited financial statements of the PSF, which are included in the Annual Report when it is filed and posted. Reference is made to the Annual Report for the complete Message and MD&A for the year ended August 31, 2017 and for a description of the financial results of the PSF for the year ended August 31, 2017, the most recent year for which audited financial information regarding the Fund is available. The 2017 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2017 Annual Report or any other Annual Report. The TEA posts each Annual Report,

which includes statistical data regarding the Fund as of the close of each fiscal year, the most recent disclosure for the Guarantee Program, the Statement of Investment Objectives, Policies and Guidelines of the Texas Permanent School Fund, which is codified at 19 Texas Administrative Code, Chapter 33 (the "Investment Policy"), monthly updates with respect to the capacity of the Guarantee Program (collectively, the "Web Site Materials") on the TEA web site at http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/ and with the MSRB at www.emma.msrb.org. Such monthly updates regarding the Guarantee Program are also incorporated herein and made a part hereof for all purposes. In addition to the Web Site Materials, the Fund is required to make quarterly filings with the SEC under Section 13(f) of the Securities Exchange Act of 1934. Such filings, which consist of a list of the Fund's holdings of securities specified in Section 13(f), including exchange-traded (e.g., NYSE) or NASDAQ-quoted stocks, equity options and warrants, shares of closed-end investment companies and certain convertible debt securities, is available from the SEC at www.sec.gov/edgar.shtml. A list of the Fund's equity and fixed income holdings as of August 31 of each year is posted to the TEA web site and filed with the MSRB. Such list excludes holdings in the Fund's securities lending program. Such list, as filed, is incorporated herein and made a part hereof for all purposes.

The Total Return Constitutional Amendment

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

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

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

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

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

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

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

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

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

for some fund investments; and limitations on the number and compensation of internal and external investment staff, which is subject to legislative oversight. The Guarantee Program could also be impacted by changes in State or federal law or the implementation of new accounting standards.

Management and Administration of the Fund

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

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

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

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

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

Capacity Limits for the Guarantee Program

The capacity of the Fund to guarantee bonds under the Guarantee Program is limited in two ways: by State law (the "State Capacity Limit") and by regulations and a notice issued by the IRS (the "IRS Limit"). Prior to May 20, 2003, the State Capacity Limit was equal to two times the lower of cost or fair market value of the Fund's assets, exclusive of real estate. During the 78th Regular Session of the Legislature in 2003, legislation was enacted that increased the State

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

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

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

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

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

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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 CDBG 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 CDBG Rules provide that an open-enrollment charter holder applying for charter district designation and a guarantee of its bonds under the Charter District Bond Guarantee Program satisfy various provisions of the regulations, including the following: It must (i) have operated at least one open-enrollment charter school with enrolled students in the State for at least three years; (ii) agree that the bonded indebtedness for which the guarantee is sought will be undertaken as an obligation of all entities under common control of the open-enrollment charter holder, and that all such entities will be liable for the obligation if the open-enrollment charter holder defaults on the bonded indebtedness, provided, however, that an entity that does not operate a charter school in Texas is subject to this provision only to the extent it has received state funds from the open-enrollment charter holder; (iii) have had completed for the past three years an audit for each such year that included unqualified or unmodified audit opinions; and (iv) have received an

investment grade credit rating within the last year. Upon receipt of an application for guarantee under the Charter District Bond Guarantee Program, the Commissioner is required to conduct an investigation into the financial status of the applicant charter district and of the accreditation status of all open-enrollment charter schools operated under the charter, within the scope set forth in the CDBGP Rules. Such financial investigation must establish that an applying charter district has a historical debt service coverage ratio, based on annual debt service, of at least 1.1 for the most recently completed fiscal year, and a projected debt service coverage ratio, based on projected revenues and expenses and maximum annual debt service, of at least 1.2. The failure of an open-enrollment charter holder to comply with the Act or the applicable regulations, including by making any material misrepresentations in the charter holder's application for charter district designation or guarantee under the Charter District Bond Guarantee Program, constitutes a material violation of the open-enrollment charter holder's charter.

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

2017 Legislative Changes to the Charter District Bond Guarantee Program

The CDBGP Capacity is established by the Act. During the 85th Texas Legislature, which concluded on May 29, 2017, Senate Bill 1480 ("SB 1480") was enacted. The complete text of SB 1480 can be found at <http://www.capitol.state.tx.us/tlodocs/85R/billtext/pdf/SB01480F.pdf#navpanes=0>. SB 1480 modified how the CDBGP Capacity will be established under the Act effective as of September 1, 2017, and made other substantive changes to the Act that affects the Charter District Bond Guarantee Program. Prior to the enactment of SB 1480, the CDBGP Capacity was calculated as the State Capacity Limit less the amount of outstanding bond guarantees under the Guarantee Program multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population. As of August 31, 2017, the amount of outstanding bond guarantees represented 66.57% of the State Capacity Limit for the Guarantee Program. SB 1480 amended the CDBGP Capacity calculation so that the State Capacity Limit is multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population prior to the subtraction of the outstanding bond guarantees, thereby potentially substantially increasing the CDBGP Capacity. However, certain provisions of SB 1480, described below, and other additional factors described herein, could result in less than the maximum amount of the potential increase provided by SB 1480 being implemented by the SBOE or otherwise used by charter districts. Still other factors used in determining the CDBGP Capacity, such as the percentage of the charter district scholastic population to the overall public school scholastic population, could, in and of itself, increase the CDBGP Capacity, as that percentage has grown from 3.53% in September, 2012 to 5.5% in February 2018, representing a cumulative growth during that period of 56%. TEA is unable to predict how the ratio of charter district students to the total State scholastic population will change over time.

SB 1480 provides that the implementation of the new method of calculating the CDBGP Capacity will begin with the State fiscal year that commences September 1, 2021 (the State's fiscal year 2022). However, for the intervening four fiscal years, beginning with fiscal year 2018, SB 1480 provides that the SBOE may establish a CDBGP Capacity that increases the amount of charter district bonds that may be guaranteed by up to a cumulative 20% in each fiscal year (for a total maximum increase of 80% in fiscal year 2021) as compared to the capacity figure calculated under the Act as of January 1, 2017. However, SB 1480 provides that in making its annual determination of the magnitude of an increase for any year, the SBOE may establish a lower (or no) increase if the SBOE determines that an increase in the CDBGP Capacity would likely result in a negative impact on the bond ratings for the Bond Guarantee Program (see "Ratings of Bonds Guaranteed Under the Guarantee Program") or if one or more charter districts default on payment of principal or interest on a guaranteed bond, resulting in a negative impact on the bond ratings of the Bond Guarantee

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

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

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

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

Charter District Risk Factors

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

Other than credit support for charter district bonds that is provided to qualifying charter districts by the Charter District Bond Guarantee Program, under current law, open-enrollment charter schools generally do not receive a dedicated funding allocation from the State to assist with the construction and acquisition of new facilities. However, during the 85th Regular Session of the Legislature in 2017, legislation was enacted that, for the first time, provided a limited appropriation in the amount of \$60 million for the 2018-2019 biennium for charter districts having an acceptable performance rating. A charter district that receives funding under this program may use the funds to lease or pay property taxes imposed on an instructional facility; to pay debt service on bonds that financed an instructional facility;

or for any other purpose related to the purchase, lease, sale, acquisition, or maintenance of an instructional facility. Charter schools generally issue revenue bonds to fund facility construction and acquisition, or fund facilities from cash flows of the school. Some charter districts have issued non-guaranteed debt in addition to debt guaranteed under the Charter District Bond Guarantee Program, and such non-guaranteed debt is likely to be secured by a deed of trust covering all or part of the charter district's facilities. In March 2017, the TEA began requiring charter districts to provide the TEA with a lien against charter district property as a condition to receiving a guarantee under the Charter District Bond Guarantee Program. However, charter district bonds issued and guaranteed under the Charter District Bond Guarantee Program prior to the implementation of the new requirement did not have the benefit of a security interest in real property, although other existing debts of such charter districts that are not guaranteed under the Charter District Bond Guarantee Program may be secured by real property that could be foreclosed on in the event of a bond default.

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

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

Potential Impact of Hurricane Harvey on the PSF

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

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

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

liquidity for guaranteed bonds, and draws on the PSF are required to be restored from the first State money payable to a school district or a charter district that fails to make a guaranteed payment on its bonds.

Ratings of Bonds Guaranteed Under the Guarantee Program

Moody's Investors Service, 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		
<u>Fiscal Year Ended 8/31</u>	<u>Book Value⁽¹⁾</u>	<u>Market Value⁽¹⁾</u>
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.

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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 8/31</u>	<u>No. of Issues</u>	<u>Principal Amount</u>	<u>No. of Issues</u>	<u>Principal Amount</u>	<u>No. of Issues</u>	<u>Principal 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 15c2-12 to make all disclosures and filings relating directly to guaranteed bonds, and the TEA takes no responsibility with respect to such undertakings. Under the TEA agreement, the TEA will be obligated to provide annually certain updated financial information and operating data, and timely notice of specified material events, to the MSRB.

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

Annual Reports

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

The TEA may provide updated information in full text or may incorporate by reference certain other publicly-available documents, as permitted by Rule 15c2-12. The updated information includes audited financial statements of, or relating to,

the State or the PSF, when and if such audits are commissioned and available. Financial statements of the State will be prepared in accordance with generally accepted accounting principles as applied to state governments, as such principles may be changed from time to time, or such other accounting principles as the State Auditor is required to employ from time to time pursuant to State law or regulation. The financial statements of the Fund were prepared to conform to U.S. Generally Accepted Accounting Principles as established by the Governmental Accounting Standards Board.

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

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

Material Event Notices

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

Availability of Information

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

Limitations and Amendments

The TEA has agreed to update information and to provide notices of material events only as described above. The TEA has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The TEA makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The TEA disclaims any contractual or tort liability for damages resulting in whole or in

part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the TEA to comply with its agreement.

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

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

Compliance with Prior Undertakings

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

SEC Exemptive Relief

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

AD VALOREM TAX PROCEDURES

Property Tax Code and County Wide Appraisal District

The Texas Property Tax Code (the "Texas Tax Code") provides for county-wide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board responsible for appraising property for all taxable units within the county. The Wood County Appraisal District (the "Appraisal District") is responsible for appraising property within the District as of January 1 of each year. The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board (the "Appraisal Review Board") which is appointed by the Appraisal District's Board of Directors. Such appraisal rolls, as approved by the Appraisal Review Board, are used by the District in establishing its tax roll and tax rate.

Ad Valorem Taxation

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

- (1) a single appraisal district in each county to appraise property for taxation purposes for all taxing units located wholly or partly within the county;

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

Taxable Property, Exemptions and Agricultural Exclusions

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

Property exempt from taxation includes: (1) property owned and used for public purposes by the State of Texas or its political subdivisions; (2) property exempt by federal law; (3) family supplies, household goods and personal effects not held or used in the production of income; (4) certain property owned by charitable organizations, youth development associations, and religious organizations; (5) certain properties used for school purposes; (6) solar and wind-powered energy devices; (7) farm products, livestock, and poultry in the hands of the producer, and family supplies for home and farm use; (8) implements of husbandry used in the production of farm and ranch products; (9) personally owned automobiles (unless affirmatively provided to be taxed by taxing entity); (10) certain improvements to real property and certain tangible personal property located in designated reinvestment zones on which the District has agreed to abate ad valorem taxes; (11) designated historic sites; (12) real or personal property that is used wholly or partly as a facility, device or method for the control of air, water or land pollution; (13) certain classes of intangible property and (14) property owned by disabled veterans or by the surviving spouse (so long as the surviving spouse remains unmarried) and surviving minor children of a deceased disabled veteran is exempt from taxation in amounts ranging from \$5,000 to \$12,000 depending on the disability rating of the veteran.

The Texas Tax Code provides that a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. Furthermore, the surviving spouse of a deceased veteran who had received a disability rating of 100% when the disabled veteran died, or the surviving spouse of a disabled veteran who would have qualified for such exemption if such exemption had been in effect on the date the disabled veteran died, is entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries. A partially disabled veteran or the surviving spouse of a partially disabled veteran, if such spouse has not remarried since the death of the disabled veteran and the property was the residence homestead of the surviving spouse when the disabled veteran died and remains the residence homestead of the surviving spouse, is entitled to an exemption equal to the percentage of the veteran's disability, if the residence was donated to the disabled veteran by a charitable organization at no cost to the disabled veteran, or at some cost to the disabled veteran in the form of a cash payment, a mortgage, or both in an aggregate amount that is not more than 50% of the good faith estimate of the market value of the residence homestead made by the charitable organization as of the date the donation is made. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received. If an individual dies while on active duty as a member of the armed services of the US, the surviving spouse and surviving children (under 18 years of age) are entitled to an exemption from taxation of \$5,000 of the assessed value of certain designated property owned by the spouse or children.

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

Following the approval by the voters at a November 7, 2017 statewide election (and effective as of January 1, 2018), the surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to a property tax exemption for all or part of the market value of such surviving spouse's residence homestead, if the surviving spouse has not remarried since the first responder's death and said property was the first responder's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

A city may create, and a county may participate in, 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 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. Effective September 1, 2001, school districts may not enter into tax abatement agreements under the general statute that permits cities and counties to initiate tax abatement agreements. In addition, credit will not be given by the Commissioner of Education in determining a district's property value wealth per student for (1) the 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 "AD VALOREM TAX PROCEDURES - Public Hearing and Rollback Tax Rate").

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

Article VIII, Section 1-l, provides for the exemption from ad valorem taxation of certain property used to control the pollution of air, water, or land. A person is entitled to an exemption from taxation of all or part of real and personal property that the person owns and that is used wholly or partly as a facility, device or method for the control of air, water or land pollution.

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

With respect to school district taxation, \$25,000 of the market value of the residence homestead of an adult is exempt from taxation; and for persons 65 years of age or older and certain disabled persons, an additional exemption is granted not to exceed \$10,000 of the market value of the residence homestead of such persons. Furthermore, the total amount of taxes imposed on the residence homestead of persons 65 years of age or older or of the disabled (and receiving the additional \$10,000 exemption mentioned above) may not be increased while it remains the residence homestead of the person or that person's spouse who received the exemption, unless improvements (other than to comply with government requirements) are made to such homestead, and such freeze on ad valorem taxes on the homesteads of persons 65 years of age or older for general elementary and secondary public school purposes is also transferable to a different residence homestead. Also, the surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as (i) the taxpayer died in a year he or she qualified for the exemption, (ii) the surviving spouse is at least 55 years of age when the taxpayer died, and (iii) the property was the residence homestead of the surviving spouse when the taxpayer died and the property remains the residence homestead of the surviving spouse. 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 – 2006 Legislation" herein). The school property tax limitation provided by the constitutional amendment and enabling legislation apply to the 2007 and subsequent tax years.

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

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

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

In addition to any other exemptions provided by the Tax Code, the governing body of a political subdivision, at its option, may grant an exemption of up to 20% of the market value of residence homesteads, with a minimum exemption of \$5,000. Effective until December 31, 2019, the governing body of a political subdivision that adopted such exemption for the 2014 tax year (fiscal year 2015) may not reduce the amount of or repeal such exemption.

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

Levy and Collection of Taxes

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

Taxes are due October 1, or when billed, whichever is the later to occur, and such taxes become delinquent after January 31 of the following year. A delinquent tax incurs a penalty from six percent (6%) to twelve percent (12%) of the amount of

the tax, depending on the time of payment, and interest accrues on the delinquent tax amount at the rate of one percent (1%) per month. If the tax is not paid by the following July 1, an additional penalty of up to twenty percent (20%) may be imposed by the District. Split payment of taxes owed, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances are also allowed under existing statutory authority. Certain taxpayers, including the disabled, persons 65 years or older and disabled veterans, who qualified for certain tax exemptions are permitted by State law to pay taxes on homesteads in four installments. If the tax delinquency date is February 1, the first installment must be paid before February 1 of each year and the final installment must be paid before August 1 of each year.

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 a maintenance and operation ("M&O") tax rate that was less than its effective M&O rate for that preceding tax year, the district's rollback tax for the current year is calculated as if the district had adopted an M&O tax rate for the preceding tax year equal to its effective M&O tax rate for that preceding tax year.

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

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

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

The District's Rights in the Event of Tax Delinquencies

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

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

Taxes levied by the District are a personal obligation of the owner of the property. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property.

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

The Texas Tax Code as Applied to the District

The Appraisal District has the responsibility for appraising property in the District as well as other taxing units in Wood County.

The Appraisal District is governed by a board of five directors appointed by members of the governing bodies of various political subdivisions within Wood County.

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

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

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

The District's taxes are collected by Wood County Tax Office.

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

The District does not participate in a tax increment financing zone. The District has not granted any tax abatements.

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

The District has taken action to tax freeport property and goods-in-transit.

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

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

After July, penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, State law allows that, if an account is delinquent in July, an additional penalty of up to 20% may be assessed in order to defray attorney collection expenses.

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STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

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

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

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

Possible Effects of Litigation and Changes in Law on District Bonds

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

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

Local Funding for School Districts

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

State Funding for School Districts

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

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

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

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

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

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

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

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

2006 Legislation

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

2017 Legislation

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

Wealth Transfer Provisions

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

The equalized wealth levels that subject Chapter 41 districts to recapture for the 2018-2019 State fiscal biennium are set at (i) \$514,000 per student in WADA with respect to that portion of a district’s M&O tax effort that does not exceed its compressed tax rate (for most districts, the first \$1.00 per \$100 of taxable value) and (ii) \$319,500 per WADA with respect to that portion of a district’s M&O tax effort that is beyond its compressed rate plus \$.06 (for most districts, M&O taxes levied above \$1.06 per \$100 in taxable value). So long as the State’s equalization program under Chapter 42 of the Texas Education Code is funded to provide tax revenue equivalent to that raised by the Austin Independent School District on the first six pennies of tax effort that exceed the compressed tax rate, then M&O taxes levied above \$1.00 but at or below \$1.06 per \$100 of taxable value (“Golden Pennies”) are not subject to the wealth equalization provisions of Chapter 41. Because funding at the Austin Independent School District level is currently being provided to school districts under Chapter 42 of the Texas Education Code, no recapture is currently associated with the Golden Pennies. Chapter 41 districts with a wealth per student above the lower equalized wealth level but below the higher equalized wealth level must equalize their wealth only with respect to the portion of their M&O tax rate, if any, in excess of \$1.06 per \$100 of taxable value.

Under Chapter 41, a district has five options to reduce its wealth per student so that it does not exceed the equalized wealth levels: (1) a district may consolidate by agreement with one or more districts to form a consolidated district; all property and debt of the consolidating districts vest in the consolidated district; (2) a district may detach property from its territory for annexation by a property-poor district; (3) a district may purchase attendance credits from the State; (4) a district may contract to educate nonresident students from a property-poor district by sending money directly to one or more property-poor districts; or (5) a district may consolidate by agreement with one or more districts to form a consolidated taxing district

solely to levy and distribute either M&O taxes or both M&O taxes and I&S taxes. A Chapter 41 district may also exercise any combination of these remedies. Options (3), (4) and (5) require prior approval by the Chapter 41 district's voters.

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

THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

The District's wealth per student for the 2018-19 school year is more than the equalized wealth value. Accordingly, the District has been required to exercise one of the permitted wealth equalization options. For the 2018-19 school year, the District agreed to send payments directly to the State to purchase attendance credits (Option 3) to equalize its wealth per student.

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

TAX RATE LIMITATIONS

A school district is authorized to levy maintenance and operation ("M&O") taxes subject to approval of a proposition submitted to district voters under Section 45.003(d) of the Texas Education Code, as amended. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the succeeding paragraphs. The maximum voted M&O tax rate for the District is \$1.50 per \$100 of assessed valuation as approved by the voters at an election held on May 18, 1999 under Chapter 20, Texas Education Code (now codified at Section 45.003, Texas Education Code).

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

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

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

needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Once the prospective ability to pay such tax has been shown and the bonds are issued, a district may levy an unlimited tax to pay debt service. Taxes levied to pay refunding bonds issued pursuant to Chapter 1207, Texas Government Code, are not subject to the \$0.50 tax rate test; however, taxes levied to pay debt service on such bonds (other than bonds issued to refund exempt bonds) are included in maximum annual debt service for calculation of the \$0.50 threshold tax rate test when applied to subsequent bond issues. The Bonds are issued for school building purposes pursuant to Chapter 45, Texas Education Code as new debt and are subject to the threshold tax rate test. Under current law, a district may demonstrate its ability to comply with the \$0.50 threshold tax rate test by applying the \$0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a district uses projected future taxable values to meet the \$0.50 threshold tax rate test and subsequently imposes a tax at a rate greater than \$0.50 per \$100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Texas Attorney General must find that the district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the \$0.50 threshold tax rate test from a tax rate of \$0.45 per \$100 of valuation. The District has not used State assistance other than EDA or IFA allotment funding.

DEBT LIMITATIONS

Under State law, there is no explicit bonded indebtedness limitation, although the tax rate limits described above under "TAX RATE LIMITATIONS" effectively impose a limit on the incurrence of debt. Such tax rate limits require school districts to demonstrate the ability to pay "new debt" from a tax rate of \$0.50. In demonstrating compliance with the requirement, a district may take into account State equalization payments and, if compliance with such requirement is contingent on receiving state assistance, a district may not adopt a tax rate for a year for purposes of paying the principal of and interest on the bonds unless the district credits to the interest and sinking fund for the bonds the amount of State assistance received or to be received in that year. The State Attorney General reviews a district's calculations showing the compliance with such test as a condition to the legal approval of the debt. As stated above, the Bonds are issued for school building purposes pursuant to Chapter 45, Texas Education Code, as amended, as new debt and therefore are subject to this limitation.

EMPLOYEE BENEFITS, RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFITS

The District contributes to the Teacher Retirement System of Texas (the "System"), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception: all risks and costs are not share by the District, but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates primarily under the provisions of the Texas Constitution and Texas Government Code, Title 8, Subtitle C. See "Notes to the Financial Statements – Note J – Pension Plan" as set out in the audited financial statements of the District for the year ended August 31, 2017 as set forth in APPENDIX C hereto.

The District contributes to the Texas Public School Retired Employees Group Insurance Program ("TRS-Care"), a cost-sharing multiple-employer defined benefit post-employment health care plan administered by the TRS. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under TRS. See "Notes to the Financial Statements, Note K.1 –Retiree Health Care Plans, TRS Care" in the audited financial statements of the District for the year ended August 31, 2017 as set forth in APPENDIX C hereto.

In June 2012, the Government Accounting Standards Board ("GASB") issued Statement No. 68 *Accounting and Financial Reporting for Pensions*, which was later amended by GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*, each in an effort to improve accounting and financial reporting by state and local governments related to pensions. GASB Statement No. 68 requires reporting entities, such as the District, to recognize their proportionate share of the net pension liability and operating statement activity related to changes in collective pension liability. Reporting entities, such as the District, that contribute to the TRS pension plan will report a liability on the face of their government-wide financial statements. Such reporting began with the District's fiscal year ending August 31, 2015. See Table 11 in APPENDIX A herein. GASB Statement No. 68 applies only to pension benefits and does not apply to OPB or TRS-Care related liabilities. At the conclusion of the 2016-17 fiscal year, the District had a net pension liability of \$1,495,411.

Formal collective bargaining agreements relating directly to wages and other conditions of employment are prohibited by State law, as are strikes by teachers. There are various local, state and national organized employee groups who engage in efforts to better terms and conditions of employment of school employees. Some districts have adopted a policy to consult with employer groups with respect to certain terms and conditions of employment. Some examples of these groups are the Texas State Teachers Association, the Texas Classroom Teachers Association, the Association of Texas Professional Educators and the National Education Association.

INVESTMENT POLICIES

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

Legal Investments

Under Texas law, the District is authorized to invest in (1) obligations including letters of credit of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this state that the investing entity selects from a list the governing body or designated investment committee of the entity adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in this state that the investing entity selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the investing entity's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the investing entity appoints as the entity's custodian of the banking deposits issued for the entity's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3; (9) certificates of deposit or share certificates (i) meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, or are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and amount provided by law for District deposits or, (ii) where (a) the funds are invested by the District through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the District as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the District; (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit issued for the account of the District; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1), require the securities being purchased by the District or cash held by the District to be pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) 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; (12) 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; (13) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that provide the investing entity with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that comply with federal Securities and Exchange Commission Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); and (14) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, and either (a) have a duration of one year or more and invest exclusively in obligations described in this paragraph, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in

an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

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 (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (12) through (14) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AA+ 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.

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, the 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 fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

Additional Provisions

Under Texas law, the District is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt an order or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the said order or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the Board of Trustees; (4) require the qualified representative of firms offering to engage in an investment transaction with the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment

transactions conducted between the District and the business organization that are not authorized by the District's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the District's entire 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 on-money market mutual funds in the aggregate to no more than 15% of the entity's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

LEGAL MATTERS

Legal Opinion

The District will furnish the Underwriter a transcript of certain proceedings incident to the authorization and issuance of the Bonds. Such transcript will include a certified copy of the approving opinion of the Attorney General of the State of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are valid and legally binding obligations of the District. The District will also furnish the approving legal opinion of Bond Counsel to the effect that (i), based upon an examination of such transcript, the Bonds are valid and legally binding obligations of the District under the Constitution and the laws of the State of Texas, except to the extent that enforcement of the rights and remedies of the registered owners of the Bonds may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District and (ii) 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. See "APPENDIX D – FORM OF BOND COUNSEL'S OPINION." 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 describing the Bonds in the Official Statement under the captions "THE BONDS," (except for the subcaptions "Permanent School Fund Guarantee," "Default and Remedies," "Payment Record" and "Future Issues"), "REGISTRATION, TRANSFER AND EXCHANGE," "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM," "TAX RATE LIMITATIONS," "LEGAL MATTERS – Legal Opinions" (except for the last three sentences thereof), "TAX MATTERS," "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," "CONTINUING DISCLOSURE" (except for the subcaption "Compliance with Prior Undertakings") and "OTHER INFORMATION – Registration and Qualifications of Bonds for Sale" to determine that the information relating to the Bonds and the Order contained therein fairly and accurately describes the provisions thereof and is correct as to matters of law. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds. The applicable legal opinion will accompany the Bonds deposited with DTC or will be printed on or attached to the Bonds in the event of discontinuance of the Book-Entry-Only System. In connection with the issuance of the Bonds, Bond Counsel has been engaged by, and only represents, the District. Certain legal matters will be passed upon for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas. The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Litigation

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

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

TAX MATTERS

General

In the opinion of Powell & Leon, LLP, Bond Counsel to the District ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants: (i) interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"); and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating alternative minimum tax imposed for taxable years beginning prior to January 1, 2018. In rendering such opinions, Bond Counsel has relied on certain representations, certifications of fact and statements of reasonable expectations made by the District with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code. The proposed form of the opinion of Bond Counsel relating to the Bonds is set forth in Appendix D hereto.

Bond Counsel expresses no opinion as to any other federal, state or local tax consequences arising with respect to the Bonds, or the ownership or disposition thereof, except as stated above. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action thereafter taken or not taken, any fact or circumstance that may thereafter come to its attention, any change in law or interpretation thereof that may thereafter occur, or for any other reason. Bond Counsel expresses no opinion as to the consequences of any of the events described in the preceding sentence or the likelihood of their occurrence. In addition, Bond Counsel expresses no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel regarding federal, state, or local tax matters, including, without limitation, exclusion from gross income for federal income tax purposes of interest on the Bonds.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditures of gross proceeds of the Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirements that certain excess earnings on gross proceeds be rebated to the Federal Government. Noncompliance with such requirements may cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The District, has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on the Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences. Beneficial Owner's, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Bonds.

Tax Accounting Treatment of Original Issue Premium

The issue price of all of the Bonds exceeds the stated redemption price payable at maturity of such Bonds. Such Bonds (the "Premium Bonds") are considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis of a Premium Bond in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Bond in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Premium Bond. The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Premium Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of amortized

bond premium upon the redemption, sale or other disposition of a Premium Bond and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption or other disposition of such Premium Bonds.

Current and Future Tax Legislation

Public Law No. 115-97 (i.e. Tax Cuts and Jobs Act), which makes significant changes to the Code, including certain provisions affecting tax-exempt obligations, such as the Bonds, was signed into law on December 22, 2017. The changes include, among others, changes to the federal income tax rates for individual and corporations and the alternative minimum tax for tax years after December 31, 2017. Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

Opinion Not Binding On IRS

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the District or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Limitation on Bond Counsel Engagement

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the District or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the District and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the District or the Beneficial Owners to incur significant expense.

Beneficial Owners of the Bonds should consult their own tax advisors regarding all of the foregoing matters.

Qualified Tax-Exempt Obligations

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

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201, as amended), the Bonds (i) are negotiable instruments, (ii) are investment securities to which Chapter 8 of the Texas Uniform Commercial Code applies, and (iii) are legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. The Bonds are eligible to secure

deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256, as amended), the Bonds may have to be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. See "OTHER PERTINENT INFORMATION – Municipal Bond Rating" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital and savings and loan associations.

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

CONTINUING DISCLOSURE

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

Annual Reports

The District will file certain updated financial information and operating data with the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement in Tables numbered 1 through 5 and 7 through 11 of APPENDIX A and in APPENDIX C. The District will update and provide this information to the MSRB within 6 months after the end of each fiscal year ending in or after 2018.

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

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

Notice of Certain Events

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

by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The District will provide each notice described in this paragraph to the MSRB.

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

Availability of Information from MSRB

The District has agreed to provide the foregoing information only to the MSRB. The MSRB intends to make the information available to the public without charge through its EMMA internet portal at www.emma.msrb.org.

Limitations and Amendments

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

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

Compliance with Prior Agreements

During the last five years, the District has complied in all material respects with all previous disclosure agreements made by it in connection with the Rule.

OTHER PERTINENT INFORMATION

Authenticity of Financial Information

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

Registration and Qualification of Bonds for Sale

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

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

Municipal Bond Rating

The Bonds have been rated "AAA" by S&P Global Ratings ("S&P") by virtue of the guarantee of the Permanent School Fund of the State of Texas. See "PERMANENT SCHOOL FUND GUARANTEE PROGRAM." The Bonds are rated "A+" by S&P without regard to credit enhancement.

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

Financial Advisor

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

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

Underwriting

The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the District at the price equal to the initial offering prices to the public, as shown on page -ii- herein, less an Underwriter's discount of \$27,159.53. The Underwriter's obligation is subject to certain conditions precedent. The Underwriter will be obligated to purchase all of the Bonds, if any of the Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriter.

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

Forward Looking Statements

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

statements included in this Official Statement are based on information available to the District on the date hereof, and the District assumes no obligation to update any such forward-looking statements. It is important to note that the District's actual results could differ materially from those in such forward-looking statements.

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

Information from External Sources

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

Authorization of the Official Statement

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

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

The Order will approve the form and content of this Official Statement and any addenda, supplement or amendment thereto and will authorize its further use in the reoffering of the Bonds by the Underwriter.

HAWKINS INDEPENDENT SCHOOL DISTRICT

/s/ Robbie White
President, Board of Trustees

ATTEST:
/s/ Janice Vonner
Secretary, Board of Trustees

APPENDIX A
SELECTED FINANCIAL INFORMATION
OF THE DISTRICT

Table 1 - Valuation, Exemptions, and Tax Supported Debt

2018 Tax Year Total Valuation	\$834,567,463
Less: Exemptions and Deductions	\$215,420,128
2018 Tax Year Certified Taxable AV ⁽¹⁾	\$619,147,335
Unlimited Tax Bonds Outstanding	\$16,495,000
Plus: The Bonds	\$3,975,000
Total Unlimited Tax Bonds	\$20,470,000
Less: Interest & Sinking Fund Balance (as of August 31, 2017) ⁽²⁾	\$596,669
Net General Obligation Debt	\$19,873,331
Ratio of Net G.O. Debt to Net Taxable Valuation ⁽³⁾	3.21%
Estimated District Population	5,013
Per Capita Net Taxable Valuation	\$123,508
Per Capita Net G.O. Debt	\$3,964

⁽¹⁾ Source: Wood County Appraisal Districts.

⁽²⁾ Source: District's Audited Financial Statements.

⁽³⁾ See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" herein, "UNLIMITED TAX DEBT SERVICE REQUIREMENTS" in this APPENDIX A and the "Audited Financial Statements" in APPENDIX C for more information relative to the District's obligations.

Table 2 - Valuation and Tax Supported Debt History

Fiscal Year Ended 08/31	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Taxable AV Per Capita	Tax Supported Debt Outstanding	Ratio of Tax Supported Debt to Assessed Valuation	Tax Supported Debt Per Capita
2014	5,522	\$924,608,134	\$167,441	\$22,480,000	2.43%	\$4,071
2015	5,492	\$947,140,854	\$172,458	\$21,290,000	2.25%	\$3,877
2016	5,389	\$778,611,737	\$144,482	\$19,855,000	2.55%	\$3,684
2017	5,240	\$590,930,576	\$112,773	\$18,585,000	3.15%	\$3,547
2018	5,013	\$609,303,748	\$121,545	\$17,515,000	2.87%	\$3,494
2019	5,013	\$619,147,335 ⁽³⁾	\$123,508	\$20,470,000 ⁽⁴⁾	3.31% ⁽⁴⁾	\$4,083 ⁽⁴⁾

⁽¹⁾ Source: MAC of Texas: Texas Municipal Reports

⁽²⁾ As reported by the Wood County Central Appraisal District and such values are subject to change during ensuing year.

⁽³⁾ Source: Wood County Central County Appraisal District.

⁽⁴⁾ Including the Bonds.

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Table 3 - Tax Rate, Levy, and Collection History

	2017/18	2016/17	2015/16	2014/15	2013/14
Maintenance & Operations	\$1.0400	\$1.0400	\$1.0400	\$1.0300	\$1.0100
Debt Service	\$0.3000	\$0.3000	\$0.2300	\$0.2300	\$0.2660
Total Tax Rate	\$1.3400	\$1.3400	\$1.2700	\$1.2600	\$1.2760

		<u>Percent Collected ⁽¹⁾</u>		
<u>Fiscal Year Ended</u>				
<u>08/31</u>	<u>Net Taxable Value</u>	<u>Tax Rate</u>	<u>Current</u>	<u>Total</u>
2013/14	\$924,608,134	\$1.2760	98.54%	99.36%
2014/15	\$947,140,854	\$1.2600	98.65%	99.25%
2015/16	\$778,611,737	\$1.2700	98.33%	98.33%
2016/17	\$590,930,576	\$1.3400	97.78%	99.54%
2017/18	\$609,303,748	\$1.3400	97.59% ⁽³⁾	97.59% ⁽³⁾
2018/19	\$619,147,365	N/A	N/A	N/A

⁽¹⁾ Excludes penalties and interest.

⁽²⁾ Source: District's audited financial statements.

⁽³⁾ Collection totals as of June 30, 2018.

Table 4 – Ten Largest Taxpayers ⁽¹⁾⁽²⁾

<u>Taxpayers</u>	<u>Type of Property</u>	<u>Tax Year 2018 Net Taxable Assessed Valuation</u>	<u>% of Tax Year 2018 Net Taxable Assessed Valuation</u>
1. XTO Energy (WI)	Oil & Gas	\$119,891,410	19.36%
2. Praxair Inc.	Oil & Gas	\$59,164,900	9.56%
3. Nestle Waters North America	Beverage Production	\$47,872,960	7.73%
4. XTO Energy - Hawkins Gas PT	Oil & Gas	\$37,732,920	6.09%
5. Great Springs Waters of America Inc.	Beverage Production	\$10,046,930	1.62%
6. Plains Pipeline - PL	Oil & Gas	\$8,729,920	1.41%
7. Union Pacific Railroad Company	Railroad	\$7,900,210	1.28%
8. XTO Energy (RI/OR)	Oil & Gas	\$5,333,240	0.86%
9. AEP Southwestern Elec Power Co.	Electric Utility	\$5,063,450	0.82%
10. Jarvis Christian College	College	\$3,906,040	0.63%
Total		\$305,641,980	49.36%

⁽¹⁾ Source: Wood County Central Appraisal District

⁽²⁾ As shown in the table above, the top ten taxpayers in the District currently account for nearly fifty percent of the District's tax base. Adverse developments in economic conditions, especially in the oil and gas industry, could adversely impact the businesses that own oil and/or natural gas properties in the District and the tax values in the District, resulting in less local tax revenue. If any major taxpayer (or a combination of taxpayers) were to default in the payment of taxes due to economic conditions resulting in financial difficulty, the ability of the District to timely pay debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax lien (which, in the event of bankruptcy, certain laws preclude until the automatic stay is lifted). Such process is time-consuming and can only occur annually. See "THE BONDS – Default and Remedies" and "AD VALOREM TAX PROCEDURES – The District's Rights in the Event of Tax Delinquencies" herein.

Table 5 – Tax Adequacy

2019 Net Principal and Interest Requirements	\$1,938,204
\$0.3194 Tax Rate at 98% Collection Produces	\$1,938,204
Average Net Annual Principal and Interest Requirements, 2018-2043	\$1,067,283
\$0.1759 Tax Rate at 98% Collection Produces	\$1,067,283
Maximum Net Principal and Interest Requirements, 2019	\$1,938,204
\$0.3194 Tax Rate at 98% Collection Produces	\$1,938,204

Table 6 - Estimated Overlapping Debt

<u>Taxing Jurisdiction</u>	<u>As Of</u>	<u>Total Debt</u>	<u>Estimated % Overlapping</u>	<u>Overlapping Debt</u>
Wood County	7/31/2018	\$0	19.90%	\$0
Estimated Overlapping Debt				\$0
The District ⁽¹⁾	9/01/2018	\$20,470,000	100.00%	\$20,470,000
Total Direct & Estimated Overlapping Debt				\$20,470,000
As a % of 2017 Certified Taxable Assessed Valuation				3.31%
Total Direct & Estimated Overlapping Debt Per Capita				\$4,083
Source: MAC of Texas; Texas Municipal Reports				

⁽¹⁾ Includes the Bonds.

Table 7 – Authorized but Unissued Bonds

After the issuance of the Bonds, the District will have no authorized but unissued ad valorem tax bonds. In addition, the District may incur other financial obligations payable from its collection of taxes and other sources of revenue, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes.

Table 8 - Tax Supported Debt Service Requirements

<u>Fiscal Year Ending 08/31</u>	<u>Outstanding</u>	<u>Plus: The Bonds</u>			<u>New Total Debt Service</u>
	<u>Debt Service</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Requirements</u>
2019	\$1,632,754	\$160,000	\$145,450	\$305,450	\$1,938,204
2020	\$1,630,604	\$155,000	\$150,175	\$305,175	\$1,935,779
2021	\$1,629,716	\$150,000	\$145,600	\$295,600	\$1,925,316
2022	\$1,630,604	\$165,000	\$140,050	\$305,050	\$1,935,654
2023	\$1,630,629	\$125,000	\$134,250	\$259,250	\$1,889,879
2024	\$1,633,623	\$135,000	\$129,050	\$264,050	\$1,897,673
2025	\$1,629,529	\$140,000	\$123,550	\$263,550	\$1,893,079
2026	\$1,632,854	\$145,000	\$117,125	\$262,125	\$1,894,979
2027	\$1,515,235	\$150,000	\$109,750	\$259,750	\$1,774,985
2028	\$1,512,073	\$160,000	\$102,800	\$262,800	\$1,774,873
2029	\$1,511,813	\$130,000	\$97,000	\$227,000	\$1,738,813
2030	\$1,513,885	\$135,000	\$91,700	\$226,700	\$1,740,585
2031	\$1,513,361	\$145,000	\$86,100	\$231,100	\$1,744,461
2032	\$-	\$150,000	\$80,200	\$230,200	\$230,200
2033	\$-	\$155,000	\$74,100	\$229,100	\$229,100
2034	\$-	\$160,000	\$67,800	\$227,800	\$227,800
2035	\$-	\$165,000	\$61,300	\$226,300	\$226,300
2036	\$-	\$175,000	\$54,500	\$229,500	\$229,500
2037	\$-	\$185,000	\$47,300	\$232,300	\$232,300
2038	\$-	\$190,000	\$39,800	\$229,800	\$229,800
2039	\$-	\$165,000	\$32,700	\$197,700	\$197,700
2040	\$-	\$175,000	\$25,900	\$200,900	\$200,900
2041	\$-	\$180,000	\$18,800	\$198,800	\$198,800
2042	\$-	\$185,000	\$11,500	\$196,500	\$196,500
2043	\$-	\$195,000	\$3,900	\$198,900	\$198,900
TOTAL	\$20,616,678.23	\$3,975,000.00	\$2,090,400.00	\$6,065,400.00	\$22,560,400.00

Estimated Average Annual Debt Service Requirement \$902,416
Estimated Maximum Debt Service Requirement , FYE 2031 \$1,716,100

Table 9 – Schedule of General Fund Revenues and Expenditure History

	<u>2017</u>	<u>2016</u>	<u>2015</u> ⁽¹⁾	<u>2014</u>	<u>2013</u>
REVENUES:					
Local and Intermediate Sources	\$6,164,086	\$8,087,170	\$9,695,908	\$9,384,811	\$8,437,473
State Program Revenues	\$2,313,924	\$1,930,872	\$1,136,942	\$767,222	\$747,695
Federal Program Revenues	\$18,562	\$1,202	\$18,734	\$35,563	\$-
Total Revenues	\$8,496,572	\$10,019,244	\$10,851,584	\$10,187,596	\$9,185,168
EXPENDITURES:					
Instruction	\$3,614,808	\$3,665,456	\$3,697,475	\$3,645,620	\$3,808,412
Instructional Resources & Media Services	\$80,247	\$84,172	\$102,418	\$98,226	\$99,518
Curriculum and Instructional Staff Development	\$93,938	\$112,135	\$115,200	\$104,597	\$106,582
School Leadership	\$475,584	\$486,507	\$412,602	\$431,710	\$429,209
Guidance, Counseling & Evaluation Services	\$134,149	\$112,487	\$67,071	\$66,460	\$64,712
Health Services	\$59,085	\$50,197	\$55,555	\$54,542	\$56,917
Student Transportation	\$163,521	\$174,205	\$175,759	\$206,572	\$181,695
Food Services	\$730	\$1,975	\$1,972	\$1,638	\$-
Extracurricular Activities	\$511,909	\$511,144	\$499,634	\$461,446	\$463,768
General Administration	\$525,723	\$543,118	\$503,236	\$495,202	\$460,105
Plant Maintenance & Operations	\$862,732	\$866,291	\$896,259	\$864,703	\$849,212
Security Monitoring and Services	\$6,151	\$8,454	\$9,882	\$13,848	\$7,905
Community Services	\$158,264	\$-	\$453	\$1,081	\$-
Data Processing Services	\$12,644	\$142,903	\$136,051	\$145,382	\$138,038
Debt Service:					
Principal on Long Term Debt	\$-	\$-	\$-	\$-	\$-
Interest on Long Term Debt	\$-	\$-	\$-	\$-	\$-
Debt Service Cost and Fees	\$-	\$-	\$-	\$-	\$-
Capital Outlay	\$-	\$-	\$524,347	\$22,000	\$248,791
Contracted Instructional Services between Schools	\$1,712,618	\$2,984,951	\$3,539,317	\$2,733,044	\$1,903,637
Payments for Shared Service Arrangements	\$210,603	\$211,592	\$195,371	\$184,671	\$182,374
Other Intergovernmental	\$159,906	\$189,164	\$213,384	\$196,510	\$174,103
Total Expenses	\$8,782,612	\$10,144,751	\$11,145,986	\$9,727,252	\$9,174,978
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ (286,040)	\$ (114,607)	\$ (294,402)	\$ (460,344)	\$10,190
Other Financing Sources and (Uses):					
Sale of Real and Personal Property	\$-	\$-	\$-	\$2,245	\$-
Special Item	\$-	\$-	\$-	\$-	\$121,277
Transfers In/(Out)		\$ (29,959)	\$ (24,793)	\$ (192,524)	\$ (34,278)
Other Uses	\$-	\$-		\$-	
Total Other Financing Sources and (Uses)	\$-	\$ (29,959)	\$ (24,793)	\$ (190,279)	\$86,999
Net Change in Fund Balances	\$ (286,040)	\$ (144,566)	\$ (319,195)	\$270,065	\$97,189
Fund Balances - Beginning	\$4,222,028	\$4,366,594	\$4,685,789	\$4,415,724	\$4,318,535
Fund Balances - Ending	\$3,935,988	\$4,222,028	\$4,366,594	\$4,685,789	\$4,415,724

Source: The District's audited financial statements.

⁽¹⁾ District implementation of GASB Statement No. 68 for the fiscal year ending August 31, 2015.

Table 10 - General Operating Fund Comparative Balance Sheet

	<u>2017</u>	<u>2016</u>	<u>2015</u> ⁽¹⁾	<u>2014</u>	<u>2013</u>
Revenues					
Program Revenues					
Charges for Services	\$328,228	\$300,415	\$330,241	\$311,280	\$308,663
Operating Grants & Contributions	\$1,000,746	\$1,151,748	\$858,433	\$992,449	\$876,606
General Revenues					
Property Taxes	\$7,765,562	\$9,758,536	\$11,792,188	\$11,636,462	\$9,383,098
State Aid - Formula	\$2,033,103	\$1,639,678	\$-	\$-	\$-
Investment Earnings	\$58,184	\$37,012	\$29,571	\$43,783	\$27,931
Grants & Contributions Not Restricted	\$-	\$-	\$861,484	\$476,389	\$495,003
Miscellaneous	\$103,378	\$55,379	\$35,936	\$123,762	\$61,040
Special Item - Outflow	\$-	\$-	\$-	\$-	\$121,277
Total Revenue	\$11,289,201	\$12,942,768	\$13,907,853	\$13,584,125	\$11,273,618
Expenses					
Instruction	\$5,271,416	\$5,254,127	\$5,068,957	\$4,762,271	\$4,663,906
Instructional Resources & Media Services	\$130,484	\$137,379	\$129,524	\$118,437	\$119,729
Curriculum and Instructional Staff Development	\$105,657	\$118,157	\$117,750	\$118,756	\$114,162
School Leadership	\$511,884	\$533,503	\$428,912	\$448,299	\$449,972
Guidance, Counseling & Evaluation Services	\$142,288	\$122,021	\$119,535	\$121,916	\$128,537
Health Services	\$60,087	\$52,996	\$55,576	\$54,813	\$57,188
Student Transportation	\$211,685	\$225,208	\$237,853	\$262,759	\$224,619
Food Services	\$484,868	\$516,112	\$491,857	\$460,864	\$491,657
Extracurricular Activities	\$695,354	\$703,317	\$674,737	\$536,972	\$524,884
General Administration	\$561,265	\$585,286	\$525,187	\$503,157	\$468,060
Plant Maintenance & Operations	\$916,560	\$993,073	\$1,034,491	\$875,963	\$889,904
Security Monitoring and Services	\$60,690	\$53,914	\$52,735	\$18,106	\$9,448
Data Processing Services	\$161,641	\$149,216	\$135,163	\$145,382	\$139,871
Community Services	\$17,243	\$-	\$450	\$2,784	\$-
Debt Service	\$592,045	\$585,583	\$668,922	\$950,868	\$731,973
Payments for Shared Service Arrangements	\$261,321	\$264,383	\$240,729	\$232,188	\$227,973
Other Intergovernmental	\$159,906	\$189,164	\$213,384	\$196,510	\$174,103
Capital Outlay	\$15,944	\$9,450	\$10,831	\$51,520	\$473,511
Contracted Instructional Services between Schools	\$1,712,618	\$2,984,951	\$3,539,317	\$2,733,044	\$1,903,637
Total Expenditures	\$12,072,956	\$13,477,840	\$13,745,910	\$12,594,609	\$11,793,134
Change in Net Assets	\$(783,755)	\$(535,072)	\$161,943	\$989,516	\$(519,516)
Beginning Net Assets	\$9,576,733	\$10,111,804	\$10,753,225	\$9,763,709	\$10,283,224
Prior Period Adjustment	\$-	\$-	\$(803,362)	\$-	\$-
Ending Net Assets	\$8,792,978	\$9,576,732	\$10,111,806	\$10,753,225	\$9,763,708

Source: District's audited financial reports

⁽¹⁾ District implementation of GASB Statement No. 68 for the fiscal year ending August 31, 2015.

Table 11 - Current Investments ^(*)

As of May 31, 2018, the District's investable funds amounted to \$7,029,173. The following summary itemizes the District's investment portfolio by type of investment:

	Percent	Book Value	Market Value
Cash and Cash Equivalents	96.26%	\$6,765,831	\$6,765,831
Investment Pools ⁽¹⁾	3.75%	\$263,342	\$263,342
Total	100%	\$7,029,173	\$7,029,173

^(*) Unaudited

⁽¹⁾ The investment pools in which the District invests were created for Texas governmental entities. Such investment pools operate as money market equivalents.

APPENDIX B

General Information Regarding the District and its Economy

THE DISTRICT

General and Economic Information

Source: Texas Municipal Report for Hawkins ISD and District records.

Enrollment Statistics

<u>Year Ending 8/31</u>	<u>Enrollment</u>
2007	741
2008	719
2009	746
2010	740
2011	735
2012	746
2013	757
2014	732
2015	738
2016	725
2017	707
Current	702

District Staff

Teachers	61
Auxiliary Personnel	32
Teachers' Aides & Secretaries	20
Administrators	8
Other (Counselors, RNs, Librarians)	3

Facilities

<u>Campus ⁽¹⁾</u>	<u>Grades</u>	<u>Current Enrollment</u>	<u>Capacity</u>	<u>Year Built</u>	<u>Year of Addition/Renovation</u>
Middle/High School	7-12	311	462	App '75	2006
Elementary	PK-6	391	1080	App '65	2006

⁽¹⁾ *Source: Hawkins ISD District records.*

Unemployment Rates

	<u>January 2016</u>	<u>January 2017</u>	<u>January 2018</u>
Wood County	5.1%	5.7%	4.4%
State of Texas	4.5%	4.9%	4.0%

Source: United States Department of Labor.

APPENDIX C

Audited Financial Statements

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

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

HAWKINS INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
YEAR ENDED AUGUST 31, 2017

RUTHERFORD, TAYLOR & COMPANY, P.C.
Certified Public Accountants
2802 Washington Street
Greenville, Texas 75401
(903) 455-6252

HAWKINS INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
YEAR ENDED AUGUST 31, 2017

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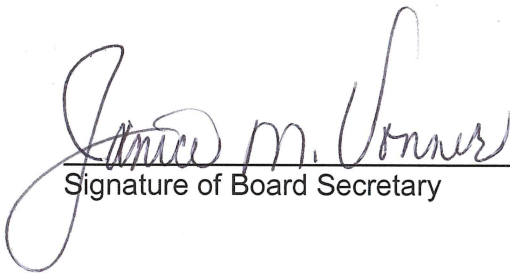
CERTIFICATE OF BOARD

Hawkins Independent School District
Name of School District

Wood
County

250-902
Co.-Dist. Number

We, the undersigned, certify that the attached auditor's report of the above named school district was reviewed and ✓ **approved**/ _____ **disapproved** for the year ended August 31, 2017, at a meeting of the board of school trustees of such school district on 12-4-17.



Signature of Board Secretary



Signature of Board President

If the auditor's report was checked above as disapproved, the reasons(s) therefore is/are (attach list if necessary):

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Members of the Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hawkins Independent School District (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 the Hawkins 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.

Change in Accounting Principle

As discussed in Note P to the financial statements, in 2017 the District adopted various accounting pronouncements issued by the Governmental Accounting Standards Board. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedules identified in the table of contents as other supplementary information are presented for the purpose of additional analysis, and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

November 9, 2017

Greenville, Texas

Rutherford, Taylor & Company, PC

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Board:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hawkins Independent School District (District), as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 9, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Report on Internal Control – Continued

Purpose of this Report

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

November 9, 2017
Greenville, Texas

Rutherford, Taylor & Company, PC

HAWKINS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2017

Financial Statement Findings (Section II)

NONE

HAWKINS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2017

Prior Year Findings (Section IV)

NONE

HAWKINS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2017

Corrective Action Plans (Section V)

NONE

HAWKINS INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED AUGUST 31, 2017

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

FINANCIAL HIGHLIGHTS

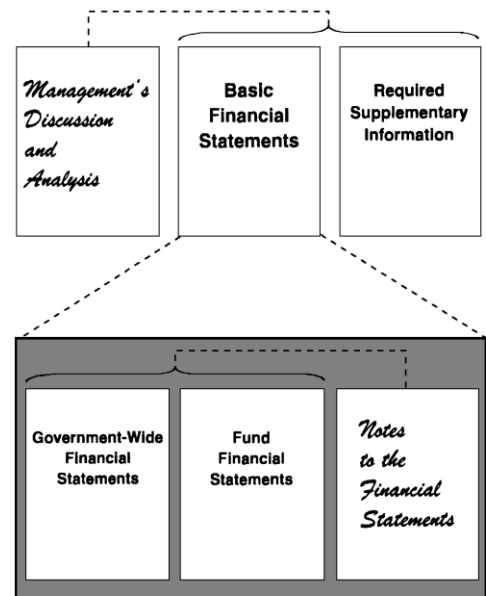
- The District's total combined net position was \$ 8,792,978 at August 31, 2017.
- During the year, the District's expenses were \$ 783,755 more than the \$ 11,289,201 generated in taxes and other revenues for governmental activities.
- The total cost of the District's programs decreased from last year approximately 10.42%, and no new programs were added this year.
- The General Fund reported a fund balance this year of \$ 3,935,988.
- The District issued refunding debt to achieve reduced interest over the life of the debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the government, reporting the District's operations in more detail than the government-wide statements.
- The governmental funds statements tell how general government services were financed in the short term as well as what remains for future spending.
- Fiduciary fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

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



The basic financial statements also include notes that explain some of the information in the basic financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the basic financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

HAWKINS INDEPENDENT SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED AUGUST 31, 2017

Figure A-2. Major Features of the District's Government-wide and Fund Financial Statements

<i>Type of Statements</i>	Fund Statements			
	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
<i>Scope</i>	Entire Agency's government (except fiduciary funds) and the Agency's component units	The activities of the district that are not proprietary or fiduciary	Activities the district operates similar to private businesses: self insurance	Instances in which the district is the trustee or agent for someone else's resources
<i>Required financial statements</i>	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures & changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the District's basic financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

GOVERNMENT-WIDE STATEMENTS

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how they have changed. Net position—the difference between the District's assets and liabilities—is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional nonfinancial factors such as changes in the District's tax base and student population.

The government-wide financial statements of the District include the governmental activities. Most of the District's basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services and general administration. Property taxes and grants finance most of these activities.

FUND FINANCIAL STATEMENTS

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

- Some funds are required by State law and by bond covenants.
- The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has the following kinds of funds:

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

HAWKINS INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED AUGUST 31, 2017

- **Fiduciary funds**—The District is the trustee, or fiduciary, for certain funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net position was \$ 8,792,978 at August 31, 2017.

Hawkins Independent School District's Net Position			Table A-1
	Governmental Activities		Total Percentage Change
	2017	2016	2016-2017
Assets:			
Cash and Investments	\$ 5,010,715	\$ 4,423,498	13.27%
Other Current Assets	1,109,744	1,653,330	-32.88%
Capital Assets less Accumulated Depreciation	22,580,471	23,210,591	-2.71%
Total Assets	\$ 28,700,930	\$ 29,287,419	-2.00%
Total Deferred Net Outflows of Resources	\$ 1,027,829	\$ 1,363,716	-24.63%
Liabilities:			
Current Liabilities	\$ 508,237	\$ 507,194	0.21%
Long-term Liabilities	20,288,356	20,452,371	-0.80%
Total Liabilities	\$ 20,796,593	\$ 20,959,565	-0.78%
Total Deferred Net Inflows of Resources	\$ 139,188	\$ 114,838	21.20%
Net Position:			
Net Investment in Capital Assets	\$ 4,095,533	\$ 4,312,707	-5.04%
Restricted	667,086	601,699	10.87%
Unrestricted	4,030,359	4,662,326	-13.55%
Total Net Position	\$ 8,792,978	\$ 9,576,732	-8.18%

Approximately \$ 660,937 of the District's restricted net position is restricted for debt retirement. The unrestricted net position represents resources available to fund the programs of the District next year.

CHANGES IN NET POSITION

The District's total revenues were \$ 11,289,201. 69% of the District's revenue comes from local property taxes (See Table A-2). 27% comes from state aid and federal grants, while only 4% relates to charges for services and other miscellaneous revenues including investment earnings.

The total cost of all programs and services was \$ 12,072,956. 46% of these costs are for instruction and instructional related student support services.

The District's tax collection percentage rate (current and delinquent base tax only) was 99.54%. The total tax collection percentage rate (base tax and penalty and interest) was 100.67%.

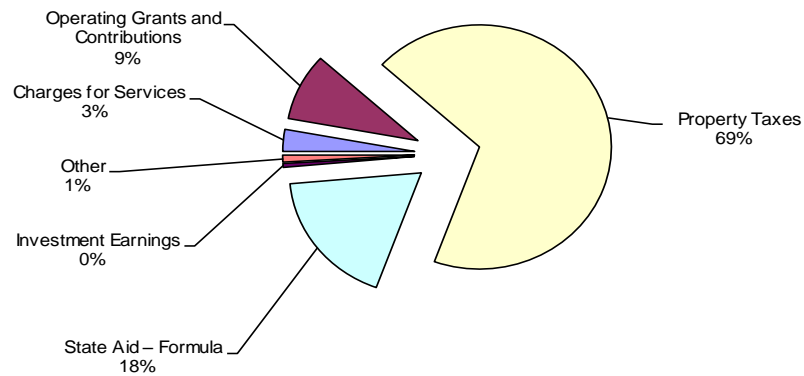
HAWKINS INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED AUGUST 31, 2017

GOVERNMENTAL ACTIVITIES

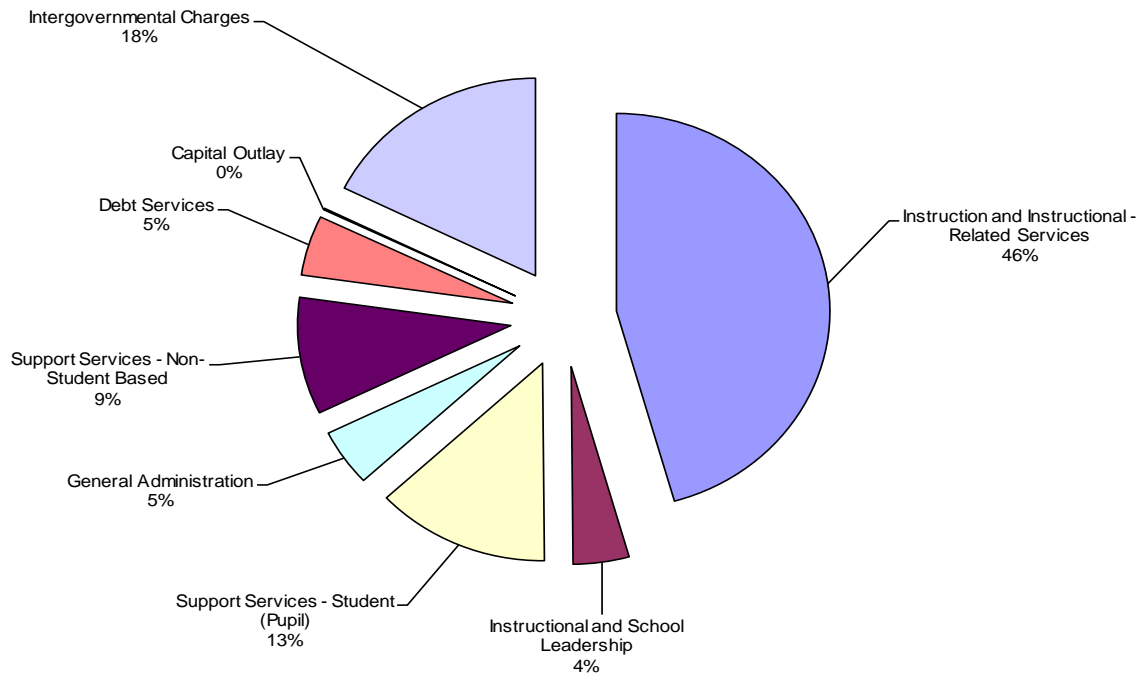
Changes in Hawkins Independent School District's Net Position			Table A-2
	Governmental Activities		Total Percentage Change
	2017	2016	2016-2017
Program Revenues:			
Charges for Services	\$ 328,228	\$ 300,415	9.26%
Operating Grants and Contributions	1,000,746	1,151,748	-13.11%
General Revenues:			
Property Taxes	7,765,562	9,758,536	-20.42%
State Aid – Formula	2,033,103	1,639,678	23.99%
Investment Earnings	58,184	37,012	57.20%
Other	103,378	55,379	86.67%
Total Revenues	<u>\$ 11,289,201</u>	<u>\$ 12,942,768</u>	-12.78%
Expenses:			
Instruction	\$ 5,271,416	\$ 5,254,127	0.33%
Instructional Resources and Media Services	130,484	137,379	-5.02%
Curriculum and Staff Development	105,657	118,157	-10.58%
School Leadership	511,884	533,503	-4.05%
Guidance, Counseling and Evaluation Services	141,631	122,021	16.07%
Social Work Services	657	-	100.00%
Health Services	60,087	52,996	13.38%
Student (Pupil) Transportation	211,685	225,208	-6.00%
Food Services	484,868	516,112	-6.05%
Cocurricular/Extracurricular Activities	695,354	703,317	-1.13%
General Administration	561,265	585,286	-4.10%
Plant Maintenance and Operations	916,560	993,073	-7.70%
Security and Monitoring Services	60,690	53,914	12.57%
Data Processing Services	161,641	149,216	8.33%
Community Services	17,243	-	100.00%
Debt Service	592,045	585,583	1.10%
Capital Outlay	15,944	9,450	68.72%
Contracted Instructional Services Between Schools	1,712,618	2,984,951	-42.62%
Payments for Shared Service Arrangements	261,321	264,383	-1.16%
Other Intergovernmental Charges	159,906	189,164	-15.47%
Total Expenses	<u>\$ 12,072,956</u>	<u>\$ 13,477,840</u>	-10.42%
Excess (Deficiency) Before Other Resources, Uses and Transfers	<u>\$ (783,755)</u>	<u>\$ (535,072)</u>	-46.48%
Increase (Decrease) in Net Position	\$ (783,755)	\$ (535,072)	-46.48%
Net Position - Beginning (September 1)	<u>9,576,733</u>	<u>10,111,805</u>	5.29%
Net Position - Ending (August 31)	<u>\$ 8,792,978</u>	<u>\$ 9,576,733</u>	-8.18%

HAWKINS INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED AUGUST 31, 2017

Sources of Revenue for Fiscal Year 2017 - See Table A-2



Functional Expenses for Fiscal Year 2017 - See Table A-2



HAWKINS INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED AUGUST 31, 2017

- Table A-3 presents the cost of selected functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.
- The cost of all governmental activities this year was \$ 12,072,956.
- However, the amount that our taxpayers paid for these activities through property taxes was \$ 7,765,562.
- Some of the cost was paid by those who directly benefited from the programs, \$ 328,228, or
- By grants and contributions \$ 1,000,746.

Table A-3						
Hawkins Independent School District's Net Cost of Selected District Functions						
	Total Cost of Services		% Change	Net Cost of Services		% Change
	2017	2016		2017	2016	
Instruction	\$ 5,271,416	\$ 5,254,127	0.33%	\$ 4,663,035	\$ 4,499,946	3.62%
School Leadership	511,884	533,503	-4.05%	488,667	509,223	-4.04%
General Administration	561,265	585,286	-4.10%	544,915	570,368	-4.46%
Plant Maintenance and Operations	916,560	993,073	-7.70%	894,555	972,252	-7.99%
Debt Service	592,045	585,583	1.10%	569,009	561,909	1.26%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues in the governmental funds totaled \$ 11,224,402. This represents a decrease of \$ 1,515,102 from the prior year revenues of \$ 12,739,504. The change represents decreased property tax collections due to value changes.

Expenditures in the governmental funds totaled \$ 12,420,770. This represents a decrease of \$ 703,807 from the prior year expenditures of \$ 13,124,577. The change represents a decrease in payments to the state due to property value decreases.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised its General Fund budget several times. With these adjustments, actual expenditures were \$ 283,534 below final General Fund budget amounts. The most significant variance resulted from reduced expenditures for instruction and other related administrative costs.

Resources available were \$ 96,886 above the final General Fund budgeted amount. The favorable variance was due to greater than expected state funding for attendance and property valuation adjustments as well as higher than anticipated local revenue sources.

HAWKINS INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED AUGUST 31, 2017

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At year end, the District had invested \$ 38,660,188 in a broad range of capital assets, including land, equipment, buildings and vehicles (See Table A-4).

Hawkins Independent School District's Capital Assets			Table A-4
	Governmental Activities		Total Percentage Change
	2017	2016	2016-2017
Land	\$ 126,073	\$ 126,073	0.00%
Buildings and Improvements	34,772,717	34,377,930	1.15%
Equipment	2,348,732	2,362,013	-0.56%
Vehicles	1,412,666	1,289,408	9.56%
Totals at Historical Cost	\$ 38,660,188	\$ 38,155,424	1.32%
Less Accumulated Depreciation	(16,079,717)	(14,944,833)	7.59%
Net Capital Assets	<u>\$ 22,580,471</u>	<u>\$ 23,210,591</u>	-2.71%

DEBT

At year-end, the District had \$ 18,792,945 in debt outstanding as shown in Table A-5. More detailed information about the District's debt is presented in the notes to the basic financial statements.

Bond Ratings -
The District's bonds presently carry "AAA" ratings.

Hawkins Independent School District's Debt			Table A-5
	Governmental Activities		Total Percentage Change
	2017	2016	2016-2017
Bonds Payable	\$ 17,515,000	\$ 17,435,000	0.46%
Other Debt Payable	1,277,945	1,474,048	-13.30%
Total Debt payable	<u>\$ 18,792,945</u>	<u>\$ 18,909,048</u>	-0.61%

HAWKINS INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED AUGUST 31, 2017

ECONOMIC FACTORS

The District's property valuation has decreased significantly due to minerals and commercial investment changes. Mineral values make up a large portion of the assessed property value and as oil prices drop the taxable value of property drops. Local property tax rates are restricted by state statute, without local elections, to \$ 1.04 for maintenance and operations. The state funding formula was changed several years ago to provide state funds to replace the lost local property tax revenue. This change in funding and other legislative changes could impact the District's financial operations, including cash flows.

Student population has remained at a steady historical growth rate in the District. The economic outlook for the area is for growth to be relatively slow, as indicated by a reduction of residential property values from prior year. Housing has not expanded at the rate of other east Texas communities. These economic conditions allow the District to maintain constant funding and staffing levels.

The State has increased funding levels for the 2017-2018 biennium, which will affect the revenue levels of the District. With these increases in funding, the District anticipates monitoring expenditure levels to ensure financial stability remains strong.

A challenge to the State's funding system resulted in the system being held constitutional. Future legislative sessions could produce minor changes to funding for student populations. The legal process ended the challenges by the various interested parties including the State. State funding will continue under the present system until legislative changes occur.

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 demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Robby Fair, Chief Financial Officer for the District.

BASIC FINANCIAL STATEMENTS

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

1

Data Control Codes		Governmental Activities
	ASSETS	
1110	Cash and Investments	\$ 5,010,715
1225	Property Taxes Receivable, Net	590,904
1240	Due from Other Governments	487,212
1290	Other Receivables, Net	31,628
	Capital Assets:	
1510	Land	126,073
1520	Building and Improvements, Net	20,848,504
1530	Furniture and Equipment, Net	1,605,894
1000	Total Assets	\$ 28,700,930
	DEFERRED OUTFLOWS OF RESOURCES	
1701	Deferred Outflows - Refunding	\$ 380,034
1705	Deferred Outflows - Pensions	647,795
1700	Total Deferred Outflows of Resources	\$ 1,027,829
	LIABILITIES	
2110	Accounts Payable	\$ 89,033
2140	Interest Payable	26,208
2165	Accrued Liabilities	254,012
2180	Due to Other Governments	135,789
2300	Unearned Revenue	3,195
	Noncurrent Liabilities:	
2501	Due Within One Year	1,020,000
2502	Due in More Than One Year	17,772,945
2540	Net Pension Liability	1,495,411
2000	Total Liabilities	\$ 20,796,593
	DEFERRED INFLOWS OF RESOURCES	
2605	Deferred Inflows - Pensions	\$ 139,188
2600	Total Deferred Inflows of Resources	\$ 139,188
	NET POSITION	
3200	Net Investment in Capital Assets	\$ 4,095,533
	Restricted For:	
3820	Federal and State Programs	6,149
3850	Debt Service	660,937
3900	Unrestricted	4,030,359
3000	Total Net Position	\$ 8,792,978

The accompanying notes are an integral part of this statement.

HAWKINS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED AUGUST 31, 2017

		1	3	4	Net (Expense) Revenue and Changes in Net Position
		Program Revenues			
Data				Operating	
Control			Charges for	Grants and	Governmental
Codes	Functions/Programs	Expenses	Services	Contributions	Activities
Governmental Activities:					
11	Instruction	\$ 5,271,416	\$ 47,612	\$ 560,769	\$ (4,663,035)
12	Instructional Resources and Media Services	130,484	-	24,467	(106,017)
13	Curriculum and Staff Development	105,657	-	10,587	(95,070)
23	School Leadership	511,884	-	23,217	(488,667)
31	Guidance, Counseling and Evaluation Services	141,631	-	6,719	(134,912)
32	Social Work Services	657	-	-	(657)
33	Health Services	60,087	-	3,430	(56,657)
34	Student (Pupil) Transportation	211,685	-	8,909	(202,776)
35	Food Services	484,868	170,296	279,152	(35,420)
36	Co-curricular/Extracurricular Activities	695,354	56,058	15,523	(623,773)
41	General Administration	561,265	-	16,350	(544,915)
51	Plant Maintenance and Operations	916,560	-	22,005	(894,555)
52	Security and Monitoring Services	60,690	-	-	(60,690)
53	Data Processing Services	161,641	-	6,019	(155,622)
61	Community Services	17,243	3,544	563	(13,136)
72	Interest on Long-term Debt	519,374	-	23,036	(496,338)
73	Bond Issuance Costs and Fees	72,671	-	-	(72,671)
81	Capital Outlay	15,944	-	-	(15,944)
91	Contracted Instructional Services between Schools	1,712,618	-	-	(1,712,618)
93	Payments for Shared Service Arrangements	261,321	50,718	-	(210,603)
99	Other Intergovernmental Charges	159,906	-	-	(159,906)
TG	Total Governmental Activities	<u>\$ 12,072,956</u>	<u>\$ 328,228</u>	<u>\$ 1,000,746</u>	<u>\$ (10,743,982)</u>
Total Primary Government		<u>\$ 12,072,956</u>	<u>\$ 328,228</u>	<u>\$ 1,000,746</u>	<u>\$ (10,743,982)</u>
General Revenues:					
MT	Property Taxes, Levied for General Purpose				\$ 6,031,020
DT	Property Taxes, Levied for Debt Service				1,734,542
IE	Investment Earnings				58,184
GC	Grant and Contributions Not Restricted to Specific Programs				2,033,103
MI	Miscellaneous				103,378
TG	Total General Revenues and Special Items				<u>\$ 9,960,227</u>
CN	Change in Net Position				\$ (783,755)
NB	Net Position - Beginning (September 1)				9,576,733
NE	Net Position - Ending (August 31)				<u>\$ 8,792,978</u>

The accompanying notes are an integral part of this statement.

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

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
1110 Cash and Investments	\$ 3,895,067	\$ 593,070	\$ 312,429	\$ 4,800,566
1225 Property Taxes Receivable, Net	500,428	90,476	-	590,904
1240 Due from Other Governments	446,779	-	40,433	487,212
1260 Due from Other Funds	-	-	14,450	14,450
1290 Other Receivables, Net	27,487	3,599	542	31,628
1000 Total Assets	<u>\$ 4,869,761</u>	<u>\$ 687,145</u>	<u>\$ 367,854</u>	<u>\$ 5,924,760</u>
LIABILITIES				
Current Liabilities:				
2110 Accounts Payable	\$ 52,832	\$ -	\$ 4,256	\$ 57,088
2150 Payroll Deductions & Withholdings	1,558	-	-	1,558
2160 Accrued Wages Payable	228,716	-	23,738	252,454
2170 Due to Other Funds	14,450	-	-	14,450
2180 Due to Other Governments	135,789	-	-	135,789
2300 Unearned Revenues	-	-	3,195	3,195
2000 Total Liabilities	<u>\$ 433,345</u>	<u>\$ -</u>	<u>\$ 31,189</u>	<u>\$ 464,534</u>
DEFERRED INFLOWS OF RESOURCES:				
2600 Total Deferred Inflows of Resources	<u>\$ 500,428</u>	<u>\$ 90,476</u>	<u>\$ -</u>	<u>\$ 590,904</u>
FUND BALANCES				
Restricted Fund Balances:				
3450 Federal/State Funds Grant Restrictions	\$ -	\$ -	\$ 6,149	\$ 6,149
3480 Retirement of Long-Term Debt	-	596,669	-	596,669
3490 Other Restrictions of Fund Balance	-	-	310,575	310,575
Committed Fund Balance:				
3510 Construction	850,000	-	-	850,000
3545 Other Committed Fund Balance	460,000	-	19,941	479,941
3600 Unassigned	2,625,988	-	-	2,625,988
3000 Total Fund Balances	<u>\$ 3,935,988</u>	<u>\$ 596,669</u>	<u>\$ 336,665</u>	<u>\$ 4,869,322</u>
Total Liabilities, Deferred Inflow of Resources and Fund Balances	<u>\$ 4,869,761</u>	<u>\$ 687,145</u>	<u>\$ 367,854</u>	<u>\$ 5,924,760</u>

The accompanying notes are an integral part of this statement.

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

Total fund balances - Balance Sheet (governmental funds)	\$ 4,869,322
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not reported in the funds.	22,580,471
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	590,904
The assets and liabilities of internal service funds are included in governmental activities in the SNA.	178,204
Payables for bond principal which are not due in the current period are not reported in the funds.	(17,515,000)
Payables for bond interest which are not due in the current period are not reported in the funds.	(26,208)
Other long-term assets are not available to pay for current period expenditures and are deferred in the funds.	380,034
Recognition of the District's proportionate share of the net pension liability is not reported in the funds.	(1,495,411)
Deferred Resource Inflows related to TRS are not reported in the funds.	(139,188)
Deferred Resource Outflows related to TRS are not reported in the funds.	647,795
Bond premiums are amortized in the SNA but not in the funds.	<u>(1,277,945)</u>
Net position of governmental activities - Statement of Net Position	<u>\$ 8,792,978</u>

The accompanying notes are an integral part of this statement.

HAWKINS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED AUGUST 31, 2017

Data Control Codes	10 General Fund	50 Debt Service Funds	Other Governmental Funds	98 Total Governmental Funds
REVENUES				
5700 Local and Intermediate Sources	\$ 6,164,086	\$ 1,733,933	\$ 355,338	\$ 8,253,357
5800 State Program Revenues	2,313,924	23,036	88,709	2,425,669
5900 Federal Program Revenues	18,562	-	526,814	545,376
5020 Total Revenues	\$ 8,496,572	\$ 1,756,969	\$ 970,861	\$ 11,224,402
EXPENDITURES				
Current:				
0011 Instruction	\$ 3,614,808	\$ -	\$ 578,993	\$ 4,193,801
0012 Instructional Resources and Media Services	80,247	-	20,794	101,041
0013 Curriculum and Staff Development	93,938	-	8,377	102,315
0023 School Leadership	475,584	-	3,370	478,954
0031 Guidance, Counseling and Evaluation Services	134,149	-	-	134,149
0033 Health Services	59,085	-	-	59,085
0034 Student (Pupil) Transportation	163,521	-	249,354	412,875
0035 Food Services	730	-	443,299	444,029
0036 Co-curricular/Extracurricular Activities	511,909	-	40,893	552,802
0041 General Administration	525,723	-	-	525,723
0051 Plant Maintenance and Operations	862,732	-	56,225	918,957
0052 Security and Monitoring Services	6,151	-	9,080	15,231
0053 Data Processing Services	158,264	-	-	158,264
0061 Community Services	12,644	-	4,107	16,751
0071 Principal on Long-term Debt	-	1,070,000	-	1,070,000
0072 Interest on Long-term Debt	-	636,440	-	636,440
0073 Debt Issuance Costs and Fees	-	72,671	-	72,671
0081 Capital Outlay	-	-	393,837	393,837
0091 Contracted Instructional Services between Schools	1,712,618	-	-	1,712,618
0093 Payments for Shared Service Arrangements	210,603	-	50,718	261,321
0099 Other Intergovernmental Charges	159,906	-	-	159,906
6030 Total Expenditures	\$ 8,782,612	\$ 1,779,111	\$ 1,859,047	\$ 12,420,770
1100 Excess (Deficiency) of Revenues Over Expenditures	\$ (286,040)	\$ (22,142)	\$ (888,186)	\$ (1,196,368)
OTHER FINANCING SOURCES (USES)				
7911 Capital-Related Debt Issued (Regular Bonds)	\$ -	\$ 1,620,000	\$ 1,200,000	\$ 2,820,000
7916 Premium or Discount on Issuance of Bonds	-	132,503	-	132,503
8949 Other Uses	-	(1,679,655)	-	(1,679,655)
7080 Net Other Financing Sources (Uses)	\$ -	\$ 72,848	\$ 1,200,000	\$ 1,272,848
1200 Net Changes in Fund Balances	\$ (286,040)	\$ 50,706	\$ 311,814	\$ 76,480
0100 Fund Balances - Beginning (September 1)	4,222,028	545,963	24,851	4,792,842
3000 Fund Balances - Ending (August 31)	\$ 3,935,988	\$ 596,669	\$ 336,665	\$ 4,869,322

The accompanying notes are an integral part of this statement.

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

Net change in fund balances - total governmental funds	\$ 76,480
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are not reported as expenses in the SOA.	714,912
The depreciation of capital assets used in governmental activities is not reported in the funds.	(1,345,030)
The gain or loss on the sale of capital assets is not reported in the funds.	(2)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	7,276
Revenues in the SOA not providing current financial resources are not reported as revenues in the funds.	57,523
Expenses not requiring the use of current financial resources are not reported as expenditures in the funds.	1,796,799
Repayment of bond principal is an expenditure in the funds but is not a expense in the SOA.	1,070,000
(Increase) decrease in accrued interest from beginning of period to end of period.	(78)
The net revenue (expense) of internal service funds is reported with governmental activities.	(41,091)
Proceeds of bonds do not provide revenue in the SOA, but are reported as current resources in the funds.	(2,820,000)
Bond premiums are reported in the funds but not in the SOA.	(132,503)
Implementing GASB 68 required certain expenditures to be de-expended and recorded as deferred resource outflows.	125,734
Pension contributions made after the measurement date but in current FY were de-expended and reduced NPO.	1,788
The District's share of the unrecognized deferred inflows and outflows for the pension plan was amortized.	(160,218)
Pension expense relating to GASB 68 is recorded in the SOA but not in the funds.	(135,345)
Change in net position of governmental activities - Statement of Activities	<u>\$ (783,755)</u>

The accompanying notes are an integral part of this statement.

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

Data Control Codes		Internal Service Fund
	ASSETS	
	Current Assets	
1110	Cash and Investments	\$ 210,149
1000	Total Assets	\$ 210,149
	LIABILITIES	
2110	Accounts Payable	\$ 31,945
2000	Total Liabilities	\$ 31,945
	NET POSITION	
3900	Unrestricted Net Position	\$ 178,204
3000	Total Net Position	\$ 178,204

The accompanying notes are an integral part of this statement.

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

Data Control Codes		Internal Service Fund
	OPERATING EXPENSES	
6400	Other Operating Costs	\$ 41,091
6030	Total Operating Expenses	\$ 41,091
1300	Change in Net Position	\$ (41,091)
0100	Total Net Position - Beginning (September 1)	219,295
3300	Total Net Position - Ending (August 31)	\$ 178,204

The accompanying notes are an integral part of this statement.

HAWKINS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED AUGUST 31, 2017

	Internal Service Fund
Cash Flows from Operating Activities:	
Cash Receipts from Quasi-External Operating Transfers	\$ -
Cash Payments for Claims	(10,798)
Cash Payments for Reinsurance and Administration	(17,544)
	<hr/>
Net Cash Provided by (Used for) Operating Activities	\$ (28,342)
Cash Flows from Capital and Other Related Financing Activities:	
NONE	
Cash Flows from Noncapital Financing Activities:	
NONE	
Cash Flows from Investing Activities:	
NONE	
Net Increase (Decrease) in Cash and Investments	\$ (28,342)
Cash and Investments - Beginning (September 1)	<hr/> 238,491
Cash and Investments - Ending (August 31)	<u><u>\$ 210,149</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ (41,091)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Increase (Decrease) in Claims Liability	<hr/> 12,749
Net Cash Provided by (Used for) Operating Activities	<u><u>\$ (28,342)</u></u>

The accompanying notes are an integral part of this statement.

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

Data Control Codes		Agency Fund
	ASSETS	
	Current Assets:	
1110	Cash and Investments	\$ 17,820
1000	Total Assets	\$ 17,820
	LIABILITIES	
	Current Liabilities:	
2190	Due to Student Groups	\$ 17,820
2000	Total Liabilities	\$ 17,820
	NET POSITION	
3000	Total Net Position	\$ -

The accompanying notes are an integral part of this statement.

HAWKINS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

A. Summary of Significant Accounting Policies

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

1. Reporting Entity

The Board of School Trustees (Board), a seven member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and as a body corporate has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency (Agency) or to the State Board of Education are reserved for the Board, and the Agency may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District is not included in any other governmental "reporting entity" as defined by 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 government sources and must comply with the requirements of these funding source entities.

2. Basis of Presentation – Basis of Accounting

a. Basis of Presentation

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

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

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

The District reports the following major governmental funds:

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

Debt Service Fund – This fund is used to account for the accumulation of resources for, and the payment of general long-term Debt principal, interest and related costs.

HAWKINS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

A. Summary of Significant Accounting Policies (Continued)

In addition, the District reports the following fund types:

Capital Projects Fund – The District accounts for capital improvements resulting from the issuance of tax supported general obligation bonds in this fund. Any excess proceeds remaining will be used to retire the debt issued.

Special Revenue Funds – The District accounts 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. The Board can commit specific types of resources to specific purposes which are included as special revenue funds.

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

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

b. Measurement Focus – Basis of Accounting

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

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

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

HAWKINS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

A. Summary of Significant Accounting Policies (Continued)

3. Budgetary Data

The official budget was prepared for adoption for the general, food service and debt service funds. The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

- a. Prior to August 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning September 1.
- b. A meeting of the Board is called for the purpose of adopting the proposed budget with public notice given at least 10 days prior to the meeting.
- c. Prior to the expenditure of funds, the budget is adopted by the Board.

After adoption, the budget may be amended through action by the Board. Budget amendments are approved at the functional expenditure level. All amendments are before the fact and reflected in the official minutes of the Board. Budgets are controlled at the functional level by personnel responsible for organizational financial reporting. All budget appropriations lapse at the year end. Budget amendments throughout the year were not significant.

4. Encumbrance Accounting

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. End-of-year outstanding encumbrances that were provided for in the subsequent year's budget are:

General Fund	\$	-0-
Special Revenue Fund		-0-
Total	\$	-0-

5. Financial Statement Amounts

Cash and Investments

The District pools cash resources of its various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as a part of the District's cash and temporary investments.

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

Inventories

The purchase method is used to account for inventories of school supplies, athletic equipment and food products. Under this method supplies and materials are debited as expenditures when purchased.

Capital Assets

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

HAWKINS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

A. Summary of Significant Accounting Policies (Continued)

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings and Improvements	15-50
Vehicles	5-10
Other Equipment	3-15

Fund Equity

Governmental funds utilize a fund balance presentation for equity. Fund balance is categorized as nonspendable, restricted, committed, assigned or unassigned.

Nonspendable 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 Board. Committed resources cannot be used for any other purpose 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 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, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

The following schedule provides information about the specific fund balance classification by fund:

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental</u>	<u>Total</u>
Restricted				
Child Nutrition Program	\$ -	\$ -	\$ 6,149	\$ 6,149
Retirement of Long Term Debt	-	596,669	-	596,669
Capital Projects	-	-	308,007	308,007
Committed				
Construction	850,000	-	-	850,000
Other	460,000	-	-	460,000
Campus Activity Funds	-	-	17,509	17,509
Scholarships	-	-	5,000	5,000
Unassigned	2,625,988	-	-	2,625,988
Totals	<u>\$ 3,935,988</u>	<u>\$ 596,669</u>	<u>\$ 336,665</u>	<u>\$ 4,869,322</u>

HAWKINS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

A. Summary of Significant Accounting Policies (Continued)

6. Deferred Outflows and Inflows of Resources

The District implemented GASB Statement Number 68, *Accounting and Financial Reporting for Pensions*. In addition to assets and liabilities, the government-wide Statement of Net Position and governmental fund Balance Sheet report separate sections for deferred outflows and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position/fund balance that applies to a future period and will not be recognized as an outflow of resources (expenses/expenditure) until then. Deferred inflows of resources represent the acquisition of net position/fund balance that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The District reports certain deferred inflows and outflows related to pensions on the government-wide Statement of Net Position. At the governmental fund level, earned but unavailable revenue is reported as a deferred inflow of resources. To the extent practical, this change in accounting principle is required to be reported as an adjustment to prior periods.

The District also implemented GASB Statement Number 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which amends the transition provisions of GASB 68. GASB 71 requires that, at transition, governments recognize a beginning deferred outflow of resources for pension contributions made subsequent to the measurement date of the beginning Net Pension Liability. Implementation is reflected in the financial statements and the prior period adjustment.

7. Receivable and Payable Balances

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

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

8. Interfund Activities

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

9. Vacation, Sick Leave and Other Compensated Absences

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

10. Pensions

The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teacher Retirement System of Texas (TRS) and additions to/deductions from TRS's fiduciary net position have been determined on the same basis as they are reported by TRS. For this purpose, 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.

HAWKINS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

A. Summary of Significant Accounting Policies (Continued)

11. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could vary from these estimates.

12. Data Control Codes

Data control codes refer to the account code structure prescribed by the Agency in the *Guide*. The Agency requires the District to display these codes in its financial statements filed with the Agency in order to ensure accuracy in building a statewide database for policy development and funding plans.

13. Accounting System

In accordance with Texas Education Code, Chapter 44, Subchapter A, the District adopted and implemented an accounting system which at least meets the minimum requirements prescribed by the State Board of Education and approved by the State Auditor. The District's accounting system uses codes and the code structure presented in the accounting code section of the *Guide*. Mandatory codes are utilized in the form provided in that section.

B. Deposits, Securities and Investments

The District's funds are deposited and invested under the terms of a depository contract. The contract requires the depository to pledge approved securities in an amount significant to protect the District's day-to-day balances. The pledge is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance. At August 31, 2017, all District cash deposits appear to be covered by FDIC insurance or by pledged collateral held by the District's agent bank in the name of the District. The District's deposits appear to have been properly secured throughout the fiscal year.

The District's investment policies and types of investments are governed by the Public Funds Investment Act. The Act requires specific training, reporting and establishment of local policies. The District appears to have been in substantial compliance with the requirements of the Act.

State statutes and local policy authorize the District to invest in the following types of investment goods:

- a. obligations of the U.S. or its agencies or instrumentalities,
- b. obligations of the State of Texas or its agencies,
- c. obligations guaranteed by the U.S. or State of Texas or their agencies or instrumentalities,
- d. obligations of other states, agencies or political subdivisions having a national investment rating of "A" or greater,
- e. guaranteed or securitized certificates of deposit issued by a bank domiciled in the State of Texas, or
- f. fully collateralized repurchase agreements.

District investments include investments in external investment pools, such as TexPool and Lone Star Investment Pool. All TexPool and Lone Star Investment Pool investments are reported at share price (fair value) and are reported as cash and investments.

Texas Local Government Investment Pool (TexPool) has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These two acts provide for the creation of public funds investment pools and permit eligible governmental entities to jointly invest their funds in authorized investments.

The Comptroller of Public Accounts (Comptroller) is the sole officer, director and shareholder of the Texas Treasury Safekeeping Trust Company, (Trust Company), which is authorized to operate TexPool. Pursuant to the TexPool Participation Agreement, administrative and investment services to TexPool are provided by Federated Investors, Inc. (Federated), under an agreement with the Comptroller, acting on behalf of the Trust Company.

HAWKINS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

B. Deposits, Securities and Investments (Continued)

The Comptroller maintains oversight of the services provided to TexPool by Federated. In addition, the TexPool Advisory Board advises on TexPool's Investment Policy and approves any fee increases. As required by the Public Funds Investment Act, the Advisory Board is composed equally of participants in TexPool and other persons who do not have a business relationship with TexPool who are qualified to advise TexPool.

The fund is rated AAAM by Standard & Poor's rating agency. This rating is the highest principal stability fund rating assigned by Standard & Poor's. This rating as well as the operational policies and procedures allow the fund to comply with the requirements of the Public Funds Investment Act.

The *Lone Star Investment Pool* is an investment pool available to governmental entities. The pool was established under the guidance of the Texas Public Funds Investment Act. A board of directors made up of members of the pool is responsible for the overall operation of the pool. The Board has employed various third party organizations to assist in the operations. These third parties are as follows: American Beacon Advisors and BNY Mellon Cash Investment Strategies – Investment Managers, RBC Wealth Management – Investment Consultant, Bank of New York Mellon – Custodian, First Public – Administration. In combination with these third party organizations, the pool has received a AAAM rating from Standard and Poor's. This rating allows the pool to meet the standards required by the Texas Public Funds Investment Act.

The following table identifies the District's investments at August 31, 2017:

	Credit Risk Rating	Fair Value
TexPool	AAAM	\$ 208,648
Lone Star Investment Pool	AAAM	52,125
Total		<u>\$ 260,773</u>

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

- Name of bank: Southside Bank, Hawkins, Texas.
- Amount of bond and/or security pledged as of the date of the highest combined balance on deposit was \$ 11,715,917.
- Largest cash, savings and time deposit combined account balances amounted to \$ 10,989,852, and occurred during the month of January 2017.
- Total amount of FDIC coverage at the time of the highest combined balance was \$ 531,467.

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

a. Credit Risk

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

b. Custodial Credit Risk

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

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

HAWKINS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

B. Deposits, Securities and Investments (Continued)

c. Concentration of Credit Risk

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

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

C. Property Taxes

Property taxes are levied by October 1, in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1, of the year following the October 1 levy date. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed. Property tax revenues are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period.

Property taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectibles within the General Fund are based upon historical experience in collecting property taxes. Section 33.05, Property Tax Code, requires the tax collector for the District to cancel and remove from the delinquent tax rolls a tax on real property that has been delinquent for more than 20 years or a tax on personal property that has been delinquent for more than 10 years. Delinquent taxes meeting this criteria may not be canceled if litigation concerning these taxes is pending.

The District levied taxes on property within the District at \$ 1.04 to fund general operations and \$ 0.3 for bonded debt. The rate was levied on property assessed totaling \$ 575,108,352.

HAWKINS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

D. Capital Assets

Capital asset activities for the year ended were as follows:

	Beginning Balances	Increases	(Decreases)	Ending Balances
Governmental Activities:				
Capital Assets not Being Depreciated:				
Land	\$ 126,073	\$ -	\$ -	\$ 126,073
Total Capital Assets not being Depreciated	\$ 126,073	\$ -	\$ -	\$ 126,073
Capital Assets being Depreciated:				
Building and Improvements	\$ 34,377,930	\$ 394,787	\$ -	\$ 34,772,717
Equipment	2,362,013	49,867	63,148	2,348,732
Vehicles	1,289,408	270,258	147,000	1,412,666
Total Capital Assets being Depreciated	\$ 38,029,351	\$ 714,912	\$ 210,148	\$ 38,534,115
Less Accumulated Depreciation for :				
Buildings and Improvements	\$ 12,910,279	\$ 1,013,934	\$ -	\$ 13,924,213
Equipment	1,000,384	272,171	63,146	1,209,409
Vehicles	1,034,170	58,925	147,000	946,095
Total Accumulated Depreciation	\$ 14,944,833	\$ 1,345,030	\$ 210,146	\$ 16,079,717
Total Capital Assets being Depreciated, Net	\$ 23,084,518	\$ (630,118)	\$ 2	\$ 22,454,398
Governmental Activities Capital Assets, Net	\$ 23,210,591	\$ (630,118)	\$ 2	\$ 22,580,471

Depreciation was charged to governmental activities functions as follows:

Instruction	\$ 932,269
Instructional Resources and Media Services	26,761
Staff Development	436
School Leadership	19,552
Guidance, Counseling and Evaluation Services	3,823
Health Services	365
Student (Pupil) Transportation	45,954
Food Services	39,997
Co-curricular/Extracurricular Activities	148,432
General Administration	24,487
Plant Maintenance and Operations	57,495
Security and Monitoring Services	45,460
Total	\$ 1,345,031

HAWKINS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

E. Long Term Obligations

Long-Term Obligation Activity

Long-term obligation activities for the year ended were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<u>Governmental Activities:</u>					
Bonds Payable	\$ 17,435,000	\$ 2,820,000	\$ 2,740,000	\$ 17,515,000	\$ 1,020,000
Unamortized Premium	1,474,048	132,503	328,606	1,277,945	-
Total Governmental Activities	<u>\$ 18,909,048</u>	<u>\$ 2,952,503</u>	<u>\$ 3,068,606</u>	<u>\$ 18,792,945</u>	<u>\$ 1,020,000</u>

Bonds

The District has issued various series of general obligation bonds to fund facility construction and improvements. Bonds mature at various times with varying rates of interest. The bonds issued require the District to levy an ad valorem tax annually to retire the current maturities.

The Board of Trustees approved the order authorizing the issuance of "Hawkins Independent School District Unlimited Tax School Building and Refunding Bonds, Series 2016," totaling \$ 2,820,000. The District will use \$ 1,200,000 of the proceeds from the issuance of the bonds for the purpose of the construction, acquisition and equipping of school buildings in the District and the purchase of the necessary sites for school buildings.

The remaining \$ 1,620,000 will be used for the purpose of refunding outstanding bonds currently obligated by the District. The Board of Trustees of the District deems it advisable and in the best interests of the District to refund \$ 1,670,000 in outstanding obligations in order to achieve a restructuring of the debt service requirements of the District resulting in a gross debt service savings of \$ 50,495, a net present value debt service savings of \$ 50,999 and to achieve a restructuring of the District's cash flow position.

The District refunded \$ 1,670,000 in outstanding bonds on October 6, 2016. The debt is considered defeased and has been removed from the District's long term debt payable.

The following issues are outstanding at year end:

Description	Interest Rate	Original Amount	Outstanding Balance
Unlimited Tax School Building Bonds, Series 2013	2.7558%	\$ 9,415,000	\$ 6,780,000
Unlimited Tax Refunding Bonds, Series 2014	2.6358%	8,815,000	8,615,000
Unlimited Tax Building and Refunding Bond, Series 2016	1.6630%	2,925,503	2,120,000
Total			<u>\$ 17,515,000</u>

HAWKINS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

E. Long Term Obligations (Continued)

Debt service requirements on bonded debt at year end, are as follows:

Year Ending August 31	Principal	Interest	Total Requirements
2018	\$ 1,020,000	\$ 608,891	\$ 1,628,891
2019	1,065,000	567,754	1,632,754
2020	1,100,000	530,604	1,630,604
2021	1,135,000	494,716	1,629,716
2022	1,175,000	455,604	1,630,604
2023-2027	6,405,000	1,636,869	8,041,869
2028-2032	5,615,000	436,132	6,051,132
Totals	\$ 17,515,000	\$ 4,730,570	\$ 22,245,570

F. Pension Plan

1. *Plan Description*

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

2. *Benefits Provided*

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description in (1) above.

HAWKINS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

F. Pension Plan (Continued)

3. *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.

Employees' 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%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
2017 Employer Contributions	\$	127,522
2017 Member Contributions	\$	368,119
2016 NECE On-Behalf Contributions	\$	256,690

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

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

On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.

During a new member's first 90 days of employment.

When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.

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.

HAWKINS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

F. Pension Plan (Continued)

When a school district or charter school does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

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

At August 31, 2017, the District reported a liability of \$ 1,495,411 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$	1,495,411
State's proportionate share that is associated with the District		<u>3,046,868</u>
Total	\$	<u><u>4,542,279</u></u>

The net pension liability was measured as of August 31, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contribution 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 0.0039573% which was a decrease of 0.0004087% 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, the District recognized pension expense of \$ 316,192 and revenue of \$ 316,192 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 23,448	\$ 44,652
Changes of actuarial assumptions	45,577	41,451
Difference between projected and actual investment earnings	126,629	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	<u>324,619</u>	<u>53,085</u>
Total as of August 31, 2016 measurement date	\$ 520,273	\$ 139,188
Contributions paid to TRS subsequent to the measurement date	<u>127,522</u>	<u>-</u>
Total at fiscal year end	<u><u>\$ 647,795</u></u>	<u><u>\$ 139,188</u></u>

HAWKINS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

F. Pension Plan (Continued)

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:

Fiscal Year Ending	
August 31	Amount
2018	\$ 68,746
2019	68,746
2020	149,516
2021	62,538
2022	36,934
Thereafter	(5,394)

5. *Actuarial Assumptions*

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

Valuation Date	August 31, 2016
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Inflation	2.50%
Salary Increases including inflation	3.50% to 9.50%
Payroll Growth Rate	2.50%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

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

6. *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 future real rates of return (expected returns, net 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 on the next page:

HAWKINS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

F. Pension Plan (Continued)

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

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

7. *Discount Rate Sensitivity Analysis*

The following presents the District's share of the net pension liability of the plan using the discount rate of 8%, as well as what the District's share of the net pension liability would be if it were calculated using a discount rate that is 1 – percentage point lower (7%) or 1 – percentage point higher (9%) than the current rate:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
District's proportionate share of the net pension liability	\$ 2,314,393	\$ 1,495,411	\$ 800,749

HAWKINS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

F. Pension Plan (Continued)

8. *Pension Plan Fiduciary Net Position*

Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX 78701-2698; or by calling (512) 542-6592. The information provided in the Notes to the Financial Statements in the 2016 Comprehensive Annual Financial Report for TRS provides the following information regarding the Pension Plan fiduciary net position as of August 31, 2016 and 2015.

<u>Net Pension Liability</u>	<u>August 31, 2016</u>	<u>August 31, 2015</u>
Total Pension Liability	\$ 171,797,150,487	\$ 163,887,375,172
Less: Plan Fiduciary Net Position	(134,008,637,473)	(128,538,706,212)
Net Pension Liability	<u>\$ 37,788,513,014</u>	<u>\$ 35,348,668,960</u>
Net Position as percentage of Total Pension Liability	78.00%	78.43%

G. School District Retiree Health Plan

1. Plan Description

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

2. Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2015, 2014, and 2013. Per Texas Insurance Code, Chapters 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.

3. On Behalf Payments

In accordance with GASB Statement 24, "Accounting and Financial Reporting for Certain Grants and Other Financial Assistance," on-behalf payments (payments made by the State) of \$ 38,485 are reflected in the basic financial statements for Retiree Health Plan contributions. Additionally, the District benefited from payments made by the State totaling \$ 22,151 for subsidies for Medicare Part D and participation in the Early Retirement Reissuance Programs.

HAWKINS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

H. Risk Management

Health Care

During the year ended, employees of the Hawkins Independent School District were covered by a health insurance plan (the Plan). The District paid premiums of \$ 341 per month per employee and employees, at their option, authorized payroll withholdings to provide dependents' coverage under the Plan. All premiums were paid to TRS Activecare (Aetna). The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the Hawkins Independent School District and TRS Activecare (Aetna) is renewable September 1 of each year and terms of coverage and premium costs are included in the contractual provisions.

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

Workers' Compensation

The District participates in the East Texas Educational Insurance Association Workers' Compensation Self Insurance Joint Fund. The District is partially self funded to a loss fund maximum of \$ 44,969 for the 16-17 fiscal year. Additionally, the District incurred fixed costs of \$ 17,321 for their share of claims administration, loss control, record keeping and cost of excess insurance.

Claims administration is provided by Claims Administrative Services, Inc. Reinsurance is provided for aggregate claim losses exceeding \$ 225,000. The fixed cost charge is based on total payroll paid by the District. Increases or decreases in the fixed costs will adjust subsequent year charges.

The accrued liability for workers' compensation self insurance of \$ 31,722 includes \$ 31,722 of incurred but not reported claims. This liability is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," which require that a liability for claims be reported if information indicates that it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The liability recorded is an undiscounted actuarial calculation.

Changes in the workers' compensation claims liability amounts in the periods of 2016 and 2015 are represented below:

	2017	2016
Beginning Claims Liability	\$ 19,197	\$ 37,590
Claims Incurred (Reduced)	23,557	30,912
Claims Paid	(11,032)	(49,305)
Ending Claims Liability	<u>\$ 31,722</u>	<u>\$ 19,197</u>

Other Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2017, the District purchased commercial insurance to cover these liabilities. There were not significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

I. Litigation

The District does not appear to not be involved in any litigation as of year end.

HAWKINS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

J. Interfund Balances and Activities

Interfund Receivables and Payables

The composition of interfund balances as of year end is as follows:

Receivable Fund	Payable Fund	Amount
Capital Projects Fund	General Fund	\$ 14,450

K. Shared Service Arrangements

The District participates in cooperative programs with other local districts. The District does not account for revenue or expenditures of these programs and does not disclose them in these financial statements.

<u>Shared Service Agreement</u>	<u>Fiscal Agent</u>	<u>Service</u>
Wood County Special Education Cooperative	Mineola Independent School District	Special Education
SuperNET	White Oak Independent School District	Technology Services
LetsNET	Hawkins Independent School District	Technology Services
Piney Woods Consortium	Union Grove Independent School District	Carl D. Perkins Vocational Education

L. Revenue from Local and Intermediate Sources

During the year, the District received revenue from local and intermediate sources consisting of the following:

	General	Debt Service	Other Governmental	Total
Property Tax Collections	\$ 6,032,356	\$ 1,725,931	\$ -	\$ 7,758,287
Investment Income	107,434	8,002	-	115,436
Food Service Income	-	-	170,297	170,297
Gifts and Bequests	2,025	-	3,256	5,281
Cocurricular/Extracurricular Activities	22,271	-	-	22,271
Other	-	-	181,785	181,785
Totals	\$ 6,164,086	\$ 1,733,933	\$ 355,338	\$ 8,253,357

HAWKINS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

M. Receivables

Receivables at year end, for the District's individual major funds and aggregate nonmajor funds, including any applicable allowances for uncollectible accounts are as follows:

	General	Debt Service	Other Governmental	Total
Due from Other Governments	\$ 446,779	\$ -	\$ 40,433	\$ 487,212
Property Taxes	556,031	100,529	-	656,560
Less Allowance for Uncollectible				
Property Taxes	(55,603)	(10,053)	-	(65,656)
Other Receivables	27,487	3,599	542	31,628
Net Receivables	<u>\$ 974,694</u>	<u>\$ 94,075</u>	<u>\$ 40,975</u>	<u>\$ 1,109,744</u>

N. Subsequent Events

The District's management has evaluated subsequent events through November 9, 2017, the date which the financial statements were available for use.

O. State Aid Reconciliation

The State provides various types of funding for local school districts as provided for in state statute. The following reconciliation presents funding earned by the District in each category presented. Because of the State's delay in reconciling the funding to local districts, the summary below represents an estimate of earnings. The settleup with the State will occur some 9 to 10 months following the fiscal year end.

Funding is earned for: 1) Available – annual allocation based on prior year enrollment; 2) Foundation – annual allocation based on student attendance, property tax collections and valuations, and special student population; 3) Instructional Facilities Allotment – based on property wealth; and 4) Existing Debt Allotment – based on eligible debt, student attendance and property wealth. Various other sources are received but not reconciled here as these are the major sources of funding.

	Available	Foundation	IFA	EDA
CY Summary of Finances (SOF)	\$ 265,831	\$ 1,820,244	Not	\$ 23,004
Prior Year Settle Ups	-	(5,789)	Eligible	32
August Instructional Days Change	<u>(6,038)</u>	<u>(57,706)</u>		<u>-</u>
Financial Statement Earnings	<u>\$ 259,793</u>	<u>\$ 1,756,749</u>	<u>\$ -</u>	<u>\$ 23,036</u>
Financial Statement Amounts				
SOF Receivable (Overpayment)*	-	428,793	-	-
August Instructional Days Receivable	3,181	9,314	-	-

* Overpayments are represented in the financial statements as Unearned Revenue (government-wide and governmental).

HAWKINS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

P. Compliance, Stewardship and Accountability

Expenditures over Appropriations

The following individual funds incurred expenditures in excess of appropriations at functional expenditure levels:

	Budget	Actual	Excess
General Fund:			
Contracted Instruction Between Schools	\$ 1,710,000	\$ 1,712,618	\$ 2,618

Q. Change in Accounting Principles

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

- *Statement 79, Certain External Investment Pools on Pool Participants*
The Statement addresses accounting and financial reporting for certain external investment pools and pool participants. If external investment pools account for their investments using amortized cost values, member participants must report their investment in the pools at amortized cost.
- *Statement 80, Blending Requirements for Certain Component Units*
The Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not for profit corporation in which the primary government is the sole member.
- *Statement 82, Pension Issues – an amendment of GASB Statements No. 67, No. 68 and No. 72*
The Statement was issued to address certain issues that have been raised with respect to Statements No. 67, No. 68 and No. 72. The Statement addresses issues regarding (1) the presentation of payroll related measures is required supplementary information, (2) the selection of assumption and the treatment of deviation from the guidance in an Actuarial Standard of Practice for financial reporting purposes and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

REQUIRED SUPPLEMENTARY INFORMATION

HAWKINS INDEPENDENT SCHOOL DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED AUGUST 31, 2017

Data Control Codes				Variance with Final Budget Positive (Negative)	
				Budgeted Amounts	
				Original	Final
				Actual	
REVENUES					
5700	Local and Intermediate Sources	\$	6,075,326	\$	6,096,000
5800	State Program Revenues		2,511,210		2,298,686
5900	Federal Program Revenues		5,000		5,000
5020	Total Revenues	\$	8,591,536	\$	8,399,686
EXPENDITURES					
Instruction and Instructional Related Services:					
0011	Instruction	\$	3,769,935	\$	3,665,274
0012	Instructional Resources and Media Services		80,669		85,344
0013	Curriculum and Staff Development		113,584		111,692
	Total Instruction and Instr. Related Services	\$	3,964,188	\$	3,862,310
Instructional and School Leadership:					
0023	School Leadership	\$	446,696	\$	496,064
	Total Instructional and School Leadership	\$	446,696	\$	496,064
Support Services - Student (Pupil):					
0031	Guidance, Counseling and Evaluation Services	\$	137,079	\$	137,700
0033	Health Services		61,444		64,215
0034	Student (Pupil) Transportation		189,627		190,939
0035	Food Services		2,000		2,000
0036	Co-curricular/Extracurricular Activities		495,346		533,061
	Total Support Services - Student (Pupil)	\$	885,496	\$	927,915
Administrative Support Services:					
0041	General Administration	\$	571,099	\$	574,883
	Total Administrative Support Services	\$	571,099	\$	574,883
Support Services - Nonstudent Based:					
0051	Plant Maintenance and Operations	\$	900,537	\$	917,682
0052	Security and Monitoring Services		18,500		17,657
0053	Data Processing Services		150,229		171,229
	Total Support Services - Nonstudent Based	\$	1,069,266	\$	1,106,568
Ancillary Services					
0061	Community Services	\$	300	\$	15,300
	Total Ancillary Services	\$	300	\$	15,300
Intergovernmental Charges:					
0091	Contracted Instr. Services between Public Schools	\$	1,572,391	\$	1,710,000
0093	Payments for Shared Service Arrangements		215,100		213,200
0099	Other Intergovernmental Charges		204,000		159,906
	Total Intergovernmental Charges	\$	1,991,491	\$	2,083,106
6030	Total Expenditures	\$	8,928,536	\$	9,066,146
1100	Excess (Deficiency) of Revenues Over Expenditures	\$	(337,000)	\$	(666,460)
1200	Net Change in Fund Balance	\$	(337,000)	\$	(666,460)
0100	Fund Balance - Beginning (September 1)		4,222,028		4,222,028
3000	Fund Balance - Ending (August 31)	\$	3,885,028	\$	3,555,568
				\$	3,935,988
				\$	380,420

HAWKINS INDEPENDENT SCHOOL DISTRICT
SCHEDULES OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
YEAR ENDED AUGUST 31, 2017

	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.0039573%	0.0043660%	0.0026545%
District's proportionate share of the net pension liability	\$ 1,495,411	\$ 1,543,323	\$ 709,054
State's proportionate share of the net pension liability associated with the District	<u>3,046,868</u>	<u>2,998,638</u>	<u>2,703,757</u>
Total	<u>\$ 4,542,279</u>	<u>\$ 4,541,961</u>	<u>\$ 3,412,811</u>
District's covered-employee payroll (for Measurement Year)	\$ 4,676,906	\$ 4,667,321	\$ 4,716,711
District's proportionate share of the net pension liability as a percentage of it's covered-employee payroll	31.97%	33.07%	15.03%
Plan fiduciary net position as a percentage of the total pension liability	78.00%	78.43%	83.25%

Note: Only three years of data is presented in accordance with GASB 68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

HAWKINS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
LAST 10 FISCAL YEARS

	2016	2015	2014
Contractually required contributions	\$ 127,522	\$ 125,734	\$ 129,280
Contributions in relations to the contractual required contributions	<u>(127,522)</u>	<u>(125,734)</u>	<u>(129,280)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 4,780,681	\$ 4,676,906	\$ 4,667,321
Contributions as a percentage of covered employee payroll	2.67%	2.69%	2.77%

Note: Only three years of data is presented in accordance with GASB 68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

HAWKINS INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED AUGUST 31, 2017

A. Budget

The official budget was prepared for adoption for all Government Fund Types. The budget was prepared in accordance with accounting practices generally accepted in the United States of America. The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

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

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

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

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

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

B. Defined Benefit Pension Plan

1. Changes of Assumptions

No changes in assumptions were made that affected the measurement of the total pension liability during the measurement period.

2. Changes of Benefit Terms

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

OTHER SUPPLEMENTARY INFORMATION

HAWKINS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
YEAR ENDED AUGUST 31, 2017

		1	2	3	10	20	30	30a	40	50
Tax Roll Year	Last Ten Years Ended	Tax Rates		Assessed/Appraised	Beginning	Current			Entire	Ending
	August 31	Maintenance	Debt Service	Value For School Tax Purposes	Balance 9/1/2016	Year's Total Levy	Maintenance Tax Collections	Debt Service Tax Collections	Year's Adjustments	Balance 8/31/2017
XXXX	2008 and Prior Years	Various	Various	Various	\$ 131,483	\$ -	\$ 3,490	\$ 265	\$ -	\$ 127,728
2008	2009	1.000000	0.142600	740,410,730	37,200	-	1,611	230	(366)	34,993
2009	2010	1.040000	0.148100	603,091,932	25,470	-	3,178	453	(66)	21,773
2010	2011	1.040000	0.177500	617,468,665	35,893	-	3,177	542	(423)	31,751
2011	2012	1.040000	0.156300	687,842,849	41,713	-	3,581	538	(457)	37,137
2012	2013	1.040000	0.126100	799,535,605	52,293	-	7,979	967	(2,787)	40,560
2013	2014	1.010000	0.266000	908,480,721	73,768	-	11,568	3,047	(3,252)	55,901
2014	2015	1.030000	0.230000	932,041,032	88,680	-	18,250	4,073	(3,449)	62,908
2015	2016	1.040000	0.230000	764,428,050	161,976	-	59,767	13,217	(2,718)	86,274
2016	2017	1.040000	0.300000	575,108,352	-	7,706,452	5,848,633	1,686,717	(13,566)	157,536
1000	TOTALS				\$ 648,476	\$ 7,706,452	\$ 5,961,234	\$ 1,710,049	\$ (27,084)	\$ 656,561

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

Data Control Codes		Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
		Original	Final		
REVENUES					
5700	Local and Intermediate Sources	\$ 150,000	\$ 150,000	\$ 170,296	\$ 20,296
5800	State Program Revenues	2,000	2,000	2,145	145
5900	Federal Program Revenues	270,000	270,000	277,007	7,007
5020	Total Revenues	\$ 422,000	\$ 422,000	\$ 449,448	\$ 27,448
EXPENDITURES					
Current:					
Support Services - Student (Pupil):					
0035	Food Service	\$ 483,000	\$ 483,000	\$ 443,299	\$ 39,701
	Total Support Services - Student (Pupil)	\$ 483,000	\$ 483,000	\$ 443,299	\$ 39,701
6030	Total Expenditures	\$ 483,000	\$ 483,000	\$ 443,299	\$ 39,701
1100	Excess (Deficiency) of Revenues Over Expenditures	\$ (61,000)	\$ (61,000)	\$ 6,149	\$ 67,149
1200	Net Change in Fund Balance	\$ (61,000)	\$ (61,000)	\$ 6,149	\$ 67,149
0100	Fund Balance - Beginning (September 1)	-	-	-	-
3000	Fund Balance - Ending (August 31)	\$ (61,000)	\$ (61,000)	\$ 6,149	\$ 67,149

HAWKINS INDEPENDENT SCHOOL DISTRICT
DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED AUGUST 31, 2017

Data Control Codes				Variance with Final Budget Positive (Negative)	
Budgeted Amounts					
	Original	Final	Actual		
REVENUES					
5700	Local and Intermediate Sources	\$ 1,686,675	\$ 1,686,675	\$ 1,733,933	\$ 47,258
5800	State Program Revenues	25,000	25,000	23,036	(1,964)
5020	Total Revenues	\$ 1,711,675	\$ 1,711,675	\$ 1,756,969	\$ 45,294
EXPENDITURES					
Debt Service:					
0071	Principal on Long-term Debt	\$ 1,053,000	\$ 1,070,000	\$ 1,070,000	\$ -
0072	Interest on Long-term Debt	656,675	644,442	636,440	8,002
0073	Bond Issuance Costs and Fees	2,000	73,421	72,671	750
	Total Support Services - Student (Pupil)	\$ 1,711,675	\$ 1,787,863	\$ 1,779,111	\$ 8,752
6030	Total Expenditures	\$ 1,711,675	\$ 1,787,863	\$ 1,779,111	\$ 8,752
1100	Excess (Deficiency) of Revenues Over Expenditures	\$ -	\$ (76,188)	\$ (22,142)	\$ 54,046
Other Financing Sources (Uses):					
7911	Capital-Related Debt Issued (Regular Bonds)	\$ -	\$ 1,620,000	\$ 1,620,000	\$ -
7916	Premium or Discount on Issuance of Bonds	-	132,504	132,503	(1)
8949	Other Uses	-	(1,679,655)	(1,679,655)	-
7080	Total Other Financing Sources (Uses)	\$ -	\$ 72,849	\$ 72,848	\$ (1)
1200	Net Change in Fund Balance	\$ -	\$ (3,339)	\$ 50,706	\$ 54,045
0100	Fund Balance - Beginning (September 1)	545,963	545,963	545,963	-
3000	Fund Balance - Ending (August 31)	\$ 545,963	\$ 542,624	\$ 596,669	\$ 54,045

HAWKINS INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
 AS OF AUGUST 31, 2017

<u>Data Control Codes</u>		<u>Response</u>
SF2	Were there any disclosures in the Annual Financial Report and/or other Sources of information concerning nonpayment of any terms of any debt Agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the annual Financial Report on the Financial statements as a whole?	Yes
SF5	Did the Annual Financial Report disclose any instances of material Weaknesses in internal controls over financial reporting and compliance For local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8	Did the school district not receive an adjusted repayment schedule for more Than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	Total accumulated accretion on CABs included in government-wide financial Statements at fiscal year-end.	\$ -0-
SF11	Net Pension Assets (1920) at fiscal year-end.	\$ -0-
SF12	Net Pension Liabilities (2540) at fiscal year-end.	\$ 1,495,411
SF13	Pension Expense (6147) at fiscal year-end.	\$ -0-

APPENDIX D

**FORM OF BOND COUNSEL'S
OPINION**

Blake G. Powell
Sara Hardner Leon
Darrick W. Eugene
Michelle Alcala
Mackenzie Lewis
Casandra Johnson
William C. Bednar, *Of Counsel*



Jay Youngblood
Tyler, Texas
John J. Janssen, Ph.D.
Corpus Christi, Texas
Geneva L. Taylor
Houston, Texas
Rick W. Powell
Pittsburg/Lewisville, Texas

September 5, 2018

HAWKINS INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Wood County, Texas)

UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018

IN THE ORIGINAL PRINCIPAL AMOUNT OF \$3,975,000

We have acted as bond counsel to the Hawkins Independent School District, a political subdivision of the State of Texas located in Wood County, Texas (the "District") in connection with the issuance of \$3,975,000 aggregate principal amount of bonds designated as "Unlimited Tax School Building Bonds, Series 2018" (the "Bonds"). The Bonds are authorized by an order adopted by the Board of Trustees of the District (the "Board") on August 7, 2018 (the "Order"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Order.

In such connection, we have examined a record of proceedings related to the issuance of the Bonds, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this opinion. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the record of proceedings referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Order and that certain Federal Tax Certificate of the District of even date herewith (the, "Tax Certificate"), including (without limitation) covenants and agreements, compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1001 ESE Loop 323, Ste. 450 Tyler, Texas 75701 t: 903-526-6618 f: 903-526-5766	115 Wild Basin Rd., Ste. 106 Austin, Texas 78746 t: 512-494-1177 f: 512-494-1188	7324 Southwest Freeway, Ste. 365 Houston, Texas 77074 t: 713-779-7500 f: 713-485-0169	802 N. Carancahua, Ste. 665 Corpus Christi, Texas 78401 t: 361-452-2804 f: 361-452-2743
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Toll Free: 800-494-1971

1. The District has been duly created and is validly existing under the laws of the State of Texas and has the right, power, and authority to adopt the Order and the Order has been duly and lawfully adopted by the Board on behalf of the District, is in full force and effect and is valid and binding upon the District and enforceable in accordance with its terms.

2. The Board has power and is obligated to levy an annual ad valorem tax, without legal limit as to rate or amount, upon taxable property located within the District, which taxes have been pledged irrevocably to pay the principal of and interest on the Bonds.

3. The Bonds have been duly and validly authorized and issued by the District and are valid and binding obligations of the District, payable solely from the sources provided thereof in the Order.

4. The Bonds are not a debt of the State of Texas, and the State of Texas is not liable thereon, nor shall the Bonds be payable out of funds of the District other than those pledged for the payment of the Bonds.

5. Under existing statutes and court decisions: (i) interest on the Bonds is excluded from gross income for Federal income tax purposes, pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"); and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed for taxable years beginning prior to January 1, 2018. In rendering this opinion, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the District with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

We express no opinion as to any other federal, state or local tax consequences arising with respect to the Bonds, or the ownership or disposition thereof, except as stated in paragraph 6 above. We render our opinion under existing statutes and court decisions as of the date hereof, and assume no obligation to update, revise or supplement our opinion to reflect any action hereafter taken or not taken, any fact or circumstance that may hereafter come to our attention, any change in law or interpretation thereof that may hereafter occur, or for any other reason. We express no opinion as to the consequence of any of the events describe in the proceeding sentence or the likelihood of their occurrence. In addition, we express no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel regarding federal, state or local tax matters, including, without limitation, exclusion from gross income for federal income tax purposes of interest on the Bonds.

In rendering this opinion, we are advising you that the enforceability of rights and remedies with respect to the Bonds and the Order may be limited by bankruptcy, insolvency and other laws affecting creditors' rights or remedies heretofore or hereafter enacted and is subject to the general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law). We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents.

Respectfully,

