

**OFFICIAL STATEMENT
Dated: December 20, 2018**

In the opinion of Orrick, Herrington & Sutcliffe 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. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See “TAX MATTERS” herein.

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

\$6,100,000.00

**TATUM INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Rusk and Panola Counties, Texas)
UNLIMITED TAX REFUNDING BONDS, SERIES 2019**

Dated Date: January 1, 2019

Due: February 15, as shown on inside cover

The \$6,100,000.00 Tatum Independent School District Unlimited Tax Refunding Bonds, Series 2019 (the “Bonds”) will be issued in accordance with the Constitution and general laws of the State of Texas (the “State”), specifically Chapter 1207, Texas Government Code, as amended, and an order authorizing the issuance of the Bonds (the “Bond Order”) adopted by the Board of Trustees (“the Board”) of the Tatum Independent School District (the “District”) on November 12, 2018. In the Bond Order, the Board has delegated the authority to certain District officials to execute a pricing certificate establishing the pricing terms for the Bonds (the “pricing certificate”, and together with the Bond Order, the “Order”). See “THE BONDS - Authorization and Purpose” herein. The Bonds are payable as to principal and interest from the proceeds of an ad valorem tax levied annually, without legal limitation as to rate or amount, against all taxable property located within the District.

In connection with the sale of the Bonds, the District has received conditional approval from the Texas Education Agency for the payment of the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined) which will automatically become effective when the Attorney General of Texas approves the Bonds. (See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).

Interest on the Bonds will accrue from their date of initial delivery (“Delivery Date”) and be payable on February 15 and August 15 of each year commencing February 15, 2019, until maturity or prior redemption. The Bonds will be issued in fully registered form in principal denominations of \$5,000 or any integral multiple thereof within a stated maturity. (See “THE BONDS - General Description”).

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. 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, the principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to DTC, 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. (See “BOOK-ENTRY-ONLY SYSTEM” herein).

Proceeds from the sale of the Bonds will be used to: (i) refund certain outstanding debt of the District as described in an order adopted by the Board on November 12, 2018 (the “Bond Order”) and disclosed in Schedule I hereto (the “Refunded Bonds”) for debt service savings; and (ii) pay the costs of issuance of the Bonds and of refunding the Refunded Bonds (see “THE BONDS – Authorization and Purpose” and “SCHEDULE I - SCHEDULE OF REFUNDED BONDS”).

The initial Paying Agent/Registrar shall be UMB Bank, N.A., Austin, Texas (see “REGISTRATION, TRANSFER AND EXCHANGE – Paying Agent/Registrar” herein).

**STATED MATURITY SCHEDULE
(On Inside Cover)**

The Bonds are offered for delivery when, as and if received by the Underwriter listed below and subject to the approving opinion of the Attorney General of the State of Texas and the legal opinion of Orrick, Herrington & Sutcliffe LLP, Austin, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by its counsel, Powell & Leon, LLP, Austin, Texas. It is expected that the Bonds will be available for delivery through DTC on or about January 15, 2019.

OPPENHEIMER & CO.

\$6,100,000.00
TATUM INDEPENDENT SCHOOL DISTRICT
Unlimited Tax Refunding Bonds, Series 2019
MATURITY SCHEDULE
CUSIP Base Number: 876655⁽¹⁾
\$5,790,000 Serial Bonds

<u>Maturity Date (2/15)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix ⁽¹⁾</u>
2020	\$680,000	3.000%	1.980%	EG2
2021	445,000	3.000	2.030	EH0
2022	1,100,000	3.000	2.100	EJ6
2023	1,145,000	4.000	2.200	EK3
2024	1,185,000	4.000	2.270	EL1
2025	1,235,000	4.000	2.350	EM9

(Interest to accrue from the Delivery Date)

\$310,000 4.00% Term Bonds, due February 15, 2032, Priced to Yield 2.950% ⁽³⁾, CUSIP No. ⁽¹⁾ 876655 EN7

The Bonds maturing on February 15, 2032, are subject to redemption prior to maturity at the option of the District, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2027 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. See "THE BONDS – Optional Redemption." Additionally, Bonds maturing on February 15, 2032 (the "Term Bonds") are subject to mandatory sinking fund redemption. See "THE BONDS – Mandatory Sinking Fund Redemption."

¹⁾ CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC 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⁾ The initial yields at which the Bonds are priced will be established by and are the sole responsibility of the Underwriter.

³⁾ Yield shown to first optional call date of February 15, 2027.

TATUM INDEPENDENT SCHOOL DISTRICT
510 Crystal Farms Rd.
Tatum, Texas 75691

ELECTED OFFICIALS

BOARD OF TRUSTEES

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>	<u>Occupation</u>
Kip Amick	President	2021	Employer: Sierra Frac Sand
Matt Crawford	Vice-President	2021	Business Owner: Lil' Eagles Daycare
Stephen Skinner	Secretary	2020	Realtor
Everigester Adams, Jr.	Board Member	2019	Home Builder
Dennis Williams	Board Member	2019	Business Owner: ND Williams Timber and Services
C. Larry Smith	Board Member	2021	Rancher/Real Estate
Karen McIlwain	Board Member	2020	Employer: Citizens National Bank

CERTAIN APPOINTED OFFICIALS

<u>Name</u>	<u>Position</u>	<u>Years of Service in Position</u>
Dr. Jerry Patrick Richardson	Superintendent	1
Mr. Brandon Milam	Business Manager	2

CONSULTANTS AND ADVISORS

Bond Counsel Orrick, Herrington & Sutcliffe LLP, Austin, TX
 Financial Advisor..... Live Oak Public Finance, LLC, Austin, TX
 Chief Appraisers Michael McPhail, Panola Central Appraisal District, Carthage, TX
 Terry Decker, Rusk Central Appraisal District, Henderson, TX
 Auditor..... Morgan LaGrone, CPA, PLLC, Henderson, TX

For additional information, contact:

Dr. Jerry Patrick Richardson
 Superintendent
 Tatum Independent School District
 510 Crystal Farms Rd.
 Tatum, TX 75691
 (903) 947-0161
 richardsonjp@tatumisd.org

Christian Merritt
 Executive Managing Director
 Live Oak Public Finance, LLC
 915 W. Annie St.
 Austin, TX 78704
 (512) 726-5547
 cmerritt@liveoakpf.com

USE OF INFORMATION IN THE OFFICIAL STATEMENT

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

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

The information set forth herein has been obtained from the District and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Financial Advisor or the Underwriters. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM - PSF Continuing Disclosure Undertaking" and "CONTINUING DISCLOSURE OF INFORMATION" 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 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 federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

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 nor sale of the Bonds is to be construed as constituting an agreement with the purchaser of the Bonds. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL SCHEDULES AND APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON THE EXEMPTION PROVIDED IN SECTION 3(a)(2) OF SUCH ACT. THE REGISTRATION OR QUALIFICATION OF THE BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAW OF THE STATES IN WHICH THE BONDS HAVE BEEN REGISTERED OR QUALIFIED, IF ANY, AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES, IF ANY, CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. THE BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

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

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

The prices and other terms respecting the offering and sale of the Bonds may be changed from time to time by the Underwriter after such Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including to dealers who may sell the Bonds into investment accounts.

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

TABLE OF CONTENTS

INTRODUCTORY STATEMENT	1	STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS	15
THE BONDS	1	LITIGATION RELATING TO THE TEXAS PUBLIC SCHOOL	15
AUTHORIZATION AND PURPOSE	1	FINANCE SYSTEM	15
REFUNDED BONDS	1	POSSIBLE EFFECTS OF CHANGES IN LAW ON DISTRICT	
GENERAL DESCRIPTION	2	BONDS.....	15
OPTIONAL REDEMPTION	2	CURRENT PUBLIC SCHOOL FINANCE SYSTEM	16
MANDATORY SINKING FUND REDEMPTION	3	OVERVIEW	16
NOTICE OF REDEMPTION.....	3	LOCAL FUNDING FOR SCHOOL DISTRICTS	16
DTC NOTICES	4	STATE FUNDING FOR SCHOOL DISTRICTS	17
DEFEASANCE OF BONDS	4	2006 LEGISLATION	18
SECURITY.....	5	2017 LEGISLATIVE SESSION	18
PERMANENT SCHOOL FUND GUARANTEE	5	WEALTH TRANSFER PROVISIONS	19
PAYMENT RECORD.....	5	THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE	
SOURCES AND USES OF FUNDS	5	DISTRICT	19
LEGALITY	5	TAX RATE LIMITATIONS	20
AMENDMENTS.....	5	DEBT LIMITATIONS	21
REGISTERED OWNERS' REMEDIES.....	6	RATINGS	21
BOOK-ENTRY-ONLY SYSTEM.....	7	LEGAL MATTERS.....	21
USE OF CERTAIN TERMS IN OTHER SECTIONS OF THIS		TAX MATTERS.....	22
OFFICIAL STATEMENT.....	8	QUALIFIED TAX-EXEMPT OBLIGATIONS	23
REGISTRATION, TRANSFER AND EXCHANGE	8	REGISTRATION AND QUALIFICATION OF BONDS FOR	23
PAYING AGENT/REGISTRAR.....	8	SALE	23
SUCCESSOR PAYING AGENT/REGISTRAR	8	LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE	23
FUTURE REGISTRATION	9	PUBLIC FUNDS IN TEXAS.....	23
LIMITATION ON TRANSFER OF BONDS.....	9	INVESTMENT AUTHORITY AND PRACTICES OF THE	23
RECORD DATE FOR INTEREST PAYMENT.....	9	DISTRICT	23
REPLACEMENT BONDS.....	9	ADDITIONAL PROVISIONS.....	25
AD VALOREM TAX PROCEDURES	9	CURRENT INVESTMENTS AS OF OCTOBER 31, 2018	26
PROPERTY TAX CODE AND COUNTY-WIDE APPRAISAL		THE PERMANENT SCHOOL FUND GUARANTEE	
DISTRICT.....	9	PROGRAM	26
PROPERTY SUBJECT TO TAXATION BY THE DISTRICT.....	10	FINANCIAL ADVISOR	43
VALUATION OF PROPERTY FOR TAXATION	11	AUTHENTICITY OF FINANCIAL INFORMATION	43
RESIDENTIAL HOMESTEAD EXEMPTION	12	LITIGATION.....	43
DISTRICT AND TAXPAYER REMEDIES.....	13	CONTINUING DISCLOSURE OF INFORMATION	44
PUBLIC HEARING AND ROLLBACK TAX RATE.....	13	ANNUAL REPORTS.....	44
LEVY AND COLLECTION OF TAXES	13	EVENT NOTICES	44
DISTRICT'S RIGHTS IN THE EVENT OF TAX DELINQUENCIES		LIMITATIONS AND AMENDMENTS.....	44
.....	14	COMPLIANCE WITH PRIOR UNDERTAKINGS	45
THE PROPERTY TAX CODE AS APPLIED TO THE		UNDERWRITING.....	45
DISTRICT	14	FORWARD LOOKING STATEMENTS	45
		AUTHORIZATION OF THE OFFICIAL STATEMENT	46
Schedule of Refunded Bonds.....			Schedule I
Financial Information of the District			Appendix A
Additional Information Regarding Tatum Independent School District and Rusk and Panola Counties.....			Appendix B
Form of Legal Opinion of Bond Counsel			Appendix C
District Annual Financial Report for the Year Ended August 31, 2017.....			Appendix D

The cover page, subsequent pages hereof, and schedules and appendices attached 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	Tatum Independent School District (the "District") is a political subdivision located in Rusk County and Panola County, Texas, approximately fifty-two miles East of Tyler, Texas. The District is governed by a seven-member Board of Trustees (the "Board"). Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors.
The Bonds	The Bonds are being issued in accordance with the Constitution and general laws of the State of Texas (the "State"), specifically Chapter 1207, Texas Government Code, as amended, and an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the Board on November 12, 2018. In the Bond Order, the Board has delegated the authority to certain District officials to execute a pricing certificate establishing the pricing terms for the Bonds (the "pricing certificate", and together with the Bond Order, the "Order"). (See "THE BONDS – Authorization and Purpose.")
Use of Bond Proceeds	Proceeds from the sale of the Bonds will be used to (i) refund certain outstanding debt of the District as described in Schedule I hereto (the "Refunded Bonds") to restructure debt service payments and for debt service savings and (ii) pay the costs of issuance of the Bonds and of refunding the Refunded Bonds. (See "Schedule I – Schedule of Refunded Bonds".)
Paying Agent/Registrar	The initial Paying Agent/Registrar is UMB Bank, N.A., Austin, TX. The District intends to use the Book-Entry-Only System of The Depository Trust Company. (See "BOOK-ENTRY-ONLY SYSTEM" herein and "THE BONDS – General Description".)
Security	The Bonds will constitute direct obligations of the District, payable as to principal and interest from ad valorem taxes levied annually without legal limitation as to rate or amount against all taxable property located within the District. (See "THE BONDS - Security" herein.)
Permanent School Fund Guarantee	The District has applied for and received conditional approval from the TEA for the payment of the Bonds to be guaranteed under the Permanent School Fund Guarantee Program, which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").
Ratings	The District has made application to S&P Global Ratings("S&P") has assigned a municipal bond rating of "AAA" to the bonds by virtue of the Permanent School Fund of the State of Texas. In addition, S&P has assigned its underlying, unenhanced rating of "A+" to the Bonds. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "RATINGS" herein.
Redemption	The District reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2032, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2027 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. See "THE BONDS – Optional Redemption," herein. Additionally, the Bonds maturing February 15, 2032 are subject to mandatory sinking fund redemption as described herein (See "THE BONDS – Mandatory Sinking Fund Redemption").
Tax Exemption	In the opinion of Orrick, Herrington & Sutcliffe 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. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.
Qualified Tax-Exempt Obligations	The District has designated the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions. (See "TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions.")
Payment Record	The District has never defaulted with respect to the payment of its bonds.
Legal Opinion	Orrick, Herrington & Sutcliffe LLP, Austin, Texas, Bond Counsel.
Delivery	When issued, on or about January 15, 2019.

OFFICIAL STATEMENT
Relating to
\$6,100,000.00
TATUM INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Rusk and Panola County, Texas)
UNLIMITED TAX REFUNDING BONDS, SERIES 2019

INTRODUCTORY STATEMENT

This Official Statement, including Schedule I, and Appendices A, B and D, has been prepared by the Tatum Independent School District, in Rusk County and Panola County, Texas (the "District"), in connection with the offering by the District of its Unlimited Tax Refunding Bonds, Series 2019 (the "Bonds") identified on the cover page hereof.

All financial and other information presented in this Official Statement has been provided by the District from its records, except for information attributed to other sources. The presentation of information, including tables of receipts from taxes and other sources, is intended to show recent historic information, and is not intended to indicate future or continuing trends in the financial position or other affairs of the District. No representation is made that past experience, as is shown by that financial and other information, will necessarily continue or be repeated in the future. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM - PSF Continuing Disclosure Undertaking" and "CONTINUING DISCLOSURE OF INFORMATION" for a description of the undertakings of the TEA and the District, respectively, to provide certain information on a continuing basis).

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

THE BONDS

Authorization and Purpose

The \$6,100,000 Tatum Independent School District Unlimited Tax Refunding Bonds, Series 2019 (the "Bonds"), are being issued in accordance with the Constitution and general laws of the State of Texas (the "State"), specifically Chapter 1207, Texas Government Code, as amended ("Chapter 1207"), and an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the Board of Trustees ("the Board") of the Tatum Independent School District (the "District") on November 12, 2018. In the Bond Order, the Board has delegated the authority to certain District officials to execute a pricing certificate establishing the pricing terms for the Bonds (the pricing certificate, together with the Bond Order are collectively referred to herein as the "Order").

Proceeds from the sale of the Bonds will be used to (i) refund certain outstanding debt of the District as described in Schedule I hereto (the "Refunded Bonds") to restructure debt service payments and for debt service savings and (ii) pay the costs of issuance of the Bonds and of refunding the Refunded Bonds. (See "Schedule I – Schedule of Refunded Bonds".)

Refunded Bonds

The principal and interest due on the Refunded Bonds are to be paid on the scheduled redemption date shown on Schedule I attached hereto (the "Redemption Date") from funds to be deposited pursuant to an escrow deposit letter (the "Deposit Letter") with U.S. Bank National Association, Dallas, Texas, the paying agent for the Refunded Bonds.

From the proceeds of the sale of the Bonds to the Underwriter, together with available funds of the District, the District will deposit with the paying agent for the Refunded Bonds an amount (the "Defeasance Deposit"), together with investment earnings thereon sufficient to accomplish the discharge and final payment of the Refunded Bonds on the Redemption Date. Such funds will be held by the paying agent for the Refunded Bonds and used to purchase some or all of the following types of obligations: (a) direct noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of their acquisition or purchase by the District, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent and/or (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, on the date of their acquisition or purchase by the District, are rated as to investment

quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent (the “Escrowed Securities”). Under the Deposit Letter, the Defeasance Deposit is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds.

The paying agent for the Refunded Bonds will certify at the time of the delivery of the Bonds that the deposit with the paying agent for the Refunded Bonds is sufficient to accomplish the discharge and final payment of the Refunded Bonds on the Redemption Date. By the deposit of the Escrowed Securities and cash with the paying agent for the Refunded Bonds, the District will have effected the defeasance of the Refunded Bonds pursuant to Chapter 1207, Texas Government Code, and the order authorizing the Refunded Bonds. In the opinion of Bond Counsel, as a result of such deposit, firm banking and financial arrangements will have been made for the discharge and final payment of the Refunded Bonds, and such Refunded Bonds will be deemed to be fully paid and no longer outstanding, except for the purpose of being paid from the funds deposited with the paying agent for the Refunded Bonds. Upon defeasance of the Refunded Bonds, the payment of the Refunded Bonds will no longer be guaranteed by the Permanent School Fund.

The District will give irrevocable instructions to provide notice to the owners of the Refunded Bonds that the Refunded Bonds will be redeemed prior to their stated maturity on the Redemption Date.

General Description

The Bonds are dated January 1, 2019 (the “Dated Date”). The Bonds will mature on the dates, in the principal amounts and accrue interest at the per annum rates set forth on the inside cover page of the final Official Statement. Interest on the Bonds will accrue from the initial date of delivery and is payable on February 15 and August 15 of each year, commencing February 15, 2019, until maturity or prior redemption.

Principal of the Bonds will be payable at maturity by the Paying Agent/Registrar (the “Paying Agent/Registrar”) which initially is UMB Bank, N.A., Austin, TX, upon presentation and surrender of the Bonds for payment; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under “BOOK-ENTRY-ONLY SYSTEM” herein. Interest on the Bonds is payable by check dated as of the interest payment date and mailed by the Paying Agent/Registrar to registered owners as shown on the records of the Paying Agent/Registrar on the close of business as of the last business day of the preceding month (the “Record Date”). It is expected that the Bonds will be eligible for delivery to the Underwriter through the DTC. If the date for any payment due on a Bond shall be a Saturday, Sunday, legal holiday, or a day on which banking institutions in the city where the designated corporate trust office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or a day on which banking institutions are authorized to close and payment on such date shall have the same force and effect as if made on the original date payment was due.

The Bonds shall be transferable only on the bond register kept by the Paying Agent/Registrar upon surrender and reissuance. The Bonds are exchangeable for an equal principal amount in any authorized denomination upon surrender of the Bonds to be exchanged at the designated payment/transfer office of the Paying Agent/Registrar.

Optional Redemption

The District reserves the right, at its option, to redeem, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, Bonds having stated maturities on and after February 15, 2032, on February 15, 2027, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the District may select the maturities of the Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed.

[Remainder of page intentionally left blank]

Mandatory Sinking Fund Redemption

The Bonds maturing on February 15, 2032 (the "Term Bonds") are subject to mandatory redemption prior to maturity at a price of par plus accrued interest to the redemption date as follows:

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
February 15, 2026	\$45,000
February 15, 2027	50,000
February 15, 2028	50,000
February 15, 2029	50,000
February 15, 2030	55,000
February 15, 2031	55,000
February 15, 2032*	5,000

*Stated Maturity

The principal amount of the Term Bonds required to be redeemed pursuant to the 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 of the stated maturity which, at least 45 days prior to a mandatory redemption date, (1) 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, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the District with monies in the Interest and Sinking Fund at a price not exceeding the principal amount of the Term Bonds plus accrued interest to the date of purchase thereof, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory sinking fund redemption requirement.

Notice of Redemption

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

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

The Paying Agent/Registrar and the District, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption of the Bonds, 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 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.

DTC Notices

The Paying Agent/Registrar and the District, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Bonds 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 (hereinafter defined), will not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the Issuer 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 Ordinance 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.)

Defeasance of Bonds

The Order provides for the defeasance of the Bonds when the payment on the Bonds to the due date thereof (whether such due date be by reason of maturity or otherwise) is provided by irrevocably depositing with the Paying Agent/Registrar or authorized escrow agent, in trust (1) money sufficient to make such payment and/or (2) Defeasance Securities, that mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, and thereafter the District will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased bonds, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The Order provides that "Defeasance Securities" means: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the District authorizes the defeasance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (c) non-callable 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, the principal and interest on which will, when due or redeemable at the option of the holder, without further investment or reinvestment of either the principal amount thereof or the interest earnings thereon, provide money in an amount which, together with other money, if any, held in such escrow, will be sufficient to provide for the timely payment of the principal of and interest on such Bonds to their due date.

There is no assurance that current Texas law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Order does not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under Texas law. There is no assurance that the ratings for U.S. Treasury securities used as Defeasance Securities or those for any other Defeasance

Security will be maintained at any particular rating category. Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid 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.

Upon defeasance, such defeased Bonds will no longer be guaranteed by the Texas Permanent School Fund.

Security

The Bonds are direct obligations of the District and are payable as to both principal and interest from ad valorem taxes to be levied annually on all taxable property within the District, without legal limitation as to rate or amount. (See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS").

Permanent School Fund Guarantee

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

In the event the District defeases any of the Bonds, the payment of such defeased Bonds will cease to be guaranteed by the Permanent School Fund Guarantee.

Payment Record

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

Sources and Uses of Funds

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

Sources of Funds	Amount
Par Amount of Bonds	\$6,100,000.00
Reoffering Premium	361,562.90
Transfers from Prior Issue Debt Service Funds	145,000.00
Total Sources of Funds	\$6,606,562.90
Uses of Funds	
Total Underwriter's Discount	\$43,585.10
Costs of Issuance & Rounding Amount	112,213.05
Deposit to Current Refunding Fund	6,450,764.75
Total Uses of Funds	\$6,606,562.90

Legality

The Bonds are offered when, as and if issued, subject to the approval of legality by the Attorney General of the State of Texas and Orrick, Herrington & Sutcliffe LLP, Austin, Texas, Bond Counsel. (See "LEGAL MATTERS" and "Appendix C – Form of Opinion of Bond Counsel").

Amendments

In the Order, the District has reserved the right to amend the Order without the consent of any holder for the purpose of amending or supplementing the Order to (i) cure any ambiguity, defect or omission therein that does not materially adversely affect the interests of the holders, (ii) grant additional rights or security for the benefit of the holders, (iii) add events of default as shall not be inconsistent with the provisions of the Order that do not materially adversely affect the interests of the holders, (iv) qualify the Order under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect, or (v) make such other provisions in regard to matters or questions arising under the Order that are not inconsistent with the provisions thereof and which, in the opinion of Bond Counsel for the District, do not materially adversely affect the interests of the holders.

The Order further provides that the holders of the Bonds aggregating in principal amount a majority of the outstanding Bonds shall have the right from time to time to approve any amendment not described above to the Order if it is deemed necessary or desirable by the District; provided, however, that without the consent of 100% of the holders in original

principal amount of the then outstanding Bonds, no amendment may be made for the purpose of: (i) making any change in the maturity of any of the outstanding Bonds; (ii) reducing the rate of interest borne by any of the outstanding Bonds; (iii) reducing the amount of the principal of, or redemption premium, if any, payable on any outstanding Bonds; (iv) modifying the terms of payment of principal or of interest or redemption premium on outstanding Bonds, or imposing any condition with respect to such payment; or (v) changing the minimum percentage of the principal amount of the Bonds necessary for consent to such amendment. Reference is made to the Order for further provisions relating to the amendment thereof.

REGISTERED OWNERS' REMEDIES

The Order does not establish specific events of default with respect to the Bonds. 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 issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or the Order and the District's obligations are not uncertain or disputed, as discussed below. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. The enforcement of any such remedy may be difficult and time consuming. There is no acceleration of maturity of the Bonds in the event of default and, consequently, a registered owner could be required to enforce such remedy on a periodic basis. The Order does not provide for the appointment of a trustee to represent the interest of the registered owners upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

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. The District is not aware of any Texas court construing the Local Government Immunity Waiver Act in the context of whether contractual undertakings of local governments that relate to their borrowing powers are contracts covered by the Act. 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).

Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or registered owners 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 Co-Bond Counsel will note that the rights of registered owners are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due. Initially, the only registered owner of the Bonds will be Cede & Co., as DTC's nominee. See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the duties of DTC with regard to ownership of Bonds.

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents.

For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered. The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will 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 the District takes no 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, payment or notices that are to be given to registered owners under the Order will be given only to DTC.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is UMB Bank, N.A., Austin, TX. The Bonds are being issued in fully registered form in integral multiples of \$5,000 of principal amount. Interest on the Bonds will be payable semiannually by the Paying Agent/Registrar by check mailed on each interest payment date by the Paying Agent/Registrar to the registered owner at the last known address as it appears on the Paying Agent/Registrar's books on the Record Date or by such other customary banking arrangement acceptable to the Paying Agent/Registrar, requested by and at the risk and expense of the registered owner. Principal of the Bonds will be paid to the registered owner at maturity upon presentation to the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under "BOOK-ENTRY-ONLY SYSTEM" herein.

Successor Paying Agent/Registrar

Provision is made in the Order for replacing the Paying Agent/Registrar. If the District replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District shall be a commercial bank, a trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds.

Future Registration

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

Limitation on Transfer of Bonds

Neither the District nor the Paying Agent/Registrar shall be required to issue, transfer or exchange any Bonds during a period beginning at the close of business on any Record Date and ending with the next interest payment date.

Record Date for Interest Payment

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

Replacement Bonds

If any Bond is mutilated, destroyed, stolen or lost, a new Bond in the same principal amount as the Bond so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Bond, such new Bond will be delivered only upon surrender and cancellation of such mutilated Bond. In the case of any Bond issued in lieu of and substitution for a Bond which has been destroyed, stolen or lost, such new Bond will be delivered only (a) upon filing with the District and the Paying Agent/Registrar a certificate to the effect that such Bond has been destroyed, stolen or lost and proof of the ownership thereof, and (b) upon furnishing the District and the Paying Agent/Registrar with indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond must pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

AD VALOREM TAX PROCEDURES

Property Tax Code and County-Wide Appraisal District

Title I of the Tax Code (the "Property 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 Rusk County Appraisal District and the Panola County Appraisal District (jointly, the "Appraisal District") are responsible for appraising property within the District, generally, as of January 1 of each year. The appraisal values set by the Appraisal District are subject to review and change by an Appraisal Review Board (the "Appraisal Review Board"), consisting of members appointed by the Board of Directors of the Appraisal District. Such appraisal rolls, as approved by the Appraisal Review Board, are used by the District in establishing its tax rolls and tax rate.

Property Subject to Taxation by the District

Except for certain exemptions provided by State law, all real and certain tangible personal property with a tax situs in the District is subject to taxation by the District. Principal categories of exempt property (including certain exemptions which are subject to local option by the Board) include property owned by the State or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain improvements to real property and certain tangible personal property located in designated reinvestment zones on which the District has agreed to abate ad valorem taxes; certain household goods, family supplies and personal effects; farm products owned by the producers; certain property of a nonprofit corporation used in scientific research and educational activities benefiting a college or university; and designated historic sites. Other principal categories of exempt property include tangible personal property not held or used for production of income; solar and wind-powered energy devices; most individually owned automobiles; \$10,000 exemption to residential homesteads of disabled persons or persons ages 65 or over; up to \$12,000 exemption for real or personal property of disabled veterans or the surviving spouse (so long as the surviving spouse remains unmarried) or children (under 18 years of age) of a deceased veteran; provided, however, 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; \$25,000 in market value for all residential homesteads; and certain classes of intangible property. 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. In addition, except for increases attributable to certain improvements, the District is prohibited by state law from increasing the total ad valorem tax on the residence homestead of persons 65 years of age or older or of disabled persons above the amount of tax imposed in the year such residence qualified for an exemption based on age of the owner. The freeze on ad valorem taxes on the homesteads of person 65 years of age or older and the disabled is also transferable to a different residence homestead. Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as the deceased spouse died in a year in which the deceased spouse qualified for the exemption, the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse and the surviving spouse was at least 55 years of age at the time of the death of the individual's spouse. Pursuant to a constitutional amendment approved by the voters on May 12, 2007, legislation was enacted to reduce the school property tax limitation imposed by the freeze on taxes paid on residence homesteads of persons 65 years of age or over or of disabled persons to correspond to reductions in local school district tax rates from the 2005 tax year to the 2006 tax year and from the 2006 tax year to the 2007 tax year. The school property tax limitation provided by the constitutional amendment and enabling legislation apply to the 2007 and subsequent tax years. Owners of agricultural and open space land, under certain circumstances, may request valuation of such land on the basis of productive capacity rather than market value. See "THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT" for a schedule of the exemptions allowed by the District.

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

imposed during the first two years of the tax limitation agreement on the appraised value of the property above the agreed-to limited value. Additional State funding is provided to a school district for each year of such tax limitation in the amount of the tax credit provided to the taxpayer. During the first two years of a tax limitation agreement, the school district may not adopt a tax rate that exceeds the district's rollback tax rate (see "AD VALOREM TAX PROCEDURES - Public Hearing and Rollback Tax Rate" and "THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT").

Article VIII, Section 1-j of the Texas Constitution provides for an exemption from ad valorem taxation for "freeport property," which is defined as goods detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Taxing units that took action prior to April 1, 1990 may continue to tax freeport property and decisions to continue to tax freeport property may be reversed in the future. However, decisions to exempt freeport property are not subject to reversal

Article VIII, Section 1-l of the Texas Constitution 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 by Section 11.253 of the Property Tax Code, which is effective for tax years 2008 and thereafter, as personal property acquired or imported into the State 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 the State. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. Section 11.253 permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods-in-transit during the following tax year. A taxpayer may receive only one of the freeport exemptions or the goods-in-transit exemptions for items of personal property.

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. In determining the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income of appraisal and the market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. Oil and gas reserves are assessed on the basis of pricing information contained in either the standard edition of the Annual Energy Outlook or, if the most recently published edition of the Annual Energy Outlook was published before December 1 of the preceding calendar year, the Short-Term Energy Outlook report published in January of the current calendar year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are based on one hundred percent (100%) of market value, except as described below, and no assessment ratio can be applied.

Article VIII of the Texas Constitution and the Property Tax Code permit land designated for agricultural use (Section 1-d), open space or timberland (Section 1-d-1) to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. Landowners wishing to avail themselves of the agricultural use designation must apply for the designation, and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. If a claimant receives the designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes for previous years based on the new value, including three years for agricultural use and five years for agricultural open-space land and timberland prior to the loss of the designation. The same land may not be qualified under both Section 1-d and Section 1-d-1.

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 in the most recent tax year in which the market value was determined by the appraisal office or (2) the sum of (a) 10% of the appraised value of the property for the preceding tax year, plus (b) the appraised value of the property for the preceding tax year, plus (c) the market value of all new improvements to the property.

Effective January 1, 2010, State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property.

The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three years. The District, at its expense, has the right to obtain from the Appraisal District a current estimate of appraised

values within the District or an estimate of any new property or improvements within the District. While such current estimate of appraisal values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the Appraisal District chooses to formally include such values on its appraisal roll.

Residential Homestead Exemption

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 market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision. 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 Property Tax Code, under Section 1-b, Article VIII, 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.

Effective January 1, 2018, a partially disabled veteran or the surviving spouse of a partially disabled veteran, if such spouse has not remarried since the death of the disabled veteran and the property was the residence homestead of the surviving spouse when the disabled veteran died and remains the residence homestead of the surviving spouse, is entitled to an exemption equal to the percentage of the veteran's disability, if the residence was donated to the disabled veteran by a charitable organization at no cost to the disabled veteran, or at some cost to the disabled veteran in the form of a cash payment, a mortgage, or both in an aggregate amount that is not more than 50% of the good faith estimate of the market value of the residence homestead made by the charitable organization as of the date the donation is made. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

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

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.

District and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units, including the District, may appeal orders of the Appraisal Review Board by filing a petition for review in district court within 45 days after notice is received that a final order has been entered. In such event, the property value in question may be determined by the court, or by a jury, if requested by any party, or through binding arbitration, if requested by the taxpayer. Additionally, taxing units may bring suit against the Appraisal District to compel compliance with the Property Tax Code.

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

The "effective maintenance and operations tax rate" for a school district is the tax rate that, applied to the current tax values, would provide local maintenance and operating funds, when added to State funds to be distributed to the district pursuant to Chapter 42 of the Texas Education Code, 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 Property Tax Code provides that the governing body of a taxing unit is required to adopt the annual tax rate for the unit before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the taxing unit, and a failure to adopt a tax rate by such required date will result in the tax rate for the taxing unit for the tax year to be the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the taxing unit for the preceding tax year. Before adopting its annual tax rate, a public meeting must be held for the purpose of adopting a budget for the succeeding year. A notice of public meeting to discuss budget and proposed tax rate must be published in the time, format and manner prescribed in Section 44.004 of the Texas Education Code, as amended. Section 44.004(e) of the Texas Education Code, as amended, provides that a person who owns taxable property in a school district is entitled to an injunction restraining the collection of taxes by the district if the district has not complied with such notice requirements or the language and format requirements of such notice as set forth in Section 44.004(b), (c) and (d) and if such failure to comply was not in good faith. Section 44.004(e) further provides the action to enjoin the collection of taxes must be filed before the date the district delivers substantially all of its tax bills. A district may adopt its budget after adopting a tax rate for the tax year in which the fiscal year covered by the budget begins if the district elects to adopt its tax rate before receiving the certified appraisal roll. A district that adopts a tax rate before adopting its budget must hold a public hearing on the proposed tax rate followed by another public hearing on the proposed budget rather than holding a single hearing on the two items.

Levy and Collection of Taxes

The District is responsible for the collections of its taxes, unless it elects to transfer such functions to another governmental entity. Before the later of September 30 or the 60th day after the date that the certified appraisal rate is received by the District, the rate of taxation is set by the Board of the District based upon the valuation of property within the District as of the preceding January 1. Taxes are due October 1 or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty from six percent (6%) to twelve percent (12%) of the amount of the tax, depending on the time of payment, and accrued interest at the rate of one percent (1%) per month. If the tax is not paid by the following July 1, an additional penalty of up to twenty percent (20%) may under certain circumstances be imposed by the District. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances. 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 with the first installment due before February 1 of each year and the final installment due before August 1.

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property. The District has no lien for unpaid taxes on personal property but does have a lien for unpaid taxes upon real property, which lien is discharged upon payment. On January 1 of each year, such tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on the property. The District's tax lien is on a parity with the tax liens of other such taxing units. A tax lien on real property taxes takes priority over the claims of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

Except with respect to taxpayers who are 65 years of age or older, at any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights, or by bankruptcy proceedings which restrict the collection of taxpayer debts.

Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT

Each respective Appraisal District has the responsibility of appraising property in the District as well as other taxing units in each respective county.

Each respective Appraisal District is governed by a board of directors appointed by voters of the governing bodies of various county political subdivisions.

The District does not allow split payments and discounts are not permitted.

The District has not granted any tax abatements.

The District does not participate in any tax increment financing zones.

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

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

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

The District does grant an additional local option exemption of up to 20% of the market value of residence homesteads.

The District has not granted a local option, additional exemption of \$3,000 for persons who are 65 years of age or older and the disabled above the amount of the State mandated exemption.

The District does not tax non-business personal property.

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

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

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

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

The following table gives penalty and interest rates for delinquent taxes.

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

^(a) In addition to the penalty assessed for delinquent taxes, a taxing entity may contract with an attorney for the collection of delinquent taxes and the amount of compensation as set forth in such contract may provide for a fee of up to 20% of the amount of delinquent tax, penalty, and interest collected.

^(b) Interest continues to accrue after July 1 at the rate of 1% per month until paid.

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

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

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

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

Possible Effects of Changes in Law on District Bonds

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

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

predictions concerning the effect of future legislation, or any litigation that may be associated with such legislation, on the District's financial condition, revenues or operations. While the enactment of future legislation to address school funding in Texas could adversely affect the financial condition, revenues or operations of the District, the District does not anticipate that the security for payment of the Bonds, specifically, the District's obligation to levy an unlimited debt service tax and any Permanent School Fund guarantee of the Bonds would be adversely affected by any such legislation. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM".

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

Overview

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

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

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

Local Funding for School Districts

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

The 85th Texas Legislature, including the regular session which concluded on May 29, 2017 and the special session which concluded on August 15, 2017, did not enact substantive changes to the Finance System. However, certain bills during the regular session and House Bill 21, which was passed during the special session and signed by the Governor

on August 16, 2017, revised certain aspects of the formulas used to determine school district entitlements under the Finance System. In addition to amounts previously discussed, the 85th Texas Legislature additionally appropriated funds to (i) establish a Financial Hardship Transition Program, which provides grants ("Hardship Grants") to those districts which were heavily reliant on ASATR funding, and (ii) provide an Adjustment for Rapid Decline in Taxable Value of Property ("DPV Decline Adjustment") for districts which experienced a decline in their tax base of more than four percent for tax years 2015 and 2016. A district may receive either a Hardship Grant or a DPV Decline Adjustment, but cannot receive both. In a case where a district would have been eligible to receive funding under both programs, the district will receive the greater of the two amounts.

Wealth Transfer Provisions

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

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

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

The School Finance System as Applied to the District

The District's wealth per student for the 2018-19 school year is greater than the equalized wealth value. As a result, the District is subject to certain of the wealth equalization provisions of the Finance System. However, because the District's identified wealth level falls between \$319,500 and \$514,000 wealth per student and the District's M&O tax rate of \$1.04 does not exceed the compressed rate plus 6 cents, the District does not expect to be subject to recapture of funds

from local tax collections in fiscal year 2018-19.

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 next succeeding paragraph. The maximum voted M&O tax rate for the District is \$1.50 per \$100 of assessed valuation as approved by the voters at an election held on September 29, 1973, 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 fiscal years 2007-08 through 2018-2019. The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. For a more detailed description of the State Compression Percentage, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Local Funding for School Districts." Furthermore, a school district cannot annually increase its tax rate in excess of the district's "rollback tax rate" without submitting such tax rate to a referendum election and a majority of the voters voting at such election approving the adopted rate. See "AD VALOREM TAX PROCEDURES - Public Hearing and Rollback Tax Rate."

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

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

DEBT LIMITATIONS

Under State law, there is no explicit bonded indebtedness limitation, although the tax rate limits described above under "TAX RATE LIMITATIONS" effectively impose a limit on the incurrence of debt. Such tax rate limits require school districts to demonstrate the ability to pay new debt secured by the district's debt service tax from a tax rate of \$0.50, and to pay all debt and operating expenses which must be paid from receipts of the district's maintenance tax from a tax not to exceed the maintenance tax limit described under the caption "TAX RATE LIMITATIONS." In demonstrating compliance with the requirement, a district may take into account State equalization payments, and, effective September 1, 1997, 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 of the bond 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. The Bonds are not new debt and therefore are not subject to the \$0.50 threshold tax rate test. See also "TAX RATE LIMITATIONS".

RATINGS

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 "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "RATINGS" herein. The Bonds are rated "A+" by S&P without regard the credit enhancement.

An explanation of the significance of such rating may be obtained from the rating agency furnishing the same. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

LEGAL MATTERS

The District will furnish to the Underwriter a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas as to the Bonds to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, with respect to the Bonds issued in compliance with the provisions of the Order. A form of such opinion is attached hereto as Appendix C. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provisions made for their payment or security, or in any manner questioning the validity of said Bonds will also be furnished to the Underwriter. Except as noted below, Bond Counsel was not requested to participate, and did not take part, in the preparation of this Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel such firm has reviewed the information appearing under captions or subcaptions "THE BONDS" (except under the subcaptions "Permanent School Fund Guarantee," "Payment Record," "DTC Notices" and "Sources and Uses of Funds"), "REGISTRATION, TRANSFER AND EXCHANGE", "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" (except under the subcaption "The School Finance System as Applied to the District"), "TAX RATE LIMITATIONS" (first paragraph only), "TAX MATTERS", "LEGAL MATTERS" (except for the last three sentences thereof), "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS", "CONTINUING DISCLOSURE OF INFORMATION" (except for subcaption "Compliance with Prior Undertakings"), and "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE", and such firm is of the opinion that the information relating to the Bonds and legal matters contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. 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 their counsel Orrick, Herrington & Sutcliffe LLP, whose fee is contingent upon the sale and delivery of the Bonds. The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinion as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the

transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel (“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 (the “Code”). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel’s attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

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.

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 legislature 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.

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.

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.

Qualified Tax-Exempt Obligations

The District will designate the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3)(B) of the Internal Revenue Code of 1986, as amended. Pursuant to that section of the Code, a qualifying financial institution will be allowed a deduction from its own federal corporate income tax for the portion of interest expense the financial institution is able to allocate to designated "bank-qualified" investments.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code, as amended) provides that the Bonds are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, as amended, and are legal and authorized investments for insurance companies, fiduciaries and trustees, and for the sinking funds of municipalities and other political subdivisions and public agencies of the State. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent Investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital and savings and loan associations. In accordance with the Public Funds Investment Act, Chapter 2256, Texas Government Code (the "PFIA"), as amended, the Bonds must be rated no less than "A" or its equivalent as to investment quality by a national rating agency in order for most municipalities or other political subdivisions or public agencies of the State to invest in the Bonds. (See "RATING" herein). Moreover, municipalities or other political subdivisions or public agencies of the State that have adopted investment policies and guidelines in accordance with the PFIA may have other, more stringent requirements for purchasing securities, including the Bonds. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

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

INVESTMENT AUTHORITY AND PRACTICES OF THE DISTRICT

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

the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (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 District selects from a list the Board or designated investment committee of the District 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 District 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 District'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 District appoints as the District's custodian of the banking deposits issued for the District'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 ("SEC") and operating under SEC Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of the PFIA that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or their respective successors, and are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and provided for by law for District deposits, or (ii) certificates of deposits where (a) the funds are invested by the District through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the District as required by law, or (B) a depository institution that has its main office or branch office in the State that is selected by the District, (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are 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) securities lending programs if (i) the securities loaned under the program are 100% collateralized, including accrued interest, 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 and clauses (13) through (15) below or an authorized investment pool, (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District, (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State, and (iv) the agreement to lend securities has a term of one year or less; (12) certain bankers' acceptances, if (i) the bankers' acceptance has a stated maturity of 270 days or less, (ii) will be, in accordance with its terms, liquidated in full at maturity, (iii) is eligible for collateral for borrowing from a Federal Reserve Bank and (iv) if the short-term obligations of the accepting bank, or of the holding company of which the bank is the largest subsidiary, are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (13) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (14) no-load money market mutual funds registered with and regulated by the SEC that provide the District 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 SEC 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 (15) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and either (a) a duration of one year or more and invest exclusively in obligations described in under this heading, 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, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service or no lower than investment grade by at least one nationally recognized rating service with a weighted average maturity no greater than 90 days. 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.

Under State law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include 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 PFIA. 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 State law, the District's 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 probable income to be derived." At least quarterly the District's investment officers must submit an investment report to the Board detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, the ending market value and the fully accrued interest during the reporting period 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 strategies and (b) State law. No person may invest District funds without express written authority from the Board.

Additional Provisions

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

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

Current Investments as of October 31, 2018

<u>Type of Investment</u>	<u>Market Value</u>
Investment Pools	\$0
Cash and Cash Equivalents	13,836,888
Total Invested:	\$13,836,888

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 2018, preliminary, unaudited distributions to the ASF amounted to an estimated \$246.92 per student and the total amount distributed to the ASF was \$1,235.8 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, as 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, 2018, the Fund's financial assets portfolio was invested as follows: 40.54% in public market equity investments; 13.25% in fixed income investments; 10.37% in absolute return assets; 9.12% in private equity assets; 7.48% in real estate assets; 6.79% in risk parity assets; 5.96% in real return assets; 6.21% in emerging market debt; and 0.28% in unallocated cash. August 31, 2018 data is unaudited, which is subject to adjustment.

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, changes in international trade policies, economic activity and investments, in general, application of the prudent person investment standard, which may eliminate certain investment opportunities for the Fund; management fees paid to external managers and embedded management fees for some fund investments; and limitations on the number and compensation of internal and external investment staff, which is subject to legislative oversight. The Guarantee Program could also be impacted by changes in State or federal law or the implementation of new accounting standards.

Management and Administration of the Fund

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

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

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

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

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

Capacity Limits for the Guarantee Program

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

On December 16, 2009, the IRS published Notice 2010-5 (the "IRS Notice") stating that the IRS will issue proposed regulations amending the existing regulations to raise the IRS limit to 500% of the total cost of the assets held by the PSF as of December 16, 2009. In accordance with the IRS Notice, the amount of any new bonds to be guaranteed by the PSF, together with the then outstanding amount of bonds previously guaranteed by the PSF, must not exceed the IRS limit on the sale date of the new bonds to be guaranteed. The IRS Notice further provides that the IRS Notice may

be relied upon for bonds sold on or after December 16, 2009, and before the effective date of future regulations or other public administrative guidance affecting funds like the PSF.

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

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

At its September 2015 meeting, the SBOE voted to modify the SDBGP Rules and the CDBGP Rules to increase the State Law Capacity from 3 times the cost value multiplier to 3.25 times. At that meeting, the SBOE also approved a new 5% capacity reserve for the Charter District Bond Guarantee Program. The change to the State Law Capacity became effective on February 1, 2016. At its November 2016 meeting, the SBOE again voted to increase the State Law Capacity and, in accordance with applicable requirements for the modification of SDBGP and CDBGP Rules, a second and final vote to approve the increase in the State Law Capacity occurred on February 3, 2017. As a result, the State Law Capacity increased from 3.25 times the cost value multiplier to 3.50 times effective March 1, 2017 and increased again to 3.75 times effective September 1, 2017; however, as described under "2017 Legislative Changes to the Charter District Bond Guarantee Program," the SBOE took action at its Winter 2018 meeting to rollback of a portion of the multiplier increase, which became effective in late March 2018. Based upon the unaudited cost basis of the Fund at August 31, 2018, the State Law Capacity increased from \$111,568,711,072 on August 31, 2017 to \$118,867,137,998 on August 31, 2018 (but at such date the IRS Limit was lower, \$117,318,653,038, so it is the currently effective capacity limit for the Fund).

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

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

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

The School District Bond Guarantee Program

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

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

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

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

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

The Charter District Bond Guarantee Program

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

The Charter District Bond Guarantee Program has been authorized through the enactment of amendments to the Act, which provide that a charter holder may make application to the Commissioner for designation as a "charter district"

and for a guarantee by the PSF under the Act of bonds issued on behalf of a charter district by a non-profit corporation. If the conditions for the Charter District Bond Guarantee Program are satisfied, the guarantee becomes effective upon approval of the bonds by the Attorney General and remains in effect until the guaranteed bonds are paid or defeased, by a refunding or otherwise.

As of February 21, 2018 (the most recent date for which data is available), the percentage of students enrolled in open-enrollment charter schools (excluding charter schools authorized by school districts) to the total State scholastic census was approximately 5.5%. As of November 5, 2018, there were 177 active open-enrollment charter schools in the State and there were 754 charter school campuses operating under such charters. Section 12.101, Texas Education Code, as amended by the Legislature in 2013, limits the number of charters that the Commissioner may grant to 215 charters as of the end of fiscal year 2014, with the number increasing in each fiscal year thereafter through 2019 to a total number of 305 charters. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see "Capacity Limits for the Guarantee Program." The Act provides that the Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

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

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

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

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

The CDBGP Rules provide that an open-enrollment charter holder applying for charter district designation and a guarantee of its bonds under the Charter District Bond Guarantee Program satisfy various provisions of the regulations, including the following: It must (i) have operated at least one open-enrollment charter school with enrolled students in the State for at least three years; (ii) agree that the bonded indebtedness for which the guarantee is sought will be

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

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

2017 Legislative Changes to the Charter District Bond Guarantee Program

The CDBGP Capacity is established by the Act. During the 85th Texas Legislature, which concluded on May 29, 2017, Senate Bill 1480 ("SB 1480") was enacted. The complete text of SB 1480 can be found at <http://www.capitol.state.tx.us/tlodocs/85R/billtext/pdf/SB01480F.pdf#navpanes=0>. SB 1480 modified how the CDBGP Capacity will be established under the Act effective as of September 1, 2017, and made other substantive changes to the Act that affects the Charter District Bond Guarantee Program. Prior to the enactment of SB 1480, the CDBGP Capacity was calculated as the State Capacity Limit less the amount of outstanding bond guarantees under the Guarantee Program multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population. As of September 30, 2018, the amount of outstanding bond guarantees represented 68.04% of the IRS Limit (which is currently the applicable capacity limit) for the Guarantee Program (based on unaudited data). 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 5.50% in September 2018, representing a cumulative growth during that period of 55.81%. 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 September 30, 2018, the Charter District Reserve Fund represented approximately 0.50% 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.

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 September 30, 2018, the Charter District Reserve Fund represented approximately 0.50% 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 September 30, 2018, the Charter District Reserve Fund contained \$7,164,188.

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. For fiscal year 2018, TEA initiated programs designed to hold school districts and charter districts harmless for the loss of State funding associated with declines in average daily attendance. 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.

[Remainder of page intentionally left blank]

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>
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	31,870,581,428	41,438,672,573
2018 ⁽²⁾	33,962,040,017	43,918,273,565

⁽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, 2018, 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, \$240.90 million, \$3,082.83 million, \$7.58 million, and \$4,247.36 million, respectively, and market values of approximately \$1,870.22 million, \$642.00 million, \$3,164.04 million, \$4.71 million, and \$4,247.36 million, respectively. At September 30, 2018, the PSF had a book value of \$33,937,270,391 and a market value of \$43,724,325,619. August 31, 2018 and September 30, 2018 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds

<u>At 8/31</u>	<u>Principal Amount⁽¹⁾</u>
2014	\$ 58,364,350,783
2015	63,955,449,047
2016	68,303,328,445
2017	74,266,090,023
2018	79,080,901,069 ⁽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, 2018 (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 \$123,361,625,817, of which \$44,280,724,748 represents interest to be paid. As shown in the table above, at August 31, 2018, there were \$79,080,901,069 in principal amount of bonds guaranteed under the Guarantee Program, and using the IRS Limit at that date of \$117,318,653,038 (the IRS Limit is currently the lower of the two federal and State capacity limits of Program capacity), 98.21% of Program capacity was available to the School District Bond Guarantee Program and 1.79% was available to the Charter District Bond Guarantee Program. August 31, 2018 values are based on unaudited data, which is subject to adjustment.

[Remainder of page intentionally left blank]

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

Fiscal Year Ended 8/31	School District Bonds		Charter District Bonds		Totals	
	No. of Issues	Principal Amount	No. of Issues	Principal Amount	No. of Issues	Principal Amount
2014 ⁽²⁾	2,869	\$ 58,061,805,783	10	\$ 302,545,000	2,879	\$ 58,364,350,783
2015	3,089	63,197,514,047	28	757,935,000	3,117	63,955,449,047
2016	3,244	67,342,303,445	35	961,025,000	3,279	68,303,328,445
2017	3,253	72,884,480,023	40	1,381,610,000	3,293	74,266,090,023
2018 ⁽³⁾	3,249	77,647,966,069	44	1,432,935,000	3,293	79,080,901,069

⁽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 September 30, 2018 (based on unaudited data, which is subject to adjustment), there were \$79,828,771,069 of bonds guaranteed under the Guarantee Program, representing 3,265 school district issues, aggregating \$78,395,836,069 in principal amount and 45 charter district issues, aggregating \$1,432,935,000 in principal amount. At September 30, 2018, the capacity allocation of the Charter District Bond Guarantee Program was \$3,109,688,908 (based on unaudited data, which is subject to adjustment). 2018 data is unaudited, 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, and will be updated upon the release of the Annual Report for the year ended August 31, 2018. 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%, 3.5% and 3.7% for each of two year periods 2008-2009, 2010-2011, 2012-2013, 2014-2015, 2016-2017 and 2018-2019, respectively. In November 2018, the SBOE approved a \$2.2 billion distribution to the ASF for State fiscal biennium 2020-2021, to be made in equal monthly increments of \$92.2 million, which represents a 2.981% Distribution Rate for the biennium and a per student distribution of \$220.97, based on 2018 preliminary student average daily attendance of 5,004,998. In making the 2020-2021 biennium distribution decision, the SBOE took into account a commitment of the SLB transfer \$10 to the PSF in fiscal year 2020 and \$45 million in fiscal year 2021.

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 April 2018. 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.

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 \$30.2 million for the administration of the PSF for fiscal years 2016 and 2017, respectively, and \$30.4 million for each of the fiscal years 2018 and 2019.

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 16, 2018, and is summarized below. Through the adoption of the TEA Rule and its commitment to guarantee bonds, the SBOE has made the following agreement for the benefit of the issuers, holders and beneficial owners of guaranteed bonds. The TEA (or its successor with respect to the management of the Guarantee Program) is required to observe the agreement for so long as it remains an "obligated person," within the meaning of Rule 15c2-12, with respect to guaranteed bonds. Nothing in the TEA Rule obligates the TEA to make any filings or disclosures with respect to guaranteed bonds, as the obligations of the TEA under the TEA Rule pertain solely to the Guarantee Program. The issuer or an "obligated person" of the guaranteed bonds has assumed the applicable obligation under Rule 15c-12 to make all disclosures and filings relating directly to guaranteed bonds, and the TEA takes no responsibility with respect to such undertakings. Under the TEA agreement, the TEA will be obligated to provide annually certain updated financial information and operating data, and timely notice of specified material events, to the MSRB.

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

Annual Reports

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

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

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

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

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; (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; (15) the incurrence of a financial obligation of the Guarantee Program, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Program, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Guarantee Program, any of which reflect financial difficulties. (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

FINANCIAL ADVISOR

Live Oak Public Finance, LLC is employed as Financial Advisor (the “Financial Advisor”) to the District to assist in the issuance of the Bonds. In this capacity, the Financial Advisor has compiled certain data relating to the Bonds that is contained in this Official Statement. The Financial Advisor has not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the District to determine the accuracy or completeness of this Official Statement. Because of its limited participation, the Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein. The fee of the Financial Advisor for services with respect to the Bonds is contingent upon the issuance and sale of the Bonds.

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.

LITIGATION

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

CONTINUING DISCLOSURE OF INFORMATION

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 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 District of the general type included in the Official Statement in "APPENDIX A – SELECTED FINANCIAL INFORMATION OF THE DISTRICT" (Tables 1-5 and 7-12), within 6 months after the end of each fiscal year ending in or after 2018, and in APPENDIX D, if available, within six months after the end of each fiscal year ending in or after 2018. If audited financial statements of the type included in APPENDIX D are not available when the information is provided, the District will provide audited financial statements when and if they become available and unaudited financial statements within 12 months after fiscal year end, unless audited financial statements are sooner provided. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX D or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation.

The District's current fiscal year is August 31. Accordingly, the District must provide updated financial information and operating data (being information included in APPENDIX A) by the last day of February in each year and audited financial statements (of the type attached hereto as APPENDIX D) for the preceding year (or unaudited financial statements if the audited financial statements are not yet available) must be provided by August 31 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change. All financial information, operating data, financial statements and notices required to be provided to the MSRB shall be provided in an electronic format and be accompanied by identifying information prescribed by the MSRB. Financial information and operating data to be provided as set forth above may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or offering document) available to the public on the MSRB's Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule").

Event Notices

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

Limitations and Amendments

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

its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders and beneficial owners of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

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

Compliance with Prior Undertakings

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

UNDERWRITING

The Underwriter has agreed, subject to certain customary conditions, to purchase the Bonds at a price equal to the initial offering prices to the public, as shown on the inside cover page, less an Underwriter's Discount of \$43,585.10. The Underwriter's obligation is subject to certain conditions precedent, and the Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices and such public prices may be changed, from time to time, by the Underwriters.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement pursuant to their respective 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 assurances that the forward-looking statements included in this Official Statement would prove to be accurate.

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 Rule.

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.

Tatum Independent School District

/s/ Kip Amick
President, Board of Trustees

ATTEST:

/s/ Stephen Skinner
Secretary, Board of Trustees

**SCHEDULE I
SCHEDULE OF REFUNDED BONDS**

Series	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
Tatum Independent School District Unlimited Tax School Building Bonds, Series 2012	2020	4.000%	\$940,000	02/15/2019	100.00%
	2021	4.000	980,000	02/15/2019	100.00
	2022	4.000	1,020,000	02/15/2019	100.00
	2023	5.000	1,070,000	02/15/2019	100.00
	2024	5.000	1,125,000	02/15/2019	100.00
	2025	5.000	1,180,000	02/15/2019	100.00
	2032	3.250	5,000	02/15/2019	100.00

APPENDIX A
SELECTED FINANCIAL INFORMATION
OF THE DISTRICT

Table 1 – Valuation, Exemptions, and Tax Supported Debt

2018 Tax Year Total Valuation	\$ 1,124,701,540
Less: Exemptions and Deductions	\$ (314,888,200)
2018 Tax Year Net Taxable Valuation	<u>\$ 809,813,340</u>
Unlimited Tax Bonds Outstanding ⁽¹⁾	\$ 17,070,000
Less: The Refunded Bonds	\$ 6,320,000
Plus: The Bonds	\$ 6,100,000
Total Unlimited Tax Bonds	<u>\$ 16,850,000</u>
Less: Interest & Sinking Fund Balance (as of August 31, 2018)	<u>\$ (267,099)</u>
Net General Obligation Debt	<u>\$ 16,582,901</u>
Ratio of Net G.O. Debt to Net Taxable Valuation	2.05%
Estimated District Population	7,887
Per Capita Net Taxable Valuation	\$ 102,676.98
Per Capita Net G.O. Debt	\$ 2,102.56

	<u>Tax Year 2018</u> ⁽²⁾	<u>Tax Year 2017</u> ⁽²⁾	<u>Tax Year 2016</u> ⁽²⁾	<u>Tax Year 2015</u> ⁽³⁾	<u>Tax Year 2014</u> ⁽²⁾
Gross Value	\$ 1,124,701,540	\$ 1,324,066,500	\$ 1,451,367,320	\$ 1,630,966,180	\$ 1,654,413,230
Less Exemptions	<u>\$ (314,888,200)</u>	<u>\$ (364,469,900)</u>	<u>\$ (380,683,790)</u>	<u>\$ (415,298,089)</u>	<u>\$ (409,455,485)</u>
Net Taxable Value	<u>\$ 809,813,340</u>	<u>\$ 959,596,600</u>	<u>\$ 1,070,683,530</u>	<u>\$ 1,215,668,091</u>	<u>\$ 1,244,957,745</u>

⁽¹⁾ See “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” herein, “UNLIMITED TAX DEBT SERVICE REQUIREMENTS” in this APPENDIX A and the “Audited Financial Statements” for more information relative to the District’s obligations.

⁽²⁾ Source: Panola County and Rusk County Appraisal District and the District’s Audited Financial Statements.

⁽³⁾ Source: Comptroller of Public Accounts

Table 2 – Valuation and Tax Supported Debt History ⁽¹⁾

<u>Fiscal Year Ended 08/31</u>	<u>Estimated Population</u>	<u>Taxable Assessed Valuation</u> ⁽²⁾⁽³⁾	<u>Taxable AV Per Capita</u>	<u>Tax Supported Debt Outstanding</u>	<u>Ratio of Tax Supported Debt to Assessed Valuation</u>	<u>Tax Supported Debt Per Capita</u>
2015	7,714	\$ 1,244,957,745	\$ 161,389	\$ 23,040,000	1.85%	\$ 2,987
2016	7,533	\$ 1,215,668,091	\$ 161,379	\$ 20,915,000	1.72%	\$ 2,776
2017	7,444	\$ 1,070,683,530	\$ 143,832	\$ 19,280,000	1.80%	\$ 2,590
2018	7,223	\$ 959,596,600	\$ 132,853	\$ 17,955,000	1.87%	\$ 2,486
2019	7,887	\$ 809,813,340	\$ 102,677	\$ 16,850,000	2.08%	\$ 2,136

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

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

⁽³⁾ The District’s approximately 33% decrease in taxable assessed valuation over the last five years is due to a decrease in the assessed valuation of Luminant, the District’s top taxpayer.

[Remainder of page intentionally left blank]

Table 3 – Tax Rate, Levy, and Collection History ⁽¹⁾

<u>Fiscal Year</u> <u>Ended (08/31)</u>	<u>Tax Year</u>	<u>Tax Rate</u>	<u>M&O</u>	<u>I&S</u>	<u>Tax Levy⁽¹⁾</u>	<u>Percent Collected</u>	
						<u>Current</u>	<u>Total</u>
2014	2013	\$ 1.1700	\$ 0.8800	\$ 0.2900	\$ 15,451,473	98.94%	99.55%
2015	2014	\$ 1.1700	\$ 0.9467	\$ 0.2233	\$ 14,360,633	98.84%	99.40%
2016	2015	\$ 1.1700	\$ 0.9467	\$ 0.2233	\$ 14,174,556	73.78% ⁽²⁾	98.99%
2017	2016	\$ 1.2000	\$ 1.0107	\$ 0.1893	\$ 12,674,664	48.00% ⁽²⁾	71.67% ⁽²⁾
2018	2017	\$ 1.2070	\$ 1.0400	\$ 0.1670	\$ 11,582,331	97.00%	97.00%
2019	2018	\$ 1.2070	\$ 1.0400	\$ 0.1670	N/A	N/A	N/A

Source: District's audited financial statements.

⁽¹⁾ Excludes penalties and interest.

⁽²⁾ Collections for Fiscal Year 2016 and Fiscal Year 2017 were below normal due to the disputed valuation of Luminant's Martin Lake Plant. In April 2018, the District and Luminant settled the dispute resulting in Luminant making a lump sum payment of \$6,500,000, with \$3,500,000 allocated to Fiscal Year 2016 and \$3,000,000 allocated to Fiscal Year 2017. The difference in the current and total collections for those years is due to the lump sum payments.

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

<u>Taxpayers</u>	<u>2018 Net Taxable</u>	<u>% of Total 2018</u>
	<u>Assessed Valuation</u>	<u>Assessed Valuation</u>
1. Luminant Generation Co LLC	\$ 349,236,690	43.13%
2. Luminant Mining Co LLC	\$ 48,251,600	5.96%
3. Sabine Mining Company	\$ 27,916,670	3.45%
4. Rockcliff Energy Operating LLC	\$ 17,415,520	2.15%
5. Oncor Electric Delivery Co LLC	\$ 10,099,210	1.25%
6. XTO Energy Inc.	\$ 8,799,600	1.09%
7. Rockcliff Energy Operating LLC (WI)	\$ 8,710,550	1.08%
8. Cherokee Water Co	\$ 7,447,000	0.92%
9. TXU Generation Co LP	\$ 6,960,480	0.86%
10. Valence Operating Company	\$ 6,660,080	0.82%
	\$ 491,497,400	60.69%

⁽¹⁾ Source: Panola County and Rusk County Central Appraisal District

⁽²⁾ As shown in the table above, the top ten taxpayers in the District currently account for over 60% of the District's tax base, with one taxpayer accounting for 43% of the District's tax base. If any major taxpayer were to default in the payment of taxes, the ability of the District to make timely payment of debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax lien, which is a time-consuming process, or to fund debt service payments from other resources, if available (see REGISTERED OWNER'S REMEDIES).

Table 5 – Tax Adequacy

2019 Net Principal and Interest Requirements	\$ 1,549,842
\$0.1953 Tax Rate at 98% Collection Produces	\$ 1,549,934
Average Net Annual Principal and Interest Requirements, 2019-2032	\$ 1,549,531
\$0.1952 Tax Rate at 98% Collection Produces	\$ 1,549,141
Maximum Net Principal and Interest Requirements, 2032	\$ 1,686,994
\$0.2126 Tax Rate at 98% Collection Produces	\$ 1,687,230

Table 6 – Estimated Overlapping Debt

Expenditures of the various taxing entities within the territory of the District are paid out of ad valorem taxes levied by such entities on properties within the District. Such entities are independent of the District and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax bonds (“Tax Debt”) was developed from information contained in “Texas Municipal Reports” published by the Municipal Advisory Council of Texas. Except for the amounts relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional bonds since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the District.

<u>Taxing Jurisdiction</u>	<u>As Of</u>	<u>Total Debt</u>	<u>% Overlapping</u>	<u>Overlapping Debt</u>
Panola County	10/31/2018	\$ -	2.00%	\$ -
Panola College District	10/31/2018	\$ 28,430,000	2.00%	\$ 568,600
Rusk County	10/31/2018	\$ 6,050,000	23.98%	\$ 1,450,790
Estimated (Net) Overlapping Debt				<u>\$ 2,019,390</u>
Tatum ISD ⁽¹⁾		\$ 16,850,000	100.00%	\$ 16,850,000
Total Direct & Estimated Overlapping Debt				<u>\$ 18,869,390</u>
Total and Overlapping Debt as a % of 2017 Certified Taxable Assessed Valuation				1.68%
Total and Overlapping Debt as a Per Capita				\$ 2,612

Source: MAC of Texas; Texas Municipal Reports

⁽¹⁾ Includes the Bonds and excludes the Refunded Bonds.

[Remainder of page intentionally left blank]

Table 7 – Authorized but Unissued Bonds

The District has 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>The Bonds</u>						
	Current Outstanding Debt Service Requirements	Less: Refunded Debt Service	Principal		Interest	Total	New Total Debt Service Requirements
2019	\$ 1,562,000	\$ 286,513			\$ 129,354	\$ 274,354	\$ 1,549,842
2020	\$ 1,559,550	\$ 1,207,713	\$ 680,000		\$ 211,550	\$ 891,550	\$ 1,243,388
2021	\$ 1,561,150	\$ 1,209,313	\$ 445,000		\$ 194,675	\$ 639,675	\$ 991,513
2022	\$ 1,561,150	\$ 1,209,313	\$ 1,100,000		\$ 171,500	\$ 1,271,500	\$ 1,623,338
2023	\$ 1,564,000	\$ 1,212,163	\$ 1,145,000		\$ 132,100	\$ 1,277,100	\$ 1,628,938
2024	\$ 1,564,125	\$ 1,212,288	\$ 1,185,000		\$ 85,500	\$ 1,270,500	\$ 1,622,338
2025	\$ 1,561,500	\$ 1,209,663	\$ 1,235,000		\$ 37,100	\$ 1,272,100	\$ 1,623,938
2026	\$ 1,562,300	\$ 163	\$ 45,000		\$ 11,500	\$ 56,500	\$ 1,618,638
2027	\$ 1,561,900	\$ 163	\$ 50,000		\$ 9,600	\$ 59,600	\$ 1,621,338
2028	\$ 1,564,400	\$ 163	\$ 50,000		\$ 7,600	\$ 57,600	\$ 1,621,838
2029	\$ 1,559,800	\$ 163	\$ 50,000		\$ 5,600	\$ 55,600	\$ 1,615,238
2030	\$ 1,565,325	\$ 163	\$ 55,000		\$ 3,500	\$ 58,500	\$ 1,623,663
2031	\$ 1,566,300	\$ 163	\$ 55,000		\$ 1,300	\$ 56,300	\$ 1,622,438
2032	\$ 1,686,975	\$ 5,081	\$ 5,000		\$ 100	\$ 5,100	\$ 1,686,994
TOTAL	\$ 22,000,475	\$ 7,553,019	\$ 6,100,000		\$ 1,000,979	\$ 7,245,979	\$ 21,693,435

Average Annual Debt Service Requirement \$ 1,549,531
 Maximum Debt Service Requirement \$ 1,686,994

Table 9 – Interest and Sinking Fund Budget Projection

Tax Supported Debt Service Requirements for FYE Ended 2019	\$ 1,549,842
Interest and Sinking Fund Local Revenue	
Debt Subsidy from Texas Education Agency	
Net Increase/(Decrease) in Fund Balance	\$ (197,453)
Estimated Interest & Sinking Fund Balance, 09/01/2018 (Beginning)	\$ 267,099
Estimated Interest & Sinking Fund Balance, 08/31/2019 (Ending)	\$ 69,646

Table 10 – Other Obligations

As of August 31, 2017, other obligations of the District included lease agreements for facilities and equipment providing for minimum future rental payments as follows:

Year Ending August 31,	Annual Payment
2018	\$ 57,355
2019	\$ 65,419
Total	\$ 122,774
Rental Expenditure in 2017:	\$ 57,658

Source: The District's audited financial statements.

Table 11 – Schedule of General Fund Revenues and Expenditure History

For Fiscal Year ended August 31,	<u>2017</u>	<u>2016</u>	<u>2015</u> ⁽¹⁾	<u>2014</u>	<u>2013</u>
REVENUES:					
Total Local and Intermediate Sources	\$ 5,590,827	\$ 8,955,540	\$ 12,025,968	\$ 11,912,754	\$ 12,782,716
State Program Revenues	\$ 8,210,411	\$ 4,685,432	\$ 3,260,077	\$ 3,512,409	\$ 3,361,571
Federal Program Revenues	\$ 151,912	\$ 201,847	\$ 103,063	\$ 51,590	\$ 8,466
Total Revenues	\$ 13,953,150	\$ 13,842,819	\$ 15,389,108	\$ 15,476,753	\$ 16,152,753
EXPENDITURES:					
Current:					
Instruction	\$ 7,054,160	\$ 6,961,808	\$ 6,540,835	\$ 6,349,359	\$ 6,128,622
Instructional Resources & Media Services	\$ 405,563	\$ 370,695	\$ 368,075	\$ 347,070	\$ 326,391
Curriculum and Instructional Staff Development	\$ 152,788	\$ 167,061	\$ 177,480	\$ 218,361	\$ 160,807
Instructional Leadership	\$ 128,161	\$ 125,089	\$ 122,223	\$ 113,805	\$ 23,211
School Leadership	\$ 823,211	\$ 846,505	\$ 816,825	\$ 774,421	\$ 754,813
Guidance, Counseling & Evaluation Services	\$ 291,108	\$ 282,910	\$ 274,676	\$ 204,416	\$ 215,018
Health Services	\$ 123,397	\$ 128,072	\$ 123,976	\$ 122,458	\$ 119,676
Student Transportation	\$ 486,514	\$ 463,206	\$ 489,158	\$ 427,754	\$ 440,847
Food Services	\$ -	\$ -	\$ -	\$ -	\$ -
Co/Extracurricular Activities	\$ 833,199	\$ 825,666	\$ 798,694	\$ 739,172	\$ 695,672
General Administration	\$ 676,264	\$ 552,314	\$ 592,555	\$ 538,355	\$ 524,163
Facilities Maintenance & Operations	\$ 1,771,246	\$ 1,730,561	\$ 1,572,147	\$ 1,524,578	\$ 1,230,647
Security & Monitoring Services	\$ 68,683	\$ 71,405	\$ 71,693	\$ 17,411	\$ 23,051
Data Processing Services	\$ 211,564	\$ 194,775	\$ 177,205	\$ 176,442	\$ 219,631
Community Services	\$ 33,682	\$ 30,044	\$ 28,154	\$ 28,108	\$ 27,546
Debt Service:					
Principal on Long Term Debt	\$ -	\$ -	\$ -	\$ -	\$ -
Interest on Long Term Debt	\$ -	\$ -	\$ -	\$ -	\$ -
Bond Issuance Cost and Fees	\$ -	\$ -	\$ -	\$ -	\$ -
Capital Outlay	\$ -	\$ 38,225	\$ 28,729	\$ 222,331	\$ 1,919,511
Contractual Instructional Services Between Public Schools	\$ 874,300	\$ 830,682	\$ 1,813,471	\$ 2,723,540	\$ 4,427,715
Incremental Costs Related to WADA	\$ 16,740	\$ 19,800	\$ 19,800	\$ 19,800	\$ 20,400
Payments to Shared Services Arrangements	\$ 118,062	\$ 156,675	\$ 140,237	\$ 92,404	\$ 87,420
Payments to Juvenile Justice Alternative Ed Programs	\$ -	\$ 37,500	\$ 37,500	\$ 37,500	\$ 37,500
Other Intergovernmental Charges	\$ 228,698	\$ 229,923	\$ 231,876	\$ 256,333	\$ 271,955
Total Expenses	\$ 14,297,340	\$ 14,062,916	\$ 14,425,309	\$ 14,933,618	\$ 17,654,596
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ (344,190)	\$ (220,097)	\$ 963,799	\$ 543,135	\$ (1,501,843)
Other Financing Sources and (Uses):					
Capital-Related Debt Issued (Regular Bonds)	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers In	\$ -	\$ -	\$ -	\$ 182,275	\$ 171,591
Premium or Discount on Issuance of Bonds	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers Out	\$ (730,512)	\$ -	\$ -	\$ (182,275)	\$ (321,591)
Other Uses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Other Financing Sources and (Uses)	\$ (730,512)	\$ -	\$ -	\$ -	\$ (150,000)
Net Change in Fund Balances	\$ (1,074,702)	\$ (220,097)	\$ 963,799	\$ 543,135	\$ (1,651,843)
Fund Balances - Beginning	\$ 8,130,928	\$ 8,351,025	\$ 7,387,227	\$ 6,844,091	\$ 8,495,934
Fund Balances - Ending	\$ 7,056,226	\$ 8,130,928	\$ 8,351,026	\$ 7,387,226	\$ 6,844,091

Source: The District's audited financial statements.

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

As of August 31, 2018, the District estimates the Fiscal Year 2018 General Fund ending balance to be approximately \$14,000,000.

Table 12 - General Operating Fund Comparative Balance Sheet

<u>Fiscal Year Ending</u>	<u>2017</u>	<u>2016</u>	<u>2015</u> ⁽¹⁾	<u>2014</u>	<u>2013</u>
ASSETS:					
Cash & Cash Equivalents	\$ 1,005,801	\$ 5,812,565	\$ 8,136,335	\$ 7,883,621	\$ 4,601,540
Current Investments	\$ 492,157	\$ 492,157	\$ 345,890	\$ 245,863	\$ 249,908
Taxes Receivable, Net	\$ 8,064,300	\$ 3,195,257	\$ 576,031	\$ 538,602	\$ 562,990
Due from Other Governments	\$ 5,806,546	\$ 2,755,107	\$ 422,176	\$ 165,738	\$ 2,540,593
Accrued Interest	\$ 1,353	\$ 2,590	\$ -	\$ 8	\$ 543
Due from Other Funds	\$ 300,000	\$ -	\$ 3,326	\$ 103,312	\$ 1,115
Other Current Assets	\$ 40,987	\$ -	\$ -	\$ -	\$ -
Total Assets	\$ 15,711,144	\$ 12,257,676	\$ 9,483,758	\$ 8,937,144	\$ 7,956,689
LIABILITIES					
Current Liabilities:					
Accounts Payable	\$ 10,925	\$ 19,358	\$ 22,024	\$ 22,078	\$ 9,126
Accrued Wages Payable	\$ 495,367	\$ 297,387	\$ 420,103	\$ 420,103	\$ 395,535
Due to Other Funds	\$ 53,324	\$ 49,911	\$ 78,234	\$ 60,814	\$ 51,285
Due to Other Governments	\$ 31,002	\$ 564,834	\$ 26,283	\$ 348,607	\$ -
Accrued Expenditures	\$ -	\$ -	\$ -	\$ -	\$ -
Unearned Revenue	\$ 8,064,300	\$ 3,195,258	\$ 10,057	\$ 159,714	\$ 93,663
Total Liabilities	\$ 8,654,918	\$ 4,126,748	\$ 556,701	\$ 1,011,316	\$ 549,609
DEFERRED INFLOWS OF RESOURCES:					
Unavailable Revenue - Property Taxes				\$ 538,602	\$ 562,989
Total Deferred Inflows of Resources	\$ -	\$ -	\$ -	\$ 538,602	\$ 562,989
FUND BALANCES:					
Nonspendable Fund Balances:					
Prepaid Items	\$ 40,987	\$ -	\$ -	\$ -	\$ -
Restricted Fund Balance					
Other Restrictions of Fund Balance	\$ -	\$ -	\$ -	\$ -	\$ -
Federal/State Funds Grant Restrictions	\$ -	\$ -	\$ -	\$ -	\$ -
Retirement of Long-Term Debt	\$ -	\$ -	\$ -	\$ -	\$ -
Committed Fund Balances:					
Construction	\$ 2,430,255	\$ 2,430,255	\$ 2,430,255	\$ 2,430,255	\$ 2,081,989
Other Committed Fund Balance	\$ -	\$ -	\$ -	\$ -	\$ -
Unassigned Fund Balance:	\$ 4,584,984	\$ 5,700,673	\$ 5,920,771	\$ 4,956,971	\$ 4,762,102
Special Revenue Funds	\$ -	\$ -	\$ -	\$ -	\$ -
Total Fund Balances	\$ 7,056,226	\$ 8,130,928	\$ 8,351,026	\$ 7,387,226	\$ 6,844,091
Total Liabilities, Deferred Inflow of Resources and Fund Balances	\$ 15,711,144	\$ 12,257,676	\$ 8,907,727	\$ 8,937,144	\$ 7,956,689

Source: District's audited financial reports

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

APPENDIX B

**General Information Regarding the District
and its Economy**

THE DISTRICT

General and Economic Information

Enrollment Statistics ⁽¹⁾

<u>Year Ending 8/31</u>	<u>Enrollment</u>
2008	1411
2009	1487
2010	507
2011	1538
2012	1585
2013	1631
2014	1713
2015	1716
2016	1686
2017	1678
2018	1622
Current	1515*

District Staff ⁽¹⁾

Teachers	108
Auxiliary Personnel	68
Teachers' Aides & Secretaries	27
Administrators	8
Other (Counselors, RNs, Librarians)	11

Facilities ⁽¹⁾

<u>Campus</u>	<u>Grades</u>	<u>Current Enrollment</u>	<u>Capacity</u>	<u>Year Built</u>	<u>Year of Addition/Renovation</u>
Tatum Primary	EE – 2 nd	360	400	1979	2009
Tatum Elementary	3 rd – 5 th	340	450	2014	N/A
Tatum Middle School	6 th – 8 th	369	400	1969	1992, 2013
Tatum High School	9 th – 12 th	472	500	1979	1988, 1993 2004, 2005, 2009, 2012, 2013

Unemployment Rates ⁽²⁾

	<u>January 2016</u>	<u>January 2017</u>	<u>January 2018</u>
Panola County	6.4%	7.3%	5.1%
Rusk County	5.1%	6.4%	4.7%
State of Texas	4.5%	4.9%	4.0%

⁽¹⁾ Source: Tatum ISD District records.

⁽²⁾ Source: United States Department of Labor.

* As of November 14, 2018.

**TATUM
INDEPENDENT SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2017

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

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
INTRODUCTORY SECTION		
Certificate of Board.....	1	
FINANCIAL SECTION		
Independent Auditor's Report.....	2	
Management's Discussion and Analysis (Required Supplementary Information).....	4	
<u>Basic Financial Statements</u>		
Government-wide Financial Statements:		
Statement of Net Position.....	11	A-1
Statement of Activities.....	12	B-1
Fund Financial Statements:		
Balance Sheet - Governmental Funds.....	13	C-1
Reconciliation of the Governmental Funds		
Balance Sheet to the Statement of Net Position.....	14	C-1R
Statement of Revenues, Expenditures, and Changes in		
Fund Balances - Governmental Funds.....	15	C-2
Reconciliation of the Statement of Revenues, Expenditures, and Changes in		
Fund Balances of Governmental Funds to the Statement of Activities.....	16	C-3
Statement of Net Position - Internal Service Fund.....	17	D-1
Statement of Revenues, Expenses, and Changes in		
Fund Net Position - Internal Service Fund.....	18	D-2
Statement of Cash Flows - Proprietary Funds.....	19	D-3
Statement of Fiduciary Net Position - Fiduciary Funds.....	20	E-1
Statement of Changes in Fiduciary Net Position - Fiduciary Funds.....	21	E-2
Notes to the Financial Statements	22	
<u>Required Supplementary Information</u>		
Budgetary Comparison Schedules:		
General Fund.....	40	G-1
Schedule of the District's Proportionate Share of the		
Net Pension Liability - Teacher Retirement System	41	G-2
Schedule of District's Contributions - Teacher Retirement System.....	42	G-3
Notes to Required Supplementary Information.....	43	

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

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
OTHER SUPPLEMENTARY INFORMATION SECTION		
Schedule of Delinquent Taxes Receivable.....	44	J-1
Budgetary Comparison Schedules Required by the Texas Education Agency:		
National School Breakfast and Lunch Program.....	46	J-2
Debt Service Fund.....	47	J-3
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	48	
Report on Compliance for Each Major Program and on Internal Control over Compliance Required by Title 2 CFR Part 200 (Uniform Guidance).....	50	
Schedule of Findings and Questioned Costs	52	
Summary Schedule of Prior Audit Findings.....	55	
Corrective Action Plan.....	56	
Schedule of Expenditures of Federal Awards	57	K-1
Notes to the Schedule of Expenditures of Federal Awards.....	58	
Schedule of Required Responses to Selected School First Indicators.....	59	L-1

Introductory Section

This page is left blank intentionally.

CERTIFICATE OF BOARD

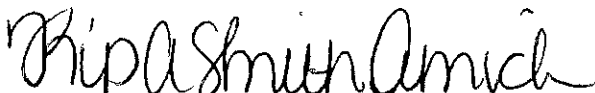
Tatum Independent School District
Name of School District

Rusk
County

201-910
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) approved disapproved for the year ended August 31, 2017, at a meeting of the board of trustees of such school district on the 8th day of January, 2018.


Signature of Board Secretary


Signature of Board President

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

This page is left blank intentionally.

Financial Section

This page is left blank intentionally.

Morgan LaGrone, CPA, PLLC

Certified Public Accountant

Telephone: 903.657.0240
Fax: 903.655.1324

116 S Marshall
Henderson TX 75654

Independent Auditor's Report

To the Board of Trustees
Tatum Independent School District
P.O. Box 808
Tatum, Texas 75691

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 Tatum Independent School District ("the District") as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Tatum 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.

MEMBER

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS AND TEXAS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

Other Matters

Required Supplementary Information

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

Other Information

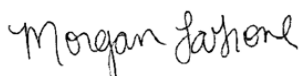
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Tatum Independent School District's basic financial statements. The introductory section and combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not required parts of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The accompanying other supplementary information is presented for purposes of additional analysis and is also not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2018 on our consideration of Tatum Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Tatum Independent School District's internal control over financial reporting and compliance.

Respectfully submitted,



Morgan LaGrone, CPA, PLLC
Henderson, TX
January 4, 2018

TATUM INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2017

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

FINANCIAL HIGHLIGHTS

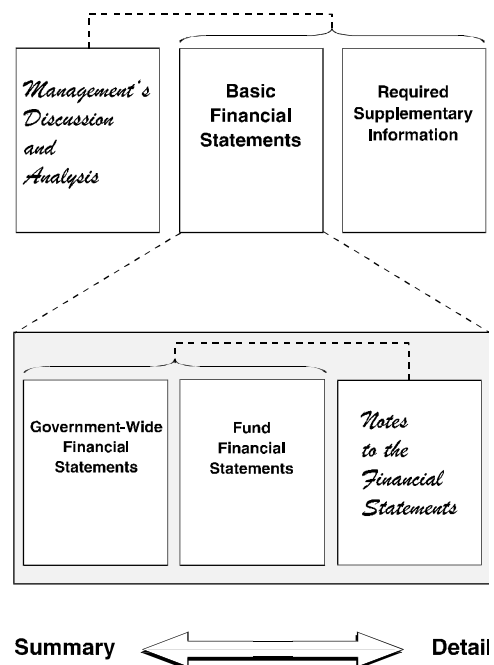
- The District's total combined net position was \$46,227,262 at August 31, 2017.
- During the year, the District's expenses were \$21,430,120, and the District generated \$23,700,764 in taxes and other revenues for governmental activities.
- The total cost of the District's programs decreased by 4.94%.
- The General Fund reported a fund balance this year of \$7,056,226, of which \$2,430,255 was committed by the Board of Trustees for construction projects and \$4,625,971 was unassigned.
- The District refunded its 2012 bonds in order to reduce debt payments over the next 15 years. The result was a savings of \$2,765,988.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts—management's discussion and analysis (this section), the basic financial statements, required supplementary information, and other 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.
- Proprietary fund statements offer short and long-term financial information about the activities the government operates like businesses.
- 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 financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

TATUM INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2017

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.

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 at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- Proprietary funds - Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.
 - We use an internal service fund to report activities that provide services for the District's Worker's Compensation Self-Insurance Fund.
- Fiduciary funds - The District is the trustee, or fiduciary, for certain funds. It is also responsible for other assets that—because of a trust arrangement—can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

TATUM INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2017

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position. The District's combined net position was \$46,227,262 at August 31, 2017.

Table A-1
Tatum Independent School District
Net Position

	<u>2017</u>	<u>2016</u>	Increase/ (Decrease) <u>2016-2017</u>	Percentage Change <u>2016-2017</u>
Current and Other Assets	\$ 17,521,890	\$ 13,865,598	\$ 3,656,292	26.37%
Capital Assets	52,260,299	55,132,400	(2,872,101)	(5.21%)
Total Assets	\$ 69,782,189	\$ 68,997,998	\$ 784,191	1.14%
Deferred Outflow - Pension	\$ 1,481,050	\$ 1,552,600	\$ (71,550)	(4.61%)
Total Deferred Outflows of Resources	\$ 1,481,050	\$ 1,552,600	\$ (71,550)	(4.61%)
Long-Term Liabilities Outstanding	\$ 23,871,807	\$ 25,216,895	\$ (1,345,088)	(5.33%)
Other Liabilities	718,149	1,104,460	(386,311)	(34.98%)
Total Liabilities	\$ 24,589,956	\$ 26,321,355	\$ (1,731,399)	(6.58%)
Deferred Inflow - Pension	\$ 225,124	\$ 272,628	\$ (47,504)	(17.42%)
Deferred Revenue	220,897	-	220,897	n/a
Total Deferred Inflows of Resources	\$ 446,021	\$ 272,628	\$ 173,393	63.60%
Net Position:				
Net Investment in Capital Assets	\$ 32,116,301	\$ 33,961,091	\$ (1,844,790)	(5.43%)
Restricted	232,678	356,691	(124,013)	(34.77%)
Unrestricted	13,878,283	9,638,834	4,239,449	43.98%
Total Net Position	\$ 46,227,262	\$ 43,956,616	\$ 2,270,646	5.17%

\$15,064 of the District's restricted net position is restricted for food service, \$44,883 is restricted for capital projects, and \$22,026 is restricted for campus activities, \$150,705 is restricted for shared services arrangements. The \$13,878,283 of unrestricted net position represents resources available to fund the programs of the District next year.

Table A-2
Tatum Independent School District
Change in Net Position

	<u>2017</u>	<u>2016</u>	Increase/ (Decrease) <u>2016-2017</u>	Percentage Change <u>2016-2017</u>
Program Revenues:				
Charges for Services	\$ 718,384	\$ 927,512	\$ (209,128)	(22.55%)
Operating Grants & Contributions	2,860,187	3,266,810	(406,623)	(12.45%)
General Revenues:				
Property Taxes	12,096,059	13,905,690	(1,809,631)	(13.01%)
State Aid-Formula	7,811,426	3,943,301	3,868,125	98.09%
Other	214,708	214,720	(12)	(0.01%)
Total Revenues	\$ 23,700,764	\$ 22,258,033	\$ 1,442,731	6.48%
Functions/Programs:				
Instructional and Instructional-Related Services	\$ 10,640,844	\$ 11,200,304	\$ (559,460)	(5.00%)
Instruction and School Leadership	1,338,220	1,456,095	(117,875)	(8.10%)
Support Services - Student	4,167,592	4,193,404	(25,812)	(0.62%)
Administrative Support Services	846,598	752,851	93,747	12.45%
Support Services - Non-Student Based	2,545,905	2,857,733	(311,828)	(10.91%)
Ancillary Services	40,275	38,978	1,297	3.33%
Debt Service	594,486	750,861	(156,375)	(20.83%)
Capital Outlay	400	-	400	n/a
Intergovernmental Charges	1,255,800	1,292,580	(36,780)	(2.85%)
Total Expenses	\$ 21,430,120	\$ 22,542,806	\$ (1,112,686)	(4.94%)
Increase/(Decrease) in Net Position	\$ 2,270,644	\$ (284,773)	\$ 2,555,417	897.35%

TATUM INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
 AUGUST 31, 2017

Chart A-1
Tatum Independent School District
Revenues for the Year Ended August 31, 2017

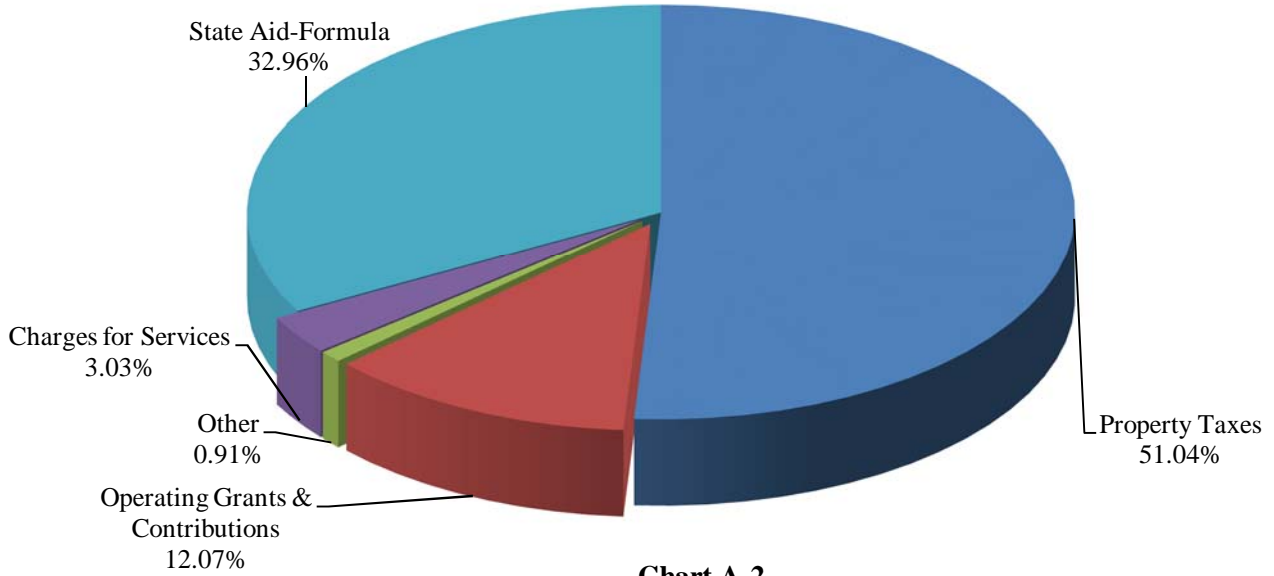
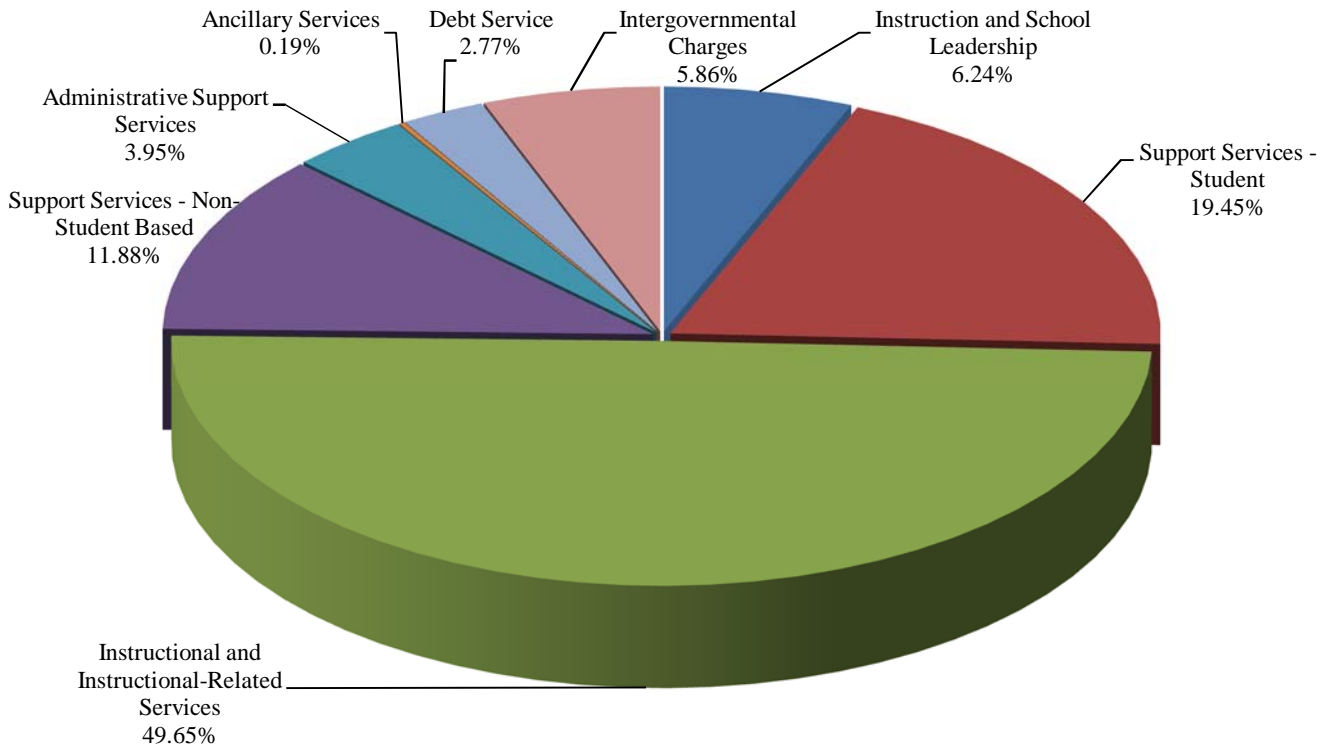


Chart A-2
Tatum Independent School District
Expenses for the Year Ended August 31, 2017



TATUM INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2017

Change in net position. The District's total revenues were \$23,700,764. A significant portion, 51.04%, of the District's revenue comes from taxes, 32.96% comes from state aid – formula grants, 12.07% is from operating grants and contributions, 3.03% relates to charges for services, and .91% is from investment earnings and miscellaneous. The total cost of all programs and services was \$21,430,120; 69.10% of these costs are for instructional and student services and 5.86% are for intergovernmental charges, including Chapter 41 payments.

The total property tax rate was \$1.20 per \$100 valuation, with an M&O rate of \$1.01 per \$100 valuation and an I&S rate of \$0.1893 per \$100.

Table A-3 presents the cost of each of the District's largest 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 state revenues as well as local tax dollars funded.

- The cost of all governmental activities this year was \$21,430,120.
- The amount that our taxpayers paid for these activities through property taxes was \$12,096,059.
- Some of the cost was paid by those who directly benefited from the programs, \$718,384, or by grants and contributions, \$2,860,187.

Table A-3
Tatum Independent School District
Net Cost of Selected District Functions

	Total Cost of Services			Net Cost of Services		
	2017	2016	% Change	2017	2016	% Change
Instruction	\$ 9,880,275	\$ 10,441,879	(5.38%)	\$ 8,686,213	\$ 9,228,176	(5.87%)
School Leadership	1,034,885	1,136,944	(8.98%)	886,614	981,772	(9.69%)
Food Services	1,241,679	1,229,184	1.02%	317,721	246,452	28.92%
Extracurricular Activities	937,014	967,207	(3.12%)	849,235	880,404	(3.54%)
General Administration	846,598	752,851	12.45%	763,999	686,103	11.35%
Plant Maintenance & Operations	2,198,923	2,489,300	(11.67%)	2,113,551	2,407,528	(12.21%)
Contracted Instructional Services						
Between Schools (WADA)	874,300	830,682	5.25%	874,048	830,446	5.25%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues from governmental fund types totaled \$17,794,662, a decrease of \$968,872 from the preceding year. State revenue increased by \$3,484,627. Revenue from federal grants increased \$153,822. Because a large tax-paying entity did not pay its property taxes as of the end of the fiscal year, local revenues decreased by \$4,607,321. Expenditures decreased by \$292,973 due to a reduction in capital outlay expenditures.

General Fund Budgetary Highlights

During the year, the District revised its budget. Considering the adjustments, actual expenditures were \$564,968 below final budget amounts. This positive variance resulted from a large cost savings in instruction and instructional related services as well as intergovernmental charges.

Available general fund revenues were \$506,513 less than the budgeted amounts due to the previously mentioned tax-paying entity not paying its taxes for the year ended August 31, 2017.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2017, the District had invested \$86,358,230 in a broad range of capital assets, including land, equipment, buildings, and vehicles. (See Table A-4.)

TATUM INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2017

Table A-4
Tatum Independent School District
Capital Assets

	<u>Governmental Activities</u>		Increase/ (Decrease)	Percentage Change
	<u>2017</u>	<u>2016</u>		
	Land	\$ 1,018,454	\$ 1,018,454	\$ -
Buildings and Improvements	79,689,741	79,689,741	-	0.00%
Vehicles and Equipment	5,650,036	5,750,927	(100,891)	(1.75%)
Total Capital Assets	\$ 86,358,230	\$ 86,459,122	\$ (100,891)	(0.12%)
Less: Accumulated Depreciation	(34,097,930)	(31,326,720)	(2,771,210)	8.85%
Net Capital Assets	\$ 52,260,300	\$ 55,132,402	\$ (2,872,101)	(5.21%)

More detailed information about the District's capital assets is presented in Note E to the financial statements.

Long Term Debt

At year-end the District had \$23,871,808 in long-term debt outstanding as shown in Table A-5. More detailed information about the District's debt is presented in Note G to the financial statements.

Table A-5
Tatum Independent School District
Long-Term Debt

	<u>Governmental Activities</u>		Increase/ (Decrease)	Percentage Change
	<u>2017</u>	<u>2016</u>		
	General Obligation Bonds	\$ 17,955,000	\$ 19,365,000	\$ (1,410,000)
Add: Premium on Issuance of Bonds	2,012,984	2,188,995	(176,011)	(8.04%)
Net Pension Liability	3,903,824	3,662,900	240,924	6.58%
Total Long-Term Debt	\$ 23,871,808	\$ 25,216,895	\$ (1,345,087)	(5.33%)

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Appraised value used for the 2018 budget preparation is down \$111,005,490 or 10.38%, with an M&O rate of \$1.04 per \$100 valuation and an I&S rate of \$0.167 per \$100 valuation for a total tax rate of \$1.20 per \$100 valuation.
- General operating fund spending per student decreases in the 2018 budget from \$8,700 to \$7,934. This is an 8.8% increase.
- The District's 2017 refined average daily attendance is expected to be 1,649, up by approximately 41 students.

These indicators were taken into account when adopting the general fund budget for 2018. Amounts available for appropriation in the general fund budget are \$12,577,642, a decrease of \$1,882,021 from the final 2017 budget of \$14,459,663. Property tax collections will decrease slightly due to a lower property valuation. State revenue will decrease as the student population decreases. There will be no Chapter 41 payments for the District in the 2018 fiscal year.

TATUM INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2017

The District has added no major new programs or initiatives to the 2018 budget.

If these estimates are realized, the District's General Fund budgetary fund balance is expected to remain about the same by the close of 2018.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT STAFF

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 the District's Business Services Department.

This page is left blank intentionally.

Basic Financial Statements

This page is left blank intentionally.

TATUM INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION

AUGUST 31, 2017

Data Control Codes	1	Governmental Activities
ASSETS:		
1110	<i>Cash and Cash Equivalents</i>	\$ 1,418,883
1120	<i>Current Investments</i>	492,157
1225	<i>Property Taxes Receivable (Net)</i>	9,714,304
1240	<i>Due from Other Governments</i>	5,854,206
1250	<i>Accrued Interest</i>	1,353
1490	<i>Other Current Assets</i>	40,987
Capital Assets:		
1510	<i>Land</i>	1,018,454
1520	<i>Buildings and Improvements, Net</i>	49,953,819
1530	<i>Furniture and Equipment, Net</i>	1,288,026
1000	Total Assets	<u>69,782,189</u>
DEFERRED OUTFLOWS OF RESOURCES:		
1705	<i>Deferred Outflow Related to Pensions</i>	1,481,050
1700	Total Deferred Outflows of Resources	<u>1,481,050</u>
LIABILITIES:		
2110	<i>Accounts Payable</i>	64,249
2140	<i>Interest Payable</i>	31,805
2165	<i>Accrued Liabilities</i>	580,732
2180	<i>Due to Other Governments</i>	31,002
2300	<i>Unearned Revenue</i>	10,361
Noncurrent Liabilities:		
2501	<i>Due Within One Year</i>	885,000
2502	<i>Due in More Than One Year</i>	19,082,983
2540	<i>Net Pension Liability</i>	3,903,824
2000	Total Liabilities	<u>24,589,956</u>
DEFERRED INFLOWS OF RESOURCES:		
	<i>Deferred Revenue</i>	220,897
2605	<i>Deferred Inflow Related to Pensions</i>	225,124
2600	Total Deferred Inflows of Resources	<u>446,021</u>
NET POSITION:		
3200	Net Investment in Capital Assets	32,116,301
Restricted For:		
3820	State and Federal Programs	15,064
3860	Capital Projects	44,883
3870	Campus Activities	22,026
3890	Shared Service Arrangements	150,705
3900	Unrestricted	13,878,283
3000	Total Net Position	<u>\$ 46,227,262</u>

The accompanying notes are an integral part of this statement.

TATUM INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes	Functions/Programs	1 Expenses	3 Program Revenues		4 Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
			Charges for Services			
	Governmental Activities:					
11	Instruction	\$ 9,880,275	\$ 119,725		\$ 1,074,337	\$ (8,686,213)
12	Instructional Resources and Media Services	517,468	--		32,099	(485,369)
13	Curriculum and Staff Development	243,101	--		56,114	(186,987)
21	Instructional Leadership	303,335	123,710		19,245	(160,380)
23	School Leadership	1,034,885	112,671		35,600	(886,614)
31	Guidance, Counseling, & Evaluation Services	1,155,300	16,933		572,769	(565,598)
33	Health Services	157,577	--		157,402	(175)
34	Student Transportation	676,022	--		13,071	(662,951)
35	Food Service	1,241,679	204,903		719,055	(317,721)
36	Cocurricular/Extracurricular Activities	937,014	48,054		39,635	(849,325)
41	General Administration	846,598	52,459		30,140	(763,999)
51	Facilities Maintenance and Operations	2,198,923	39,929		45,443	(2,113,551)
52	Security and Monitoring Services	46,654	--		359	(46,295)
53	Data Processing Services	300,328	--		43,338	(256,990)
61	Community Services	40,275	--		63	(40,212)
72	Interest on Long-term Debt	434,798	--		5,727	(429,071)
73	Bond Issuance Costs and Fees	159,688	--		--	(159,688)
81	Capital Outlay	400	--		--	(400)
91	Contracted Instructional Services between Schools	874,300	--		252	(874,048)
92	Incremental Costs Related to WADA	16,740	--		--	(16,740)
93	Payments Related to Shared Services Arrangements	136,062	--		15,538	(120,524)
99	Other Intergovernmental Charges	228,698	--		--	(228,698)
TG	Total Governmental Activities	21,430,120	718,384		2,860,187	(17,851,549)
TP	Total Primary Government	\$ 21,430,120	\$ 718,384		\$ 2,860,187	(17,851,549)
	General Revenues:					
MT	Property Taxes, Levied for General Purposes					10,168,266
DT	Property Taxes, Levied for Debt Service					1,927,793
IE	Investment Earnings					60,226
GC	Grants and Contributions Not Restricted to Specific Programs					7,811,426
MI	Miscellaneous					154,482
TR	Total General Revenues					20,122,193
CN	Change in Net Position					2,270,644
NB	Net Position - Beginning					43,956,618
NE	Net Position - Ending					\$ 46,227,262

The accompanying notes are an integral part of this statement.

TATUM INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

AUGUST 31, 2017

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds	
ASSETS:					
1110	Cash and Cash Equivalents	\$ 1,005,801	\$ 4,554	\$ 408,526	\$ 1,418,881
1120	Current Investments	492,157	--	--	492,157
1225	Taxes Receivable, Net	8,064,300	1,650,004	--	9,714,304
1240	Due from Other Governments	5,806,546	--	47,660	5,854,206
1250	Accrued Interest	1,353	--	--	1,353
1260	Due from Other Funds	300,000	--	--	300,000
1490	Other Current Assets	40,987	--	--	40,987
1000	Total Assets	<u>15,711,144</u>	<u>1,654,558</u>	<u>456,186</u>	<u>17,821,888</u>
LIABILITIES:					
Current Liabilities:					
2110	Accounts Payable	\$ 10,925	\$ --	\$ --	\$ 10,925
2160	Accrued Wages Payable	495,367	--	78,486	573,853
2170	Due to Other Funds	53,324	--	300,000	353,324
2180	Due to Other Governments	31,002	--	--	31,002
2200	Accrued Expenditures	--	--	6,879	6,879
2300	Unearned Revenue	8,064,300	1,660,365	--	9,724,665
2000	Total Liabilities	<u>8,654,918</u>	<u>1,660,365</u>	<u>385,365</u>	<u>10,700,648</u>
FUND BALANCES:					
Nonspendable Fund Balances:					
3430	Prepaid Items	40,987	--	--	40,987
Restricted Fund Balances:					
3490	Other Restrictions of Fund Balance	--	--	210,652	210,652
Committed Fund Balances:					
3510	Construction	2,430,255	--	--	2,430,255
3545	Other Committed Fund Balance	--	--	22,026	22,026
3600	Unassigned	4,584,984	(5,807)	--	4,579,177
Unassigned, Reported in Nonmajor:					
3610	Special Revenue Funds	--	--	(161,857)	(161,857)
3000	Total Fund Balances	<u>7,056,226</u>	<u>(5,807)</u>	<u>70,821</u>	<u>7,121,240</u>
4000	Total Liabilities and Fund Balances	<u>\$ 15,711,144</u>	<u>\$ 1,654,558</u>	<u>\$ 456,186</u>	<u>\$ 17,821,888</u>

The accompanying notes are an integral part of this statement.

TATUM INDEPENDENT SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
AUGUST 31, 2017

Total fund balances - governmental funds balance sheet	\$ 7,121,240
Amounts reported for governmental activities in the Statement of Net Position ("SNP") are different because:	
Capital assets used in governmental activities are not reported in the funds.	52,260,298
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	9,714,304
Payables for bond principal which are not due in the current period are not reported in the funds.	(17,955,000)
Payables for bond interest which are not due in the current period are not reported in the funds.	(31,804)
The unamortized deferred amount on the bond refunding is not reported in the funds.	(220,897)
Recognition of the District's proportionate share of the net pension liability is not reported in the funds.	(3,903,824)
Deferred Resource Inflows related to the pension plan are not reported in the funds.	(225,124)
Deferred Resource Outflows related to the pension plan are not reported in the funds.	1,481,050
Bond premiums are amortized in the SNA but not in the funds.	(2,012,983)
Rounding difference	<u>2</u>
Net position of governmental activities - Statement of Net Position	<u>\$ 46,227,262</u>

The accompanying notes are an integral part of this statement.

TATUM INDEPENDENT SCHOOL DISTRICT

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

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
REVENUES:				
5700 Local and Intermediate Sources	\$ 5,590,827	\$ 1,040,466	\$ 747,041	\$ 7,378,334
5800 State Program Revenues	8,210,411	5,727	171,366	8,387,504
5900 Federal Program Revenues	151,912	--	1,876,912	2,028,824
5020 Total Revenues	<u>13,953,150</u>	<u>1,046,193</u>	<u>2,795,319</u>	<u>17,794,662</u>
EXPENDITURES:				
Current:				
0011 Instruction	7,054,160	--	939,094	7,993,254
0012 Instructional Resources and Media Services	405,563	--	16,996	422,559
0013 Curriculum and Staff Development	152,788	--	50,398	203,186
0021 Instructional Leadership	128,161	--	113,947	242,108
0023 School Leadership	823,211	--	--	823,211
0031 Guidance, Counseling, & Evaluation Services	291,108	--	636,348	927,456
0033 Health Services	123,397	--	--	123,397
0034 Student Transportation	486,514	--	107,408	593,922
0035 Food Service	--	--	1,080,168	1,080,168
0036 Cocurricular/Extracurricular Activities	833,199	--	--	833,199
0041 General Administration	676,264	--	49,367	725,631
0051 Facilities Maintenance and Operations	1,771,246	--	227,533	1,998,779
0052 Security and Monitoring Services	68,683	--	360	69,043
0053 Data Processing Services	211,564	--	41,068	252,632
0061 Community Services	33,682	--	--	33,682
0071 Principal on Long-term Debt	--	1,325,000	--	1,325,000
0072 Interest on Long-term Debt	--	641,263	--	641,263
0073 Bond Issuance Costs and Fees	--	159,688	--	159,688
0081 Capital Outlay	--	--	400	400
0091 Contracted Instructional Services				
0091 Between Public Schools	874,300	--	--	874,300
0092 Incremental Costs Related to WADA	16,740	--	--	16,740
0093 Payments to Shared Service Arrangements	118,062	--	18,000	136,062
0099 Other Intergovernmental Charges	228,698	--	--	228,698
6030 Total Expenditures	<u>14,297,340</u>	<u>2,125,951</u>	<u>3,281,087</u>	<u>19,704,378</u>
1100 Excess (Deficiency) of Revenues Over (Under)				
1100 Expenditures	<u>(344,190)</u>	<u>(1,079,758)</u>	<u>(485,768)</u>	<u>(1,909,716)</u>
Other Financing Sources and (Uses):				
7911 Capital-Related Debt Issued (Regular Bonds)	--	8,380,000	--	8,380,000
7915 Transfers In	--	730,512	--	730,512
7916 Premium or Discount on Issuance of Bonds	--	1,124,223	--	1,124,223
8911 Transfers Out	(730,512)	--	--	(730,512)
8949 Other Uses	--	(9,343,572)	--	(9,343,572)
7080 Total Other Financing Sources and (Uses)	<u>(730,512)</u>	<u>891,163</u>	<u>--</u>	<u>160,651</u>
1200 Net Change in Fund Balances	<u>(1,074,702)</u>	<u>(188,595)</u>	<u>(485,768)</u>	<u>(1,749,065)</u>
0100 Fund Balances - Beginning	8,130,928	182,788	556,589	8,870,305
3000 Fund Balances - Ending	<u>\$ 7,056,226</u>	<u>\$ (5,807)</u>	<u>\$ 70,821</u>	<u>\$ 7,121,240</u>

The accompanying notes are an integral part of this statement.

TATUM INDEPENDENT SCHOOL DISTRICT

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

Net change in fund balances - total governmental funds	\$ (1,749,065)
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	126,009
The depreciation of capital assets used in governmental activities is not reported in the funds.	(2,998,109)
Prior years' collections are revenue in the funds were reported in a prior period in the SOA.	(150,394)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	5,936,361
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	1,325,000
(Increase) decrease in accrued interest from beginning of period to end of period.	5,701
The amortization of bond premiums are reported in the SOA but not in the funds.	200,765
Debt proceeds are placed in escrow.	9,343,572
Proceeds of bonds do not provide revenue in the SOA, but are reported as current resources in the funds.	(8,380,000)
Bond premiums are reported in the funds but not in the SOA.	(1,124,223)
Contributions made before the measurement date and during the previous FY were expended.	(328,233)
Pension contributions made after the measurement date but in current FY were de-expended and reduced NP	334,261
The proportionate share of the TRS pension expense was recorded in the SOA.	(270,998)
Rounding difference	<u>(2)</u>
Change in net position of governmental activities - Statement of Activities	<u>\$ 2,270,644</u>

The accompanying notes are an integral part of this statement.

TATUM INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
INTERNAL SERVICE FUND
AUGUST 31, 2017

Data Control Codes		Nonmajor Internal Service Fund	Worker's Compensation
	ASSETS:		
	Current Assets:		
	Receivables:		
1260	Due from Other Funds	\$ 53,324	
	Total Current Assets	<u>53,324</u>	
1000	Total Assets	<u>53,324</u>	
	LIABILITIES:		
	Current Liabilities:		
2110	Accounts Payable	\$ 53,324	
	Total Current Liabilities	<u>53,324</u>	
2000	Total Liabilities	<u>53,324</u>	
	NET POSITION:		
3000	Total Net Position	<u>\$ --</u>	

The accompanying notes are an integral part of this statement.

TATUM INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - INTERNAL SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes		Nonmajor Internal Service Fund
<u> </u>		<u>Worker's Compensation</u>
	OPERATING REVENUES:	
5700	<i>Local and Intermediate Sources</i>	\$ 16,252
5020	Total Revenues	<u>16,252</u>
	OPERATING EXPENSES:	
6100	<i>Payroll Costs</i>	<u>16,252</u>
6030	Total Expenses	<u>16,252</u>
1300	Change in Net Position	--
0100	Total Net Position - Beginning	--
3300	Total Net Position - Ending	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

TATUM INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED AUGUST 31, 2017

	Internal Service Funds
Cash Flows from Operating Activities:	
<i>Operating Transactions with Other Funds</i>	\$ 53,324
<i>Cash Payments to Other Suppliers for Goods and Services</i>	(53,324)
Net Cash Provided (Used) by Operating Activities	<u> --</u>
Cash Flows from Non-capital Financing Activities:	
Net Cash Provided (Used) by Non-capital Financing Activities	<u> --</u>
Cash Flows from Capital and Related Financing Activities:	
Net Cash Provided (Used) for Capital & Related Financing Activities	<u> --</u>
Cash Flows from Investing Activities:	
Net Cash Provided (Used) for Investing Activities	<u> --</u>
Net Increase (Decrease) in Cash and Cash Equivalents	--
Cash and Cash Equivalents at Beginning of Year	--
Cash and Cash Equivalents at End of Year	<u>\$ --</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ --
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Change in Assets and Liabilities:	
<i>Decrease (Increase) in Receivables</i>	(3,413)
<i>Increase (Decrease) in Accounts Payable</i>	3,413
Total Adjustments	<u> --</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

TATUM INDEPENDENT SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

AUGUST 31, 2017

Data Control Codes	Private-purpose Trust Funds	Agency Funds
	Irene Allen Poole Scholarship	
ASSETS:		
1110 <i>Cash and Cash Equivalents</i>	\$ 25,526	\$ 115,279
1120 <i>Current Investments</i>	--	1,217,946
1000 Total Assets	<u>25,526</u>	<u>1,333,225</u>
LIABILITIES:		
Current Liabilities:		
2190 <i>Due to Student Groups</i>	\$ --	\$ 93,515
2400 <i>Payable from Restricted Assets</i>	--	1,239,710
2000 Total Liabilities	<u>--</u>	<u>1,333,225</u>
NET POSITION:		
3800 <i>Held in Trust</i>	25,526	--
3000 Total Net Position	<u>\$ 25,526</u>	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

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

	Private- Purpose Trusts
Additions:	
Investment Income	\$ 188
Total Additions	<u>188</u>
Deductions:	
Scholarship Awards	--
Total Deductions	<u>--</u>
Change in Net Position	188
Net Position-Beginning of the Year	25,338
Net Position-End of the Year	<u>\$ 25,526</u>

The accompanying notes are an integral part of this statement.

This page is left blank intentionally.

TATUM INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2017

A. Summary of Significant Accounting Policies

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

1. Reporting Entity

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

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

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

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

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

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

The District reports the following major governmental funds:

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

TATUM INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2017

Debt Service Fund: This fund accounts for the accumulation of resources for the retirement of the District's bonded debt.

In addition, the District reports the following fund types:

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

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

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

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

b. Measurement Focus, Basis of Accounting

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

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District 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 general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

TATUM INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2017

3. Financial Statement Amounts

a. Cash and Cash Equivalents

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

b. Property Taxes

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

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

c. Inventories and Prepaid Items

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

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

d. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated 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.

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	45
Building Improvements	20
Vehicles	5-7
Equipment	5-15

e. Deferred Outflows and Inflows of Resources

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

In addition to liabilities, the statements of financial position will sometimes report a separate

TATUM INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2017

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

f. Receivable and Payable Balances

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

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

g. Interfund Activity

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

h. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

i. Data Control Codes

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

j. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

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

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

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

Assigned Fund Balance - represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the Board of Trustees or by an official or body to which the Board of Trustees

TATUM INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2017

delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund convey that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

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

k. Net Position Flow Assumption

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

l. Fund Balance Flow Assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

4. Pensions

The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS' fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

5. New Accounting Standards Adopted

In fiscal year 2016, the District adopted three new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 72, *Fair Value Measurement and Application*
- Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Government*
- Statement No. 77, *Tax Abatement Disclosures*

- a. Statement No. 72 requires state and local governments to measure investments at fair value using a consistent definition and valuation techniques; also defines what assets and liabilities governments should measure at fair value and expands fair value disclosures in financial disclosure notes. While the Statement

TATUM INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2017

generally requires restatement of prior period balances in the year of implementation, the nature of the District's investments was such that their carrying amount was not affected.

- b. The GAAP hierarchy prioritizes guidance governments follow when preparing U.S. GAAP financial statements. Statement No. 76 reduces authoritative GAAP hierarchy from four categories to two and lists the order of priority for pronouncements to which a government should look for guidance.
- c. Statement No. 77 requires governments granting tax abatements to individuals and businesses to disclose program information in the notes to the financial statements through the agreement's duration and also requires disclosures about tax abatements entered into by other governments that reduce the reporting government's tax revenue. Prior year balances were not restated because there are no tax abatements associated with the District or any other government which affect the District's tax revenue.

B. Compliance and Accountability

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, the Food Service Special Revenue Fund and the Debt Service Fund. All annual appropriations lapse at fiscal year end. Expenditures may not exceed budgeted appropriations at the function level. (Instruction, Instructional Resources and Media Services, Curriculum and Staff Development, Instructional Leadership, School Leadership, etc.) The budget is amended only by approval of the Board of Trustees. Proposed amendments are presented to the Board of Trustees in a public meeting, and each amendment must have Board of Trustees approval. During the year, the budget was amended as necessary.

C. Deposits and Investments

The District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the District's agent bank approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

1. Cash Deposits:

At August 31, 2017, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,559,688 and the bank balance was \$1,614,237. The District's cash deposits at August 31, 2017 and during the year ended August 31, 2017, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

2. Investments:

The District is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas:

(1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

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

TATUM INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2017

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

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

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Moody Rating</u>
<u>Governmental Activities:</u>			
Certificate of Deposit	10/31/17	\$ 246,061	n/a
Certificate of Deposit	1/11/18	246,096	n/a
Investments - Governmental Funds		<u>\$ 492,157</u>	
<u>Agency Funds:</u>			
RBC Branch Sweep Program - Cash Balance	n/a	\$ 37,740.00	n/a
Money Markets/Mutual Funds	n/a	744,944.00	n/a
<u>Taxable Municipal Bonds:</u>			
Houston ISD GO Bonds	02/15/28	31,970.67	Aaa
McKinney, TX	08/15/32	27,622.23	Aa1
Addison, TX	02/15/33	27,279.56	Aa1
San Antonio ISD	08/15/40	56,074.16	Aaa
<u>Taxable Domestic Bonds:</u>			
Bank of America Corp	09/01/17	41,200.00	Baa1
<u>Tax-Exempt Government Bonds:</u>			
Stafford Texas Municipal School District	08/15/36	53,907.22	Aaa
<u>US Equities:</u>			
American Electric Power	n/a	29,452.00	Baa1
AMGEN Inc.	n/a	17,777.00	Baa1
Apple Inc.	n/a	39,360.00	Aa1
AT&T Inc.	n/a	7,492.00	Baa1
Chevron Corporation	n/a	26,905.00	Aa2
Dominion Energy Inc.	n/a	7,877.00	Baa2
Eli Lilly Co	n/a	8,129.00	A2
Exxon Mobil Corp	n/a	3,816.50	Aaa
Intel Corp	n/a	7,014.00	A1
Kinder Morgan Inc.	n/a	6,881.48	Baa3
Kraft Heinz Company	n/a	2,664.75	Baa3
Merck & Co. Inc.	n/a	6,386.00	A1
Pfizer Inc.	n/a	3,392.00	A1
Proctor & Gamble Co.	n/a	5,074.85	Aa3
Texas Instruments Incorporated	n/a	9,110.20	A1
Verizon Communications	n/a	9,594.00	Baa1
<u>Trusts:</u>			
Annaly Capital Management Inc.	n/a	1,250.00	N/A
SPDR Gold Tr	n/a	5,033.00	N/A
Investments - Agency Funds		<u>\$ 1,217,947</u>	
Total Investments		<u>\$ 1,710,104</u>	

3. Analysis of Specific Deposit and Investment Risks

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

TATUM INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2017

a. Credit Risk

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

b. Custodial Credit Risk

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

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

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

c. Concentration of Credit Risk

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

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

Investment Accounting Policy

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

D. Property Taxes Receivable

	General Fund	Debt Service Fund	Total
Property Tax Year 2016 (FY2017)	\$ 5,516,792	\$ 1,033,772	\$ 6,550,564
Prior Tax Years	<u>3,443,541</u>	<u>799,566</u>	<u>4,243,107</u>
Total	8,960,333	1,833,338	10,793,671
Less: Allowance for Uncollectible Taxes	<u>(896,033)</u>	<u>(183,334)</u>	<u>(1,079,367)</u>
Net Taxes Receivable	<u>\$ 8,064,300</u>	<u>\$ 1,650,004</u>	<u>\$ 9,714,304</u>

TATUM INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2017

E. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 1,018,454	\$ --	\$ --	\$ 1,018,454
Total capital assets not being depreciated	<u>1,018,454</u>	<u>--</u>	<u>--</u>	<u>1,018,454</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	79,689,741	--	--	79,689,741
Equipment	5,750,928	126,009	226,901	5,650,036
Total capital assets being depreciated	<u>85,440,669</u>	<u>126,009</u>	<u>226,901</u>	<u>85,339,777</u>
Less accumulated depreciation for:				
Buildings and improvements	(27,145,889)	(2,590,032)	--	(29,735,921)
Equipment	(4,180,831)	(408,079)	(226,901)	(4,362,009)
Total accumulated depreciation	<u>(31,326,720)</u>	<u>(2,998,111)</u>	<u>(226,901)</u>	<u>(34,097,930)</u>
Total capital assets being depreciated, net	54,113,949	(2,872,102)	--	51,241,847
Governmental activities capital assets, net	<u>\$ 55,132,403</u>	<u>\$ (2,872,102)</u>	<u>\$ --</u>	<u>\$ 52,260,301</u>

Depreciation was charged to functions as follows:

Instruction	\$ 1,671,347
Instructional Resources and Media Services	84,723
Curriculum and Staff Development	33,105
Instructional Leadership	52,600
School Leadership	187,185
Guidance, Counseling, & Evaluation Services	187,801
Health Services	30,085
Student Transportation	179,453
Food Services	140,716
Extracurricular Activities	92,186
General Administration	100,762
Plant Maintenance and Operations	190,474
Data Processing Services	41,108
Community Services	6,566
	<u>\$ 2,998,111</u>

F. Interfund Balances and Activities

1. Due To and From Other Funds

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

Due To Fund	Due From Fund	Amount	Purpose
Internal Service Fund	General Fund	\$ 53,324	Workers' Compensation
General Fund	Child Nutrition Fund	300,000	Short-term loan
	Total	<u>\$ 353,324</u>	

All amounts due are scheduled to be repaid within one year.

TATUM INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2017

2. Transfers To and From Other Funds

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

Transfers From	Transfers To	Amount	Reason
General fund	Athletic Fund*	\$ 286,507	Supplement athletics
General fund	Debt Service Fund	<u>730,512</u>	Supplement revenue
	Total	<u>\$ 1,017,019</u>	

*The Athletic Fund is included in the General Fund for reporting purposes and the transfer is not shown on the statement of revenues, expenditures, and changes in fund balances.

G. Long-Term Obligations

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

1. Long-Term Obligation Activity

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

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
2012 School Building Bonds	\$ 19,365,000	\$ --	\$ 9,595,000	\$ 9,770,000	\$ 885,000
Add: Premium on issuance	2,188,995	--	1,241,064	947,931	--
2016 Refunding Bonds	--	8,380,000	195,000	8,185,000	--
Add: Premium on Issuance	--	1,124,223	59,170	1,065,053	--
Net Pension Liability	<u>3,662,900</u>	<u>569,157</u>	<u>328,233</u>	<u>3,903,824</u>	<u>--</u>
Total governmental activities	<u>\$ 25,216,895</u>	<u>\$ 10,073,380</u>	<u>\$ 11,418,467</u>	<u>\$ 23,871,808</u>	<u>\$ 885,000</u>

* Other long-term liabilities

The interest rate on general obligation bonds ranges from 3.0%-5.0%.

2. Debt Service Requirements

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

Year Ending August 31,	Governmental Activities		
	Principal	Interest	Total
2018	\$ 885,000	678,925	\$ 1,563,925
2019	910,000	652,000	1,562,000
2020	940,000	619,550	1,559,550
2021	980,000	581,150	1,561,150
2022	1,020,000	541,150	1,561,150
2023-2027	5,895,000	1,918,825	7,813,825
2028-2032	<u>7,325,000</u>	<u>617,800</u>	<u>7,942,800</u>
Totals	<u>\$ 17,955,000</u>	<u>\$ 5,609,400</u>	<u>\$ 23,564,400</u>

TATUM INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2017

3. Advance Refunding of Debt

On November 29, 2016, The District issued \$8,380,000 unlimited tax refunding bonds to advance refund a portion of the District's Series 2012 Unlimited Tax School Building Bonds. \$9,343,572 was deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the 2012 bonds. As a result, those bonds are considered to be defeased and the liability for those bonds has been removed from the District's Government-wide Statement of Net Position.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$220,897. This difference, reported in the accompanying financial statements as deferred outflows of resources and as unamortized deferred amount on refunding is being charged to operations through the year 2031 on a straight-line basis. The District completed the advance refunding to reduce its total debt service payments over the next 15 years by \$2,765,988 and to obtain an economic gain (difference between the present value of the old and new debt service payments) of \$1,528,440.

GASB Statement No. 7, "Advance Refundings Resulting in Defeasance of Debt," provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. As of August 31, 2017, outstanding balances of bond issues that have been refunded and defeased in-substance by placing existing assets and the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments are as follows.

<u>Bond Issue</u>	<u>Amount</u>
2012 Unlimited Tax School Building Bonds	\$ 8,465,000

H. Commitments Under Noncapitalized Leases

Commitments under operating (noncapitalized) lease agreements for facilities and equipment provide for minimum future rental payments as of August 31, 2017, as follows:

<u>Year Ending August 31,</u>	
2018	\$ 57,355
2019	65,419
Total Minimum Rentals	<u>\$ 122,774</u>
Rental Expenditures in 2017	<u>\$ 57,658</u>

I. Risk Management

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

J. 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.

TATUM INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2017

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

2. Pension Plan Fiduciary Net Position

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

3. Benefits Provided

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

4. Contributions

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

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

Contribution Rates

	<u>2016</u>	<u>2017</u>
Member	7.2%	7.7%
Non-Employer Contributing Entity (NECE - State)	6.8%	6.8%
Employers	6.8%	6.8%
District's 2017 Employer Contributions	\$ 334,261	
District's 2017 Member Contributions	\$ 739,544	
NECE 2016 On-Behalf Contributions to District	\$ 450,814	

TATUM INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2017

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

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

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

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

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

5. Actuarial Assumptions

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

Valuation Date	August 31, 2016
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8%
Long-term expected Investment Rate of Return	8%
Inflation	2.5%
Salary Increases including inflation	3.5% to 9.5%
Payroll Growth Rate	2.5%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

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

TATUM INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2017

6. Discount Rate

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

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

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

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

TATUM INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2017

7. Discount Rate Sensitivity Analysis

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

	1% Decrease in Discount Rate <u>7%</u>	Discount Rate <u>8%</u>	1% Increase in Discount Rate <u>9%</u>
District's proportionate share of the net pension liability	\$ 6,041,804	\$ 3,903,824	\$ 2,090,384

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

At August 31, 2017, the District reported a liability of \$3,903,824 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	\$ 3,903,824
State's proportionate share that is associated with District	<u>5,351,097</u>
Total	<u>\$ 9,254,921</u>

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

At August 31, 2016 the employer's proportion of the collective net pension liability was 0.0103307%, which was an increase (decrease) of 0.0103307% from its proportion measured as of August 31, 2015.

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

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

For the year ended August 31, 2017, the District recognized pension expense of \$555,316 and revenue of \$555,316 for support provided by the State.

TATUM INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2017

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 61,211	\$ 116,566
Changes in actuarial assumptions	118,982	108,209
Difference between projected and actual investment earnings	330,568	--
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	636,028	349
Contributions paid to TRS subsequent to the measurement date	<u>334,261</u>	<u>--</u>
Total	<u>\$ 1,481,050</u>	<u>\$ 225,124</u>

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

Year Ended August 31	Pension Expense Amount
2018	\$ 157,284
2019	\$ 157,284
2020	\$ 368,136
2021	\$ 141,085
2022	\$ 80,364
Thereafter	\$ 17,513

K. Retiree Health Care Plans

1. TRS-Care

a. Plan Description

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

b. Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. Funding for free

TATUM INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2017

basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. The State of Texas contribution rate was 1% for fiscal years 2015 and 2014, and 0.5% for fiscal year 2013. The active public school employee contributions rates were 0.65% of public school payroll, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2017, 2016 and 2015. For the years ended August 31, 2017, 2016, and 2015, the State's contributions to TRS-Care were \$96,050, \$97,180, and \$90,861, respectively, the active member contributions were \$62,432, \$63,167, and \$59,060, respectively, and the District's contributions were \$52,827, \$53,449, and \$49,974, respectively, which equaled the required contributions each year.

2. Medicare Part D Subsidies

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2017, 2016, and 2015, the subsidy payments received by TRS-Care on behalf of the District were \$28,827, \$37,168, and \$37,485, respectively.

L. Employee Health Care Coverage

During the year ended August 31, 2017, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of \$341 per pay period per employee to the Plan. All premiums were paid to a self-funded pool. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

M. Commitments and Contingencies

1. Contingencies

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

2. Litigation

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

TATUM INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2017

N. Shared Services Arrangements

Shared Services Arrangement - Fiscal Agent

The District is the fiscal agent for a Shared Services Arrangement ("SSA") which provides special education services to the member districts listed below. All services are provided by the fiscal agent. Funding is provided by and IDEA-B and IDEA-B Preschool federal grants. According to guidance provided in TEA's Resource Guide, the District has accounted for the fiscal agent's activities of the SSA Special Revenue Funds No. 313 and 314 and will be accounted for using Model 2 in the SSA section of the Resource Guide.

Member Districts

Overton ISD
 Tatum ISD - Fiscal Agent
 Mt. Enterprise ISD
 Carlisle ISD
 Leverett's Chapel ISD
 Laneville ISD
 West Rusk CCISD

Shared Services Arrangement - Fiscal Agent

The District is the fiscal agent for a Shared Services Arrangement ("SSA") which provides special education services to the member districts listed below. All services are provided by the fiscal agent. The member districts provide the funds to the fiscal agent. According to guidance provided in TEA's Resource Guide, the District has accounted for the fiscal agent's activities of the SSA in special revenue fund 437 and will be accounted for using Model 2 in the SSA section of the Resource Guide. Expenditures of the SSA are summarized below:

<u>Member Districts</u>	<u>Distribution Percentage</u>	<u>Allocated Expenditures</u>
Overton ISD	7 %	\$ 20,647
Tatum ISD - Fiscal Agent	36	99,941
Mt. Enterprise ISD	11	30,447
Carlisle ISD	11	31,948
Leverett's Chapel ISD	3	9,702
Laneville ISD	6	16,644
West Rusk CCISD	26	71,729
Total	<u>100 %</u>	<u>\$ 281,058</u>

Shared Services Arrangement - Membership

The District participates in a shared services arrangement ("SSA") for The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in capital assets purchased by the fiscal agent, Union Grove ISD nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for all financial activities of the SSA.

Required Supplementary Information

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

This page is left blank intentionally.

TATUM INDEPENDENT SCHOOL DISTRICT

EXHIBIT G-1

GENERAL FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes	1		2		3		Variance with Final Budget Positive (Negative)
	Budgeted Amounts				Actual		
	Original		Final				
REVENUES:							
5700	Local and Intermediate Sources	\$ 11,988,090	\$ 12,013,090	\$ 5,590,827	\$ (6,422,263)		
5800	State Program Revenues	2,401,573	2,401,573	8,210,411	5,808,838		
5900	Federal Program Revenues	45,000	45,000	151,912	106,912		
5020	Total Revenues	<u>14,434,663</u>	<u>14,459,663</u>	<u>13,953,150</u>	<u>(506,513)</u>		
EXPENDITURES:							
Current:							
Instruction & Instructional Related Services:							
0011	Instruction	7,245,447	7,245,447	7,054,160	191,287		
0012	Instructional Resources and Media Services	368,000	406,500	405,563	937		
0013	Curriculum and Staff Development	153,319	153,319	152,788	531		
	Total Instruction & Instr. Related Services	<u>7,766,766</u>	<u>7,805,266</u>	<u>7,612,511</u>	<u>192,755</u>		
Instructional and School Leadership:							
0021	Instructional Leadership	128,295	128,295	128,161	134		
0023	School Leadership	847,745	847,745	823,211	24,534		
	Total Instructional & School Leadership	<u>976,040</u>	<u>976,040</u>	<u>951,372</u>	<u>24,668</u>		
Support Services - Student (Pupil):							
0031	Guidance, Counseling and Evaluation Services	287,943	292,043	291,108	935		
0033	Health Services	127,370	127,370	123,397	3,973		
0034	Student (Pupil) Transportation	492,244	492,244	486,514	5,730		
0036	Cocurricular/Extracurricular Activities	767,027	834,172	833,199	973		
	Total Support Services - Student (Pupil)	<u>1,674,584</u>	<u>1,745,829</u>	<u>1,734,218</u>	<u>11,611</u>		
Administrative Support Services:							
0041	General Administration	573,096	677,096	676,264	832		
	Total Administrative Support Services	<u>573,096</u>	<u>677,096</u>	<u>676,264</u>	<u>832</u>		
Support Services - Nonstudent Based:							
0051	Plant Maintenance and Operations	1,768,910	1,772,217	1,771,246	971		
0052	Security and Monitoring Services	68,850	68,850	68,683	167		
0053	Data Processing Services	193,504	212,504	211,564	940		
	Total Support Services - Nonstudent Based	<u>2,031,264</u>	<u>2,053,571</u>	<u>2,051,493</u>	<u>2,078</u>		
Ancillary Services:							
0061	Community Services	35,724	35,724	33,682	2,042		
	Total Ancillary Services	<u>35,724</u>	<u>35,724</u>	<u>33,682</u>	<u>2,042</u>		
Intergovernmental Charges:							
0091	Contracted Instr. Services Between Public Schools	1,318,637	1,109,437	874,300	235,137		
0092	Increment Costs Associated Chapter 41 (WADA)	21,608	21,608	16,740	4,868		
0093	Payments to Fiscal Agent/Member Dist.-SSA	140,237	140,237	118,062	22,175		
0095	Payments to Juvenile Justice Alternative						
0095	Education Programs	37,500	37,500	--	37,500		
0099	Other Intergovernmental Charges	260,000	260,000	228,698	31,302		
	Total Intergovernmental Charges	<u>1,777,982</u>	<u>1,568,782</u>	<u>1,237,800</u>	<u>330,982</u>		
6030	Total Expenditures	<u>14,835,456</u>	<u>14,862,308</u>	<u>14,297,340</u>	<u>564,968</u>		
1100	Excess (Deficiency) of Revenues Over (Under)						
1100	Expenditures	<u>(400,793)</u>	<u>(402,645)</u>	<u>(344,190)</u>	<u>58,455</u>		
Other Financing Sources (Uses):							
7915	Transfers In	189,625	189,625	--	(189,625)		
8911	Transfers Out	<u>(189,625)</u>	<u>(189,625)</u>	<u>(730,512)</u>	<u>(540,887)</u>		
7080	Total Other Financing Sources and (Uses)	<u>--</u>	<u>--</u>	<u>(730,512)</u>	<u>(730,512)</u>		
1200	Net Change in Fund Balance	<u>(400,793)</u>	<u>(402,645)</u>	<u>(1,074,702)</u>	<u>(672,057)</u>		
0100	Fund Balance - Beginning	<u>8,130,928</u>	<u>8,130,927</u>	<u>8,130,928</u>	<u>1</u>		
3000	Fund Balance - Ending	<u>\$ 7,730,135</u>	<u>\$ 7,728,282</u>	<u>\$ 7,056,226</u>	<u>\$ (672,056)</u>		

TATUM INDEPENDENT SCHOOL DISTRICT

*SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM
LAST TEN FISCAL YEARS **

	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's porportion of the net pension liability (asset)	0.0103307%	0.0103622%	0.0075251%
District's proportionate share of the net pension liability (asset)	\$ 3,903,824	\$ 3,662,900	\$ 2,010,058
State's proportionate share of the net pension liability (asset) associated with the District	5,351,097	5,008,879	4,171,021
Total	<u>\$ 9,254,921</u>	<u>\$ 8,671,779</u>	<u>\$ 6,181,079</u>
District's covered-employee payroll	\$ 9,718,033	\$ 9,087,106	\$ 8,554,194
District's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	40.17%	40.31%	23.50%
Plan fiduciary net position as a percentage of the total pension liability	78.00%	78.43%	83.25%

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

TATUM INDEPENDENT SCHOOL DISTRICT*SCHEDULE OF DISTRICT CONTRIBUTIONS**TEACHER RETIREMENT SYSTEM**LAST TEN FISCAL YEARS **

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 334,261	\$ 328,233	\$ 306,811
Contributions in relation to the contractually required contribution	(334,261)	(328,233)	(306,811)
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
District's covered-employee payroll	\$ 9,604,987	\$ 9,718,033	\$ 9,087,106
Contributions as a percentage of covered-employee payroll	3.48%	3.38%	3.38%

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

TATUM INDEPENDENT SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED AUGUST 31, 2017

Budget

The official budget was prepared for adoption for all Governmental 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.:

- a. Prior to August 21 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
- c. Prior to the beginning of the fiscal year, the budget is legally enacted through passage of a resolution by the Board.

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

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

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

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

Defined Benefit Pension Plan

Changes of benefit terms

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

Changes of assumptions

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

Other Supplementary Information

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

TATUM INDEPENDENT SCHOOL DISTRICT

*SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FOR THE YEAR ENDED AUGUST 31, 2017*

Year Ended August 31	Tax Rates		3 Assessed/Appraised Value For School Tax Purposes
	1 Maintenance	2 Debt Service	
2008 and Prior Years	\$ Various	\$ Various	\$ Various
2009	.70	.34	2,070,147,981
2010	.76	.28	2,077,494,615
2011	.9289	.1111	1,933,251,154
2012	.78	.26	1,561,913,750
2013	.855	.315	1,432,057,094
2014	.88	.29	1,320,638,718
2015	.9467	.2233	1,227,404,530
2016	.9467	.2233	1,211,500,513
2017 (School Year Under Audit)	1.0107	.1893	1,056,222,000

1000 Totals

9000 - Portion of Row 1000 for Taxes Paid into Tax Increment Zone Under Chapter 311, Tax Code

10 Beginning Balance 9/1/16	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/17
\$ 203,424	\$ --	\$ 6,529	\$ 555	\$ (3,957)	\$ 192,383
39,479	--	1,371	558	(272)	37,278
43,727	--	1,368	504	(269)	41,586
47,487	--	1,798	223	(248)	45,218
54,825	--	2,174	724	(245)	51,682
73,515	--	4,774	1,789	(450)	66,502
81,145	--	9,555	3,315	(48)	68,227
104,501	--	14,638	3,585	(202)	86,076
3,727,893	--	57,939	14,018	(1,777)	3,654,159
--	12,674,664	5,125,140	981,794	(17,167)	6,550,563
<u>\$ 4,375,996</u>	<u>\$ 12,674,664</u>	<u>\$ 5,225,286</u>	<u>\$ 1,007,065</u>	<u>\$ (24,635)</u>	<u>\$ 10,793,674</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

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

EXHIBIT J-2

Data Control Codes	1	2	3
	Budget	Actual	Variance Positive (Negative)
REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ 358,027	\$ 298,335	\$ (59,692)
5800 <i>State Program Revenues</i>	5,500	5,308	(192)
5900 <i>Federal Program Revenues</i>	681,836	703,098	21,262
5020 Total Revenues	<u>1,045,363</u>	<u>1,006,741</u>	<u>(38,622)</u>
EXPENDITURES:			
Current:			
Support Services - Student (Pupil):			
0035 <i>Food Services</i>	1,004,363	1,067,794	(63,431)
Total Support Services - Student (Pupil)	<u>1,004,363</u>	<u>1,067,794</u>	<u>(63,431)</u>
Support Services - Nonstudent Based:			
0051 <i>Plant Maintenance and Operations</i>	41,000	--	41,000
Total Support Services - Nonstudent Based	<u>41,000</u>	<u>--</u>	<u>41,000</u>
6030 Total Expenditures	<u>1,045,363</u>	<u>1,067,794</u>	<u>(22,431)</u>
1100 Excess (Deficiency) of Revenues Over (Under)			
1100 Expenditures	--	(61,053)	(61,053)
1200 Net Change in Fund Balance	--	(61,053)	(61,053)
0100 Fund Balance - Beginning	56,348	56,348	--
3000 Fund Balance - Ending	<u>\$ 56,348</u>	<u>\$ (4,705)</u>	<u>\$ (61,053)</u>

TATUM INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-3

DEBT SERVICE FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes	1	2	3
	Budget	Actual	Variance Positive (Negative)
REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ 2,716,736	\$ 1,040,466	\$ (1,676,270)
5800 <i>State Program Revenues</i>	--	5,727	5,727
5020 <i>Total Revenues</i>	<u>2,716,736</u>	<u>1,046,193</u>	<u>(1,670,543)</u>
EXPENDITURES:			
Debt Service:			
0071 <i>Principal on Long-Term Debt</i>	1,130,000	1,325,000	(195,000)
0072 <i>Interest on Long-Term Debt</i>	840,000	641,263	198,737
0073 <i>Bond Issuance Costs and Fees</i>	--	159,688	(159,688)
<i>Total Debt Service</i>	<u>1,970,000</u>	<u>2,125,951</u>	<u>(155,951)</u>
6030 <i>Total Expenditures</i>	<u>1,970,000</u>	<u>2,125,951</u>	<u>(155,951)</u>
1100 <i>Excess (Deficiency) of Revenues Over (Under)</i>			
1100 <i>Expenditures</i>	<u>746,736</u>	<u>(1,079,758)</u>	<u>(1,826,494)</u>
Other Financing Sources (Uses):			
7911 <i>Capital-Related Debt Issued (Regular Bonds)</i>	--	8,380,000	8,380,000
7915 <i>Transfers In</i>	--	730,512	730,512
7916 <i>Premium or Discount on Issuance of Bonds</i>	--	1,124,223	1,124,223
8949 <i>Other Uses</i>	--	(9,343,572)	(9,343,572)
7080 <i>Total Other Financing Sources and (Uses)</i>	<u>--</u>	<u>891,163</u>	<u>891,163</u>
1200 <i>Net Change in Fund Balance</i>	746,736	(188,595)	(935,331)
0100 <i>Fund Balance - Beginning</i>	182,788	182,788	--
3000 <i>Fund Balance - Ending</i>	<u>\$ 929,524</u>	<u>\$ (5,807)</u>	<u>\$ (935,331)</u>

This page is left blank intentionally.

Morgan LaGrone, CPA, PLLC

Certified Public Accountant

Telephone: 903.657.0240
Fax: 903.655.1324

116 S Marshall
Henderson TX 75654

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

Board of Trustees
Tatum Independent School District
P.O. Box 808
Tatum, Texas 75691

Members of the Board of Trustees:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tatum Independent School District, as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise Tatum Independent School District's basic financial statements and have issued our report thereon dated January 4, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item(s) 2017-1, to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Tatum Independent School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and

MEMBER

accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item(s) 2017-2.

Tatum Independent School District's Response to Findings

Tatum Independent School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Tatum Independent School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Respectfully submitted,



Morgan LaGrone, CPA, PLLC

Henderson, TX

January 4, 2018

Morgan LaGrone, CPA, PLLC

Certified Public Accountant

Telephone: 903.657.0240
Fax: 903.655.1324

116 S Marshall
Henderson TX 75654

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

Board of Trustees
Tatum Independent School District
P.O. Box 808
Tatum, Texas 75691

Members of the Board of Trustees:

Report on Compliance for Each Major Federal Program

We have audited the Tatum Independent School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Tatum Independent School District's major federal program for the year ended August 31, 2017. Tatum Independent School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Tatum Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Tatum Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Tatum Independent School District's compliance.

Opinion on Each Major Federal Program

In our opinion, the Tatum Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended August 31, 2017.

MEMBER

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2017-4. Our opinion on each major federal program is not modified with respect to these matters.

Tatum Independent School District's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Tatum Independent School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Tatum Independent School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Tatum Independent School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Tatum Independent School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2017-3 to be a material weakness.

Tatum Independent School District's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Tatum Independent School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



Morgan LaGrone, CPA, PLLC

Henderson, TX
January 4, 2018

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

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

One or more material weaknesses identified? X Yes No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial statements noted? X Yes No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified? X Yes No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200? X Yes No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027/84.173	IDEA-B/IDEA-B Preschool

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? X Yes No

B. Financial Statement Findings

2017-1: Financial Reporting

Type of Finding: Material Weakness

Criteria: Management of the District is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP. This includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of the financial

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

statements that are free from material misstatement.

Condition: The accounting software failed to record certain entries correctly, and the errors were not detected and corrected in a timely manner.

Effect: Adjustments were required to be made to the accounting records subsequent to the start of the audit process to prevent material misstatements.

Cause: There was a flaw in the District's accounting software, and there were no controls in place to detect it and correct it in a timely manner.

Recommendation: We recommend the District develop monthly and year-end processes whereby all significant and key accounts are timely reconciled and independently reviewed by supervisory personnel.

2017-2: Unfavorable Budget Variances

Type of Finding: Noncompliance

Criteria: Under the law, expenditures from governmental fund types cannot be made without authority of appropriation.

Condition: In funds 240 and 599, actual expenditures exceeded total appropriations for the funds.

Effect: Violation of Texas Education Code Chapter 44 Section 6.

Cause: The budgets for funds 240 and 599 were not monitored during the year. The District refunded bonds in November, resulting in book entry only expenditures and other financing sources and uses that were not budgeted.

Recommendation: The District should more closely monitor its expenditures as they relate to the budget.

C. Federal Award Findings and Questioned Costs

2017-3: Material Weakness in Internal Control over Compliance

Type of Finding: Material Weakness

Criteria: As a condition of receiving Federal awards, non-Federal entities agree to comply with laws, regulations, and the provisions of grant agreements and contracts, and to maintain internal control to provide reasonable assurance of compliance with these requirements.

Condition: The level of local expenditures fell below the amount spent in the preceding year.

Effect: Violation of ED and TEA requirements.

Cause: The District did not monitor its local special education expenditures to ensure that the amount spent did not decrease below the amount spent in the preceding year.

Recommendation: The District should develop specific policies and procedures to ensure compliance with the level of effort requirement.

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

2017-4: Noncompliance

Criteria: As a condition of receiving Federal awards, non-Federal entities agree to comply with laws, regulations, and the provisions of grant agreements and contracts.

The U.S. Department of Education (ED) and the Texas Education Agency (TEA) dictate that funds received cannot be used, except under certain limited circumstances, to reduce the level of expenditures for the education of children with disabilities made by the local education agency (LEA) from local funds, or a combination of State and local funds, below the level of those expenditures for the preceding fiscal year.

Condition: State and local expenditures for Special Education (Program Intent Code 23) decreased from \$688,417 in fiscal year 2016 to \$625,188 in fiscal year 2017. A decrease of \$43,229.

Questioned Costs: \$43,229.

Effect: Violation of ED and TEA requirements.

Cause: The District did not have policies or procedures in place to dictate the monitoring of local special education expenditures.

Recommendation: The District should develop procedures to ensure compliance with the level of effort requirement and then follow those procedures and budget accordingly.

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

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
Not applicable for the year ended August 31, 2017.		

TATUM INDEPENDENT SCHOOL DISTRICT

CORRECTIVE ACTION PLAN

FOR THE YEAR ENDED AUGUST 31, 2017

2017-1

TISD will monitor key accounts on a monthly basis. TISD will also complete a software conversion to a product that is supported by TEA state agencies hosted off site. TISD will purchase personal support packages and attend professional development geared to reconcile key components.

2017-2

TISD will evaluate funds 240 and 599 from a budgetary aspect. TISD will insure that the budget amounts are realistic and yearly goals are attainable. If unforeseen circumstances provoke TISD to overspend in a fund, a budget amendment will be brought to the Board for approval. Monthly monitoring will ensure these anticipated over expenditures are discovered.

2017-3

TISD will monitor on a monthly basis the expenditures for special education within our district and our expenditures in fund 437, Rusk County Shared Service Agreement. TISD will evaluate the RCSSA budget and ensure that the budget is realistic and that there is not a huge surplus at the end of the fiscal year.

2017-4

TISD will monitor on a monthly basis the expenditures in program intent code 23 in fund 199. TISD will ensure that special education employees are coded correctly and all special education expenditures are booked to PIC 23.

TATUM INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2017

EXHIBIT K-1

(1)	(2)	(2A)		(3)
Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
CHILD NUTRITION CLUSTER:				
<u>U. S. Department of Agriculture</u>				
Passed Through State Department of Education:				
School Breakfast Program	10.553	201-910	\$ --	\$ 160,667
National School Lunch Program	10.555	201-910	--	468,799
National School Lunch Program (Non-cash)	10.555	201-910	--	73,632
Total CFDA Number 10.555			--	542,431
Summer Food Service Program	10.559	201-910	--	10,649
Total Passed Through State Department of Education			--	713,747
Total U. S. Department of Agriculture			--	713,747
Total Child Nutrition Cluster			--	713,747
SPECIAL EDUCATION (IDEA) CLUSTER:				
<u>U. S. Department of Education</u>				
Passed Through State Department of Education:				
SSA IDEA-B Formula	84.027	1766000120191	--	1,004,634
SSA IDEA-B Preschool	84.173	1766100120191	--	25,676
Total Passed Through State Department of Education			--	1,030,310
Total U. S. Department of Education			--	1,030,310
Total Special Education (IDEA) Cluster			--	1,030,310
OTHER PROGRAMS:				
<u>U. S. Department of Education</u>				
Passed Through State Department of Education:				
ESEA Title I Part A - Improving Basic Programs	84.010a	1761010120191	--	124,070
Career and Technical - Basic Grant	84.048	1742000623090	--	4,630
Summer School LEP	84.048	69551602	--	1,165
Total CFDA Number 84.048			--	5,795
Title III Part A English Language Acquisition and Language Enhance	84.365	1767100120191	--	27,835
ESEA Title II Part A - Teacher & Principal Training & Recruiting	84.367a	1769450120191	--	53,231
Total Passed Through State Department of Education			--	210,931
Total U. S. Department of Education			--	210,931
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ --	\$ 1,954,988

The accompanying notes are an integral part of this schedule.

TATUM INDEPENDENT SCHOOL DISTRICT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED AUGUST 31, 2017

1. General

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Tatum Independent School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements, for Federal Awards (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

Special Revenue Funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Generally, unused balances are returned to the grantor at the close of specified project periods.

2. Basis of Accounting

The accounting and financial reporting treatment applied to Special Revenue Funds is the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases and decreases in fund balances. The modified accrual basis of accounting recognizes revenues in the accounting period in which they become measurable and available, and expenditures in the accounting period in which the fund liability is incurred, except for unmatured interest on general long-term debt, which is recognized when matured and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financing resources. Federal grant funds are considered to be earned as soon as all eligibility requirements imposed by the provider are met and expenditures have been incurred, and, accordingly, when such funds are received in advance, they are recorded as deferred revenues until earned.

3. Availability of Funds

The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions in the Uniform Guidance.

4. School Health and Related Services (SHARS)

The District received \$151,912 of SHARS revenue during the year. This revenue is recorded in the General Fund. The revenue is not considered federal financial assistance for purposes of the Schedule of Expenditure of Federal Awards.

5. Indirect Cost Rate

The District did not elect to use the 10 percent de minimus indirect cost rate.

TATUM INDEPENDENT SCHOOL DISTRICT

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

Data Control Codes		Responses
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state or federal funds?	Yes
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?	Yes
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other governmental agencies?	Yes
SF8	Did the school district <u>not</u> receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	What was the total accumulated accretion on capital appreciation bonds (CABs) included in government-wide financial statements at fiscal year-end?	\$ --
SF11	Net Pension Assets (object 1920) at fiscal year-end.	\$ --
SF12	Net Pension Liabilities (object 2540) at fiscal year-end.	\$ 3,903,824
SF13	Pension Expense (object 6147) at fiscal year-end.	\$

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



Orrick, Herrington & Sutcliffe LLP
300 W. 6th Street
Suite 1850
Austin, TX 78701
+1 512 582 6950
orrick.com

January 15, 2019

Tatum Independent School District
Unlimited Tax Refunding Bonds, Series 2019

We have acted as Bond Counsel to the Tatum Independent School District (the "District") in connection with the issuance of \$6,100,000 aggregate principal amount of bonds designated as "Tatum Independent School District Unlimited Tax Refunding Bonds, Series 2019" (the "Bonds"). The Bonds are authorized by an order adopted by the Board of Trustees of the District on November 12, 2018, and a pricing certificate executed by an authorized officer on December 13, 2018 (together, the "Order"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Order.

In such connection, we have reviewed a transcript of certain certified proceedings pertaining to the issuance of the Bonds, including the Order, the tax certificate of the District dated the date hereof (the "Tax Certificate") and other certificates of the District, and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. We have also reviewed certified copies of certain proceedings of the District and U.S. Bank, National Association (the "Deposit Agent"), the certificate (the "Certificate") of the Deposit Agent, which verifies the sufficiency of the deposit made with the Deposit Agent for the defeasance of the Refunded Bonds, and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds and the firm banking and financial arrangements for the discharge and final payment of the Refunded Bonds.

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. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter 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 letter. 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 documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Order and 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. We call attention to the fact that

the rights and obligations under the Bonds, the Order and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against issuers in the State of Texas. 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. Our services did not include financial or other non-legal advice. We have not assumed any responsibility with respect to the financial condition or capabilities of the District or the disclosure thereof in connection with the sale of the Bonds. Finally, our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

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

- (1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect. The Bonds constitute valid and legally binding obligations of the District, and the Bonds have been authorized and delivered in accordance with law.
- (2) The Bonds are payable, both as to principal and interest, from the receipts of an annual ad valorem tax levied, 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 deposit agreement between the District and the Deposit Agent (the "Deposit Agreement") has been duly executed and delivered and constitutes a binding and enforceable agreement of the District in accordance with its terms; the establishment of the Deposit Account pursuant to the Deposit Agreement and the deposit made therein constitute the making of firm banking and financial arrangements for the discharge and final payment of the Refunded Bonds; in reliance upon the accuracy of the calculations contained in the Certificate, the Refunded Bonds, having been discharged and paid, are no longer outstanding and the lien on and pledge of ad valorem taxes as set forth in the order authorizing their issuance will be appropriately and legally defeased; the holders of the Refunded Bonds may obtain payment of the principal of, redemption premium, if any, and interest on the Refunded Bonds only out of the funds provided therefor now held in escrow for that purpose by the Deposit Agent pursuant to the terms of the Deposit Agreement; and therefore the Refunded Bonds are deemed to be fully paid and no longer outstanding, except for the purpose of being paid from the funds provided therefor pursuant to such Deposit Agreement.



January 15, 2019
Page 3

- (4) Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP