

NEW ISSUE – Book-Entry-Only

**Enhanced/Unenhanced Ratings: S&P: “AAA”/“A”
PSF Guaranteed
(See “OTHER PERTINENT INFORMATION - Ratings” and
“THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”)**

**OFFICIAL STATEMENT
Dated June 28, 2018**

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

**\$13,865,000
BISHOP CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
(A Political Subdivision of the State of Texas located in Nueces County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018**

Dated Date: July 1, 2018 (Interest to accrue from Dated Date)

Due: As shown, on the inside cover hereof

The \$13,865,000 Bishop Consolidated Independent School District Unlimited Tax School Building Bonds, Series 2018 (the "Bonds") are being issued by the Bishop Consolidated Independent School District (the "Issuer" or the "District") pursuant to the Constitution and general laws of the State of Texas (the "State"), including Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, an election held on May 5, 2018 (the "Election"), and an order (the "Order") adopted by the Board of Trustees (the "Board") of the District on June 28, 2018, the date of sale of the Bonds. (See "THE BONDS - Authority for Issuance" herein.)

The Bonds are direct obligations payable from an annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District. (See "THE BONDS - Security for Payment" herein.) The District has received conditional approval from the Texas Education Agency for the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined), which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.) See also "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" for a discussion of recent developments in State law affecting the financing of school districts in Texas.

Interest on the Bonds will accrue from July 1, 2018 (the "Dated Date"), and will be payable on February 15 and August 15 of each year, commencing on February 15, 2019, until stated maturity or prior redemption and will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive 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, New York, New York ("DTC"). DTC will act as securities depository (the "Securities Depository"). Book-entry interests in the Bonds will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof.

Purchasers of the Bonds ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, the principal of and interest on the Bonds will be payable by the Paying Agent/Registrar, UMB Bank, N.A., Houston, Texas, to the Securities Depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Proceeds from the sale of the Bonds will be used to (1) acquire, construct and equip school buildings in the District, and (2) pay for costs of issuance related to the Bonds. (See "THE BONDS - Use of Bond Proceeds" herein.)

CUSIP PREFIX: 091482

SEE FOLLOWING PAGE FOR STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES,
INITIAL YIELDS, REDEMPTION PROVISIONS AND CUSIP NUMBERS FOR THE BONDS

The Bonds are offered for delivery, when, as and if issued and received by the initial purchasers thereof named below (the "Underwriters") and subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, Bond Counsel. Certain matters will be passed upon for the Underwriters by their counsel, Norton Rose Fulbright US LLP, San Antonio, Texas. It is expected that the Bonds will be available for delivery through the services of DTC on or about July 24, 2018 (the "Delivery Date").

HILLTOPSECURITIES

HUTCHINSON SHOCKEY ERLEY & CO.

\$13,865,000
BISHOP CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
(A Political Subdivision of the State of Texas located in Nueces County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018

CUSIP⁽¹⁾ PREFIX: 091482

STATED MATURITY SCHEDULE

\$6,900,000 SERIAL BONDS

Stated Maturity	Principal Amount (\$)	Interest Rate (%)	Initial Yield (%)	CUSIP⁽¹⁾ Suffix
8/15/2019	\$190,000	2.000%	1.590%	FG9
8/15/2020	235,000	3.000%	1.760%	FH7
8/15/2021	240,000	4.000%	1.930%	FJ3
8/15/2022	250,000	4.000%	2.050%	FK0
8/15/2023	260,000	4.000%	2.190%	FL8
8/15/2024	270,000	4.000%	2.320%	FM6
8/15/2025	280,000	4.000%	2.440%	FN4
8/15/2026	295,000	5.000%	2.530% ⁽²⁾	FP9
8/15/2027	305,000	5.000%	2.610% ⁽²⁾	FQ7
8/15/2028	320,000	5.000%	2.660% ⁽²⁾	FR5
8/15/2029	340,000	5.000%	2.700% ⁽²⁾	FS3
8/15/2030	355,000	5.000%	2.740% ⁽²⁾	FT1
8/15/2031	375,000	5.000%	2.770% ⁽²⁾	FU8
8/15/2032	390,000	5.000%	2.810% ⁽²⁾	FV6
8/15/2033	410,000	5.000%	2.870% ⁽²⁾	FW4
8/15/2034	430,000	5.000%	2.920% ⁽²⁾	FX2
8/15/2035	455,000	5.000%	2.970% ⁽²⁾	FY0
8/15/2036	475,000	5.000%	3.010% ⁽²⁾	FZ7
8/15/2037	500,000	5.000%	3.030% ⁽²⁾	GA1
8/15/2038	525,000	5.000%	3.050% ⁽²⁾	GB9

\$6,965,000 TERM BONDS

\$3,050,000 5.000% Term Bond due August 15, 2043 and priced to yield 3.150%⁽²⁾ – CUSIP Suffix GC7

\$3,915,000 5.000% Term Bond due February 15, 2048 and priced to yield 3.200%⁽²⁾ – CUSIP Suffix GD5

(Interest to accrue from the Dated Date)

The Issuer reserves the right to redeem the Bonds maturing on or after August 15, 2026 in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2025, or any date thereafter at the redemption price of par plus accrued interest to the date of redemption. (See "THE BONDS - Redemption Provisions of the Bonds – Optional Redemption" herein.) The Bonds maturing on August 15, 2043 and February 15, 2048 (the "Term Bonds") are also subject to mandatory sinking fund redemption prior to stated maturity. (See "THE BONDS – Redemption Provisions of the Bonds - Mandatory Sinking Fund Redemption" herein.)

⁽¹⁾CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of The American Bankers Association. 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 Underwriters, the District nor the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

⁽²⁾Yield calculated based on the assumption that the Bonds denoted and sold at a premium will be redeemed on August 15, 2025, the first optional call date for the Bonds, at a redemption price of par plus accrued interest to the redemption date.

BISHOP CONSOLIDATED INDEPENDENT SCHOOL DISTRICT

719 East Sixth Street
 Bishop, Texas 78343
 Phone: (361) 584-3591
 Facsimile: (361) 584-3147

ELECTED OFFICIALS

Name	Years Served	Term Expires (May)	Occupation
Mr. Marc Morales President	6	2019	Industrial Technology (Celanese)
Ms. Dawn Cavanaugh Vice-President	21	2021	Administrative Assistant
Ms. Yolanda Cruz Secretary	6	2019	International Education Services (Case Manager)
Mr. Lee Davila Board Member	17	2021	Self-employed Scaler
Mr. Brandon Benton Board Member	3	2019	Farmer
Ms. Jeanette Gonzalez Board Member	3	2019	Accounting Assistant IV (Texas A&M-Kingsville)
Ms. Judy Murdoch Board Member	1	2021	Financial Specialist III

ADMINISTRATION

Name	Position	Length of Service With the District	Length of Service in Present Position
Ms. Christina Gutierrez	Superintendent	18	16
Mr. Manuel Tamez	Director of Finance	5	5
Ms. Cindy McBryde	Business Manager	3	3

CONSULTANTS AND ADVISORS

Bond Counsel McCall, Parkhurst & Horton L.L.P.
 San Antonio, Texas

Certified Public Accountants John Womack & Company, P.C.
 Kingsville, Texas

Financial Advisor Frost Bank Capital Markets Division
 San Antonio, Texas

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USE OF INFORMATION IN THE OFFICIAL STATEMENT

No dealer, broker, salesman, or other person has been authorized to give any 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 as having been authorized by the Issuer or the Underwriters. This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any jurisdiction in which such offer or solicitation is not authorized or in which person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. Any information or expression of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create an implication that there has been no change in the affairs of the Issuer or other matters described herein since the date hereof.

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

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

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

None of the District, the Financial Advisor, or the Underwriters make any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company, ("DTC") or its Book-Entry-Only System or the affairs of the Texas Education Agency ("TEA") described under "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM," as such information has been provided by DTC and TEA, respectively.

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

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

SELECTED DATA FROM THE OFFICIAL STATEMENT

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

The Issuer

The Bishop Consolidated Independent School District (the "Issuer" or the "District"), is a political subdivision of the State of Texas located in Nueces County, Texas. The District is approximately 170 square miles. The City of Bishop is a commercial center located 4 miles northeast of Kingsville on U.S. Hwy 77, 20 miles inland from the Gulf of Mexico and Padre Island, 33 miles southwest of Corpus Christi and 155 miles south of San Antonio. The District's estimated population is 6,124.

The Issuer was created under State statute and is governed by an elected seven-member Board of Trustees (the "Board") of which each member serves a staggered four-year term. (See APPENDIX B - "General Information Regarding the Bishop Consolidated Independent School District, and Nueces County, Texas" herein.)

The Bonds

The District's Unlimited Tax School Building Bonds, Series 2018 (the "Bonds") are being issued pursuant to the Constitution and general laws of the State of Texas, including Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, an election held on May 5, 2018 (the "Election"), and an order (the "Order") adopted by the Board of Trustees (the "Board") of the District on June 28, 2018, the date of sale of the Bonds. (See "THE BONDS - Authority for Issuance" herein.)

At the Election, the voters of the District authorized the District to issue up to \$15,225,000 in unlimited tax bonds for the purpose of acquiring, constructing and equipping school buildings in the District. The issuance of the Bonds represents the issuance of this total voted authority, which includes a portion of the premium on the Bonds allocated to this voted authorization.

Interest on the Bonds will accrue from July 1, 2018 (the "Dated Date"), with such interest payable initially on February 15, 2019 and thereafter on August 15 and February 15 in each year, until stated maturity or prior redemption. (See "THE BONDS – General Description" herein.)

Paying Agent/Registrar

The initial Paying Agent/Registrar is UMB Bank, N.A., Houston, Texas.

Security

The Bonds are direct obligations of the Issuer and are payable from an annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District. The Issuer has received conditional approval from the Texas Education Agency for the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined), which guarantee automatically becomes effective when the Attorney General of Texas approves the Bonds. (See "THE BONDS - Security for Payment" herein.) See also "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" for a discussion of recent developments in State law affecting the financing of school districts in Texas.

Redemption Provision of the Bonds

The Issuer reserves the right to redeem the Bonds maturing on or after August 15, 2026 in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2025, or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. (See "THE BONDS - Redemption Provisions of the Bonds – Optional Redemption" herein.) The Bonds maturing on August 15, 2043 and February 15, 2048 (the "Term Bonds") are also subject to mandatory sinking fund redemption prior to stated maturity. (See "THE BONDS – Redemption Provisions of the Bonds – Mandatory Sinking Fund Redemption" herein.)

Permanent School Fund Guarantee	The District has received conditional approval from the Texas Education Agency ("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 BONDS – Permanent School Fund Guarantee" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein).
Tax Matters	In the opinion of McCall, Parkhurst & Horton L.L.P, San Antonio, Texas, Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein. (See "TAX MATTERS" and APPENDIX C - "Form of Opinion of Bond Counsel" herein.)
Use of Bond Proceeds	Proceeds from the sale of the Bonds will be used to (1) acquire, construct and equip school buildings in the District, and (2) pay for the costs of issuance of the Bonds. (See "THE BONDS - Use of Bond Proceeds" herein.)
Ratings	S&P Global Ratings ("S&P") has rated the Bonds "AAA" based on the payment of the Bonds being guaranteed by the State of Texas Permanent School Fund Guarantee Program. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM".) The unenhanced, underlying rating of the District's unlimited ad-valorem tax-supported bonds, which includes the Bonds, is "A" (stable outlook) by S&P. (See "OTHER PERTINENT INFORMATION - Ratings".)
Book-Entry-Only System	The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 principal amount with respect to the Bonds or integral multiples thereof. No physical delivery of the Bonds will be made to the Beneficial Owners thereof. The principal of the Bonds and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners of the Bonds. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)
Payment Record	The District has never defaulted on the payment of its ad valorem tax supported indebtedness.
Future Bond Issues	Other than the issuance of the Bonds, the Issuer does not anticipate the issuance of additional ad valorem tax supported debt in 2018.
Delivery	When issued, anticipated on or about July 24, 2018.
Legality	Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the legal opinion of McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, Bond Counsel.

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OFFICIAL STATEMENT
relating to

\$13,865,000
BISHOP CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
(A Political Subdivision of the State of Texas located in Nueces County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018

INTRODUCTORY STATEMENT

This Official Statement provides certain information in connection with the issuance by the Bishop Consolidated Independent School District (the "District" or "Issuer") of its \$13,865,000 Unlimited Tax School Building Bonds, Series 2018 (the "Bonds") identified on the inside cover page hereof.

The Issuer is a body corporate and a political subdivision of the State of Texas (the "State" or "Texas") duly organized and existing under the laws of the State. The Bonds are issued pursuant to the Constitution and general laws of the State, including Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, an election held on May 5, 2018 (the "Election"), and an order (the "Order") adopted by the Board of Trustees (the "Board") of the District on June 28, 2018, the date of sale of the Bonds.

Unless otherwise indicated, capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Order. Included in this Official Statement are descriptions of the Bonds and certain information about the Issuer and its finances. **ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT.** Copies of such documents may be obtained from the Issuer or the Financial Advisor (defined herein), by electronic mail or upon payment of reasonable mailing, handling, and delivery charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the Official Statement will be deposited 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

General Description

The Bonds will be dated July 1, 2018 (the "Dated Date"). Interest on the Bonds will accrue from the Dated Date, with such interest payable initially February 15, 2019 and thereafter on August 15 and February 15 of each year until stated maturity or prior redemption. The Bonds will mature on the dates, in the principal amounts, and will bear interest at the rates set forth on page 2 of this Official Statement.

The Bonds will be issued only as fully registered bonds. The Bonds will be issued in principal denominations of \$5,000 principal or any integral multiple thereof within a stated maturity.

Principal of, and interest on the Bonds are payable in the manner described herein under "BOOK-ENTRY-ONLY SYSTEM". In the event the Book-Entry-Only System is discontinued, the interest on the Bonds will be payable to the registered owner as shown on the security register maintained by UMB Bank, N.A., Houston, Texas, as the initial Paying Agent/Registrar, as of the last business day of the month next preceding such interest payment date, by check, mailed first-class, postage prepaid, to the address of such person on the security register or by such other method acceptable to the Paying Agent/Registrar requested by and at the risk and expense of the registered owner. In the event the Book-Entry-Only System is discontinued, principal of the Bonds will be payable at stated maturity upon presentation and surrender thereof at the corporate trust office of the Paying Agent/Registrar.

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

Authority for Issuance

The Bonds are being issued pursuant to the Constitution and general laws of the State, including Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, the Election, and the Order. At the Election, the qualified voters of the District authorized the District to issue unlimited tax bonds in a maximum amount of \$15,225,000 for the purpose of acquiring, constructing and equipping school buildings in the District. The issuance of the Bonds represents the issuance of this total voted authority, which includes a portion of the premium on the Bonds allocated to this voted authorization.

Security for Payment

The Bonds are payable from an annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District. The Issuer has received conditional approval from the Texas Education Agency ("TEA") for the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined) which guarantee automatically becomes effective when the Attorney General of Texas approves the Bonds. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" herein.) See also "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" for a discussion of recent developments in Texas law affecting the financing of school districts in Texas.

Permanent School Fund Guarantee

In connection with the sale of the Bonds, the District has received conditional approval from the Texas Commissioner of Education of the TEA 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 Bonds will be absolutely and unconditionally 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.

Redemption Provisions of the Bonds

Optional Redemption

The Issuer reserves the right to redeem the Bonds maturing on and after August 15, 2026, in whole or in part (and if in part, by lot), in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2025, or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption.

Mandatory Sinking Fund Redemption

The Bonds maturing on August 15, 2043 and February 15, 2048 (the "Term Bonds") are also subject to mandatory sinking fund redemption prior to stated maturity in part by lot, at a price equal to the principal amount thereof plus accrued interest to the date of redemption, in the respective years and principal amounts shown below:

\$3,050,000 Term Bond Maturing on August 15, 2043

<u>Mandatory Redemption Dates</u>	<u>Principal Amounts</u>
August 15, 2039	\$550,000
August 15, 2040	580,000
August 15, 2041	610,000
August 15, 2042	640,000
August 15, 2043 (Maturity)	670,000

\$3,915,000 Term Bond Maturing on February 15, 2048

<u>Mandatory Redemption Dates</u>	<u>Principal Amounts</u>
August 15, 2044	\$705,000
August 15, 2045	740,000
August 15, 2046	775,000
August 15, 2047	815,000
February 15, 2048 (Maturity)	880,000

The principal amount of a Term Bond required to be redeemed pursuant to the operation of such mandatory redemption provisions will be reduced, at the option of the Issuer, by the principal amount of any Term Bonds of such Stated Maturity which, at least 90 days prior to the mandatory redemption date (1) have been defeased or acquired by the Issuer and delivered to the Paying Agent/Registrar for cancellation, (2) have been purchased and canceled by the Paying Agent/Registrar at the request of the Issuer with money in the Interest and Sinking Fund, or (3) have been redeemed pursuant to the optional redemption provisions set forth above and not theretofore credited against a mandatory redemption requirement.

Selection of Bonds for Redemption

If less than all of the Bonds within a stated maturity are to be redeemed, the District shall determine the principal amount and maturities to be redeemed and shall direct the Paying Agent/Registrar to select by lot or other customary method that results in a random selection, the Bonds or portions thereof, to be redeemed.

Notice of Redemption

Not less than 30 days prior to an optional redemption date for the Bonds, a notice of redemption shall be sent by United States mail, first class postage prepaid, in the name of the District and at the District's expense, by the Paying Agent/Registrar to each registered owner of a Bond to be redeemed in whole or in part at the address of the registered owner appearing on the security register at the close of business on the business day next preceding the date of mailing such notice. The notice may state (1) that it is conditioned upon the deposit of moneys, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar no later than the redemption date, or (2) that the District retains the right to rescind such notice at any time prior to the scheduled redemption date if the District delivers a certificate of an authorized representative to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and optional redemption shall be of no effect if such moneys are not so deposited or if the notice is so rescinded. ANY NOTICE SO MAILED WILL 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 WILL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF WILL CEASE TO ACCRUE.

Bonds of a denomination larger than \$5,000 may be redeemed in part (\$5,000 or any integral multiple thereof). Any Bond to be partially redeemed must be surrendered in exchange for one or more new Bonds of the same stated maturity and interest rate for the unredeemed portion of the principal.

Redemption through the Depository Trust Company

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 with regard to the Bonds, notice of proposed amendment to the Order, or other notices with respect to the Bonds only to DTC (defined herein). Any failure by DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to notify the Beneficial Owner, 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 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.)

Payment Record

The Issuer has never defaulted on the payment of its ad valorem tax supported indebtedness.

Amendments

The Issuer may amend the Order without the consent of or notice to any registered owners as may be required by the provisions in the Order, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the Issuer may, with the written consent of the holders of a majority in aggregate principal amount, as the case may be, of the Bonds then outstanding and affected thereby, amend, add to or rescind any of the provisions of the Order; except that, without the consent of the registered owners of all of the Bonds affected, no such amendment, addition or rescission may extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof or the rate of interest thereon, (ii) give any preference to any Bond over any other Bond, (iii) extend any waiver of default to subsequent defaults, or (iv) reduce the aggregate principal amount of Bonds required for consent to any such amendment, change, modification, or rescission.

Use of Bond Proceeds

Proceeds from the sale of the Bonds will be used to (1) acquire, construct and equip school buildings in the District, and (2) pay for the costs of issuance of the Bonds.

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SOURCES AND USES OF FUNDS

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

<u>Sources of Funds</u>	
Principal Amount of the Bonds	\$13,865,000.00
Original Issue Reoffering Premium	1,619,904.10
Accrued Interest	<u>42,795.97</u>
Total Sources of Funds	\$15,527,700.07

<u>Uses of Funds</u>	
Deposit to Construction Fund	\$15,225,000.00
Underwriters' Discount / Costs of Issuance	257,715.00
Deposit to Interest and Sinking Fund (accrued interest and contingency)	<u>44,985.07</u>
Total Uses of Funds	\$15,527,700.07

REGISTERED OWNERS' REMEDIES

The Order establishes specific events of default with respect to the Bonds. If the District defaults in the payment of the principal of or interest on the Bonds when due, or the District defaults in the observance or performance of any of the covenants, conditions, or obligations of the District, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Order, and the continuation thereof for a period of 30 days after notice of such default is given by any owner to the District, the Order provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the District to make such payment or observe and perform such covenants, obligations, or conditions.

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. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year.

The Order does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006), that a waiver of governmental immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the District's governmental immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or covenants in the Order. 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.

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 by local governments that relate to their borrowing powers are contracts covered by the Local Government Immunity Waiver Act.

As noted above, the Order provides that Bondholders may exercise the remedy of mandamus to enforce the obligations of the District under the Order. 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).

Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is UMB Bank, N.A., Houston, Texas (the "Paying Agent/Registrar"). The Bonds are being issued in fully registered form in integral multiples of \$5,000 of principal amount. If the Bonds are no longer held in the Book-Entry-Only System, 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 hereinafter defined.

If the Bonds are no longer held in the Book-Entry-Only System, principal, of the Bonds will be payable at stated maturity upon presentation and surrender thereof at the corporate trust office of the Paying Agent/Registrar. So long as Cede & Co. is the registered owner of the Bonds, payments of principal of, interest on the Bonds will be made as described in "BOOK-ENTRY-ONLY SYSTEM."

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, 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 such Bond or by such 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 principal 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 registered owner in not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in authorized denominations and for a like aggregate principal amount, as the Bond or Bonds surrendered for exchange or transfer.

Record Date For Interest Payment

The record date ("Record Date") for determining the party to whom the interest on any Bond is payable on any interest payment date means the close of business on the last business day of the preceding month. In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest (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 day next preceding the date of mailing of such notice.

Limitation on Transfer of Bonds

Neither the District nor the Paying Agent/Registrar will be required to issue, transfer, or exchange any Bonds during a (i) period beginning at the close of business on any Record Date and ending with the next interest payment date or, (ii) with respect to any Bond called for redemption, within 30 days of the date fixed for redemption, provided, however, such limitation of transfer will not be applicable to an exchange by the registered owner of the uncalled balance of a Bond called for redemption in part.

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.

Defeasance of Bonds

The Order provides for the defeasance of the Bonds when payment of the principal amounts of the Bonds plus accrued interest on the Bonds to their due date (whether such due date be by reason of maturity, redemption or otherwise), is provided by irrevocably depositing with a paying agent, or other authorized escrow agent, in trust (1) money sufficient to make such payment and/or (2) Defeasance Securities to 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 authorized escrow agent, for the payment of such defeased Bonds, including any insufficiency therein caused by the failure of such paying agent, or other authorized escrow agent, to receive payment when due on the Defeasance Securities. The Order provides that Defeasance Securities means (i) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (iv) any other then authorized securities or obligations under applicable State law that may be used to defease obligations such as the Bonds. The District has additionally reserved the right in the Order, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance.

Upon such deposit as described above, the Bonds will no longer be regarded to be outstanding obligations for purposes of applying any limitation on indebtedness or for purposes of taxation. After firm banking and financial arrangements for the discharge and final payment of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or to take any action amending the terms of the Bonds are extinguished; provided, however, that the District's right to redeem Bonds defeased to stated maturity is not extinguished if the District has reserved the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption, at an earlier date, those Bonds which have been defeased to their stated maturity date, if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Upon such deposit as described above, the Permanent School Fund Guarantee will cease to apply to such Bonds after defeasance.

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BOOK-ENTRY-ONLY SYSTEM

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

The District cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or 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 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 certificate will be issued for the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

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

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive physical 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 an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

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

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is 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 Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, physical certificates for each maturity of the Bonds 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, physical certificates for each maturity of the Bonds will be printed and delivered.

So long as Cede & Co. is the registered owner of the Bonds, the District will have no obligation or responsibility to the DTC Participants or Indirect Participants, or the persons for which they act as nominees, with respect to payment to or providing of notice to such Participants, or the persons for which they act as nominees.

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.

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THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

The information below concerning the State Permanent School Fund and the Guarantee Program (defined below) has been provided by the Texas Education Agency (the "TEA") and is not guaranteed as to accuracy or completeness by, and is not construed as a representation by the District, the Financial Advisor, or the Underwriters.

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

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

History and Purpose

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

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

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

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

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

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

thereto, and all guaranteed bonds are aggregated for purposes of determining the capacity of the Guarantee Program (see "Capacity Limits for the Guarantee Program"). The Charter District Bond Guarantee Program as enacted by State law has not been reviewed by any court, nor has the Texas Attorney General been requested to issue an opinion, with respect to its constitutional validity.

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

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

The Total Return Constitutional Amendment

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

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

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

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

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

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

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

In accordance with the Texas Constitution, the SBOE views the PSF as a perpetual institution, and the Fund is managed as an endowment fund with a long-term investment horizon. Under the total-return investment objective, the Investment Policy provides that the PSF shall be managed consistently with respect to the following: generating income for the benefit of the public free schools of Texas, the real growth of the corpus of the PSF, protecting capital, and balancing the needs of present and future generations of Texas school children. As described above, the Total Return Constitutional Amendment restricts the annual payout from the Fund to the total-return on all investment assets of the Fund over a rolling ten-year period. State law provides that each transfer of funds from the PSF to the ASF is made monthly, with each transfer to be in the amount of one-twelfth of the

annual distribution. The heavier weighting of equity securities and alternative assets relative to fixed income investments has resulted in greater volatility of the value of the Fund. Given the greater weighting in the overall portfolio of passively managed investments, it is expected that the Fund will reflect the general performance returns of the markets in which the Fund is invested.

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

Management and Administration of the Fund

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

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

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

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

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

Capacity Limits for the Guarantee Program

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

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

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

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

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

Since July 1991, when the SBOE amended the Guarantee Program Rules to broaden the range of bonds that are eligible for guarantee under the Guarantee Program to encompass most Texas school district bonds, the principal amount of bonds guaranteed under the Guarantee Program has increased sharply. In addition, in recent years a number of factors have caused an increase in the amount of bonds issued by school districts in the State. See the table "Permanent School Fund Guaranteed Bonds" below. Effective September 1, 2009, the Act provides that the SBOE may annually establish a percentage of the cost value of the Fund to be reserved from use in guaranteeing bonds. The capacity of the Guarantee Program in excess of any reserved portion is referred to herein as the "Capacity Reserve." The SDBGP Rules provide for a minimum Capacity Reserve for the overall Guarantee Program of no less than 5%, and provide that the amount of the Capacity Reserve may be increased by a

majority vote of the SBOE. The CDBGP Rules provide for an additional 5% reserve of CDBGP capacity. The Commissioner is authorized to change the Capacity Reserve, which decision must be ratified or rejected by the SBOE at its next meeting following any change made by the Commissioner. The current Capacity Reserve is noted in the monthly updates with respect to the capacity of the Guarantee Program on the TEA web site at http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/, which are also filed with the MSRB.

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

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

The School District Bond Guarantee Program

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

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

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

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

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

The Charter District Bond Guarantee Program

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

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

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

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

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

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

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

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

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

2017 Legislative Changes to the Charter District Bond Guarantee Program

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

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

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

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

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

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

Charter District Risk Factors

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

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

Bond Guarantee Program. However, charter district bonds issued and guaranteed under the Charter District Bond Guarantee Program prior to the implementation of the new requirement did not have the benefit of a security interest in real property, although other existing debts of such charter districts that are not guaranteed under the Charter District Bond Guarantee Program may be secured by real property that could be foreclosed on in the event of a bond default.

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

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

Potential Impact of Hurricane Harvey on the PSF

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

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

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

Ratings of Bonds Guaranteed Under the Guarantee Program

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

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations

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

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

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

Permanent School Fund Guaranteed Bonds

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

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

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

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Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2011 Constitutional Amendment

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

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

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

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

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

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

Other Events and Disclosures

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

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

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

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

PSF Continuing Disclosure Undertaking

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

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

Annual Reports

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

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

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

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

Material Event Notices

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

Availability of Information

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

Limitations and Amendments

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

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

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

Compliance with Prior Undertakings

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

SEC Exemptive Relief

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

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STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

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

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

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

Possible Effects of Changes in Law on District Bonds

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

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

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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 “TAX RATE LIMITATIONS – Public Hearing and Rollback Tax Rate” herein). Elections authorizing the levy of M&O taxes held in certain school districts under older laws, however, may subject M&O tax rates in such districts to other limitations (See “TAX RATE LIMITATIONS” herein).

State Funding for School Districts

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

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

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

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

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

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

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

appropriation by the Texas Legislature). In general, a district's bonds are eligible for EDA assistance if (i) the district made payments on the bonds during the final fiscal year of the preceding State fiscal biennium, or (ii) the district levied taxes to pay the principal of and interest on the bonds for that fiscal year. Each biennium, access to EDA funding is determined by the debt service taxes collected in the final year of the preceding biennium. A district may not receive EDA funding for the principal and interest on a series of otherwise eligible bonds for which the district receives IFA funding.

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

2006 Legislation

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

2017 Legislation

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

Wealth Transfer Provisions

Some districts have sufficient property wealth per student in WADA ("wealth per student") to generate their statutory level of funding through collections of local property taxes alone. Districts whose wealth per student generates local property tax collections in excess of their statutory level of funding are referred to as "Chapter 41" districts because they are subject to the wealth equalization provisions contained in Chapter 41 of the Texas Education Code. Chapter 41 districts may receive State funds for certain competitive grants and a few programs that remain outside the Foundation School Program. Otherwise, Chapter 41 districts are not eligible to receive State funding. Furthermore, Chapter 41 districts must exercise certain 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 2017-2018 school year is less than the equalized wealth value. Accordingly, the District has not been required to exercise one of the permitted wealth equalization options. As a district with wealth per student less than the equalized wealth value, the District may benefit in the future by agreeing to accept taxable property or funding assistance from or agreeing to consolidate with a property-rich district to enable such district to reduce its wealth per student to the permitted level.

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

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INVESTMENT POLICIES

Investments

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

Under Texas law, the District is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors; (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 governing body or designated investment committee of the District adopts as required by Section 2256.025; 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 as described in clause (8)(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 investing 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 Paragraph (A); (ii) an entity described by Section 2257.041(d) of the Texas Government Code; or (iii) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3), (9) certificates of deposit or share certificates (i) meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund (or their respective successors), or are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and amount provided by law for District deposits or, (ii) where (a) the funds are invested by the District through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the District as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the District; (iii) 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; (iv) 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 (v) the District appoints the depository institution selected under (ii) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit issued for the account of the District; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1), and 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, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (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 (as defined by 5 C.F.R. Section 6801.102(f), as that regulation existed on September 1, 2003) or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less; (12) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (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 complies with SEC Rule 2a-7; (15) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations described in this paragraph or (ii) have a duration of less than one year and an investment portfolio limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters

of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution.

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

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

Under Texas law, 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 the probable income to be derived." At least quarterly the District's investment officers must submit an investment report to the Board of Trustees detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, and any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) Texas law. No person may invest District funds without express written authority from the Board of Trustees.

Under Texas law, the District is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution, (3) require any investment officers with personal business relationships or family relationships with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the District, (4) require the registered principal of firms seeking to sell securities to the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, (except to the extent that this authorization (a) is dependent on an analysis of the makeup of the District's entire portfolio, (b) requires an interpretation of subjective investment standards, or (c) relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority), and (c) deliver a written statement attesting to these requirements, (5) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the District's investment policy, (6) 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 repurchase agreement, (7) restrict the investment in non-money market 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, (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, (9) provide specific investment training for the Treasurer, the chief financial officer (if not the Treasurer) and the investment officer, 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*

TABLE 1

As of April 30, 2018, all the Issuer's investable funds in the amount of \$8,422,276.38 were invested in the following categories of investments:

<u>Type of Investment</u>	<u>Amount</u>
Texpool	\$5,973,252.15
Property Bank	1,528,403.76
Lone Star Investment Pool	<u>920,620.47</u>
Total	<u>\$8,422,276.38</u>

*Unaudited.

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

AD VALOREM TAX PROCEDURES

Property Tax Code and County-Wide Appraisal District

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

Property Subject to Taxation by the Issuer

Except for certain exemptions provided by Texas law, all real and certain tangible personal property with a tax situs in the District are subject to taxation by the Issuer. Principal categories of exempt property (including certain exemptions which are subject to local option by the Board of Trustees) include property owned by the State of Texas 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 non-profit corporation used in scientific research and educational activities benefiting a college or university, and designated historical 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; certain varying amounts of valuation attributable to residential homesteads of persons ages 65 or over or disabled and property of disabled veterans or the surviving spouses or children of a deceased veteran who died while on active duty in the armed forces; \$25,000 in market value for all residential homesteads (See "Residential Homestead Exemptions" below and certain classes of intangible property.

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-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit" is defined by a provision of the Tax Code, which is effective for tax years 2008 and thereafter, as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. The Tax Code provision permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax "goods-in-transit" during the following tax year and to continue to tax those good-in-transit until the action authorizing such taxation is rescinded or repealed. A taxpayer may only receive either the freeport exemption or the "goods-in-transit" exemption for items of personal property. Senate Bill 1, passed by the 82nd Texas Legislature, 1st Called Session, requires again that the governmental entities take affirmative action on or after October 1, 2011 to continue its taxation of goods-in-transit in the 2012 tax year and beyond. The District took affirmative action on or after October 1, 2011 to continue its taxation of goods-in-transit in the 2012 tax year and beyond.

A city or a county may create a tax increment financing district ("TIF") within the city or county, as applicable, 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 the 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. School districts may not enter into tax abatement agreements under the general statute that permits municipalities and counties to initiate tax abatement agreements. In addition, credit will not be given by the Commissioner of Education in determining a district's property value wealth per student for (1) the appraisal value, in excess of the "frozen" value, of property that is located in a tax increment financing zone created after May 31, 1999 (except in certain limited circumstances where the municipality creating the tax increment financing zone gave notice prior to May 31, 1999 to all other taxing units that levy ad valorem taxes in the zone of its intention to create the zone and the zone is created and has its final project and financing plan approved by the municipality prior to August 31, 1999) or (2) for the loss of value of abated property under any abatement agreement entered into after May 31, 1993. Notwithstanding the foregoing, in 2001 the Legislature enacted legislation known as the Texas Economic Development Act, which provides incentives for school districts to grant limitations on appraised property values and provide ad valorem tax credits to certain corporations and limited liability companies to encourage economic development within the district. Generally, during the last eight years of the ten-year term of a tax limitation agreement, the school district may only levy and collect ad valorem taxes for maintenance and operation purposes on the agreed-to limited appraised property value. The taxpayer is entitled to a tax credit from the school district for the amount of taxes imposed during the first two years of the tax limitation agreement on the appraised value of the property above the agreed-to limited value. Additional State funding is provided to a school district for each year of such tax limitation in the amount of the

tax credit provided to the taxpayer. During the first two years of a tax limitation agreement, the school district may not adopt a tax rate that exceeds the district's rollback tax rate. (See "TAX RATE LIMITATIONS – Public Hearing and Rollback Tax Rate").

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. Once an appraisal role is prepared and finally approved by the Appraisal Review Board, it is used by the Issuer in establishing its tax rolls and tax rate. Assessments under the Tax Code are to be based on one hundred percent (100%) of market value, except as described below, and no assessment ratio can be applied.

State law limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the market value of the property or (2) the sum of (a) 10% of the appraised value of the property for the last year in which the property was appraised for taxation times the number of years since the property was last appraised, plus (b) the appraised value of the property for the last year in which the property was appraised, plus (c) the market value of all new improvements to the property. In determining the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. Oil and gas reserves are assessed on the basis of pricing information contained in the most recently published Early Release Overview of the Annual Energy Outlook published by the United States Energy Information Administration, as well as appraisal formulas developed by the State Comptroller of Public Accounts. Effective January 1, 2016, the valuation of assessment of oil and gas reserves will depend upon pricing information in either the standard edition of the Annual Energy Outlook or, if the most recently published edition of the Annual Energy Outlook was published before December 1 of the preceding calendar year, the Short-Term Energy Outlook report published in January of the current calendar year. State law further requires the appraised value of a residence homestead to be assessed 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.

Article VIII of the Texas Constitution and the Tax Code permits land designated for agricultural use (Section 1-d), open space or timberland (Section 1-d-1) to be appraised at the lesser of its value based on the land's capacity to produce agricultural or timber products or its market value. Landowners wishing to avail themselves of the agricultural use designation must apply for the designation, and the appraiser is required by the Tax Code to act on each claimant's right to the designation individually. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the Issuer can collect taxes based on the new value, including three (3) years for agricultural use and five (5) 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 1-d-1.

The 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 (3) years. The Issuer, 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 appraised 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 role.

Residential Homestead Exemptions

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

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

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

In addition, 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 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 persons who are 65 years of age or older and persons who are 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 (i) the taxpayer died in a year in which the taxpayer qualified for the exemption, (ii) the surviving spouse was at least 55 years of age when the taxpayer died and (iii) the property was the residence homestead of the surviving spouse when the taxpayer died and the property remains the residence homestead of the surviving spouse.

In addition, a disabled veteran who receives a 100% disability compensation from the United States Department of Veterans Affairs or its successor 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. Such exemption has been extended to include the surviving spouse of such a deceased veteran and permits such surviving spouse to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries. 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.

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.

Section 11.131 of the Tax Code states that a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. Furthermore, following the approval by the voters at a November 8, 2011 statewide election, effective January 1, 2012, the surviving spouse of a deceased veteran who had received a disability rating of 100% is entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until the surviving spouse remarries.

Effective January 1, 2018, a partially disabled veteran or the surviving spouse of a partially disabled veteran is entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization either at no cost 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 percent 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.

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.

Additionally, effective January 1, 2018, the surviving spouses of police officers, firefighters, jailers, and other specified first responders who are killed or fatally injured in the line of duty are entitled to an exemption from taxation of the total appraised value of the surviving spouse's residence homestead.

In addition to any other exemptions provided by the Tax Code, the governing body of a political subdivision, at its option, may grant an exemption of up to 20% of the market value of residence homesteads, with a minimum exemption of \$5,000.

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.

The governing body of a political subdivision is prohibited from repealing or reducing the amount of an optional homestead exemption that was in place for the 2014 tax year (fiscal year 2015) for a period ending December 31, 2019.

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 Tax Code.

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. The rate of taxation is set by the Board of Trustees 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 February 1 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%) of the total delinquent taxes, penalty and interest collected may, under certain circumstances, be imposed by the District. The 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.

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 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.

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THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT

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

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

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

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

The District does not collect its own taxes; the District's taxes are collected by the Nueces County Tax Assessor/Collectors Office (the "Tax Assessor/Collector").

The Tax Assessor/Collector does collect an additional 20% of the amount of delinquent tax, penalty, and interest collected as a penalty to defray attorney costs in the collection of delinquent taxes over and above the penalty automatically assessed under the Tax Code after July 1.

The Tax Assessor/Collector does not allow split payments of taxes.

The Tax Assessor/Collector does not allow for early payment discounts.

The District does not participate in a tax increment-financing zone.

The District does not grant tax abatements.

The District does not authorize a taxation of goods-in-transit.

The District does not grant an exemption for freeport property from taxation.

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

The District grants a State mandated \$10,000 residence homestead exemption for taxpayers who are at least 65 years of age or disabled, and grants an additional \$10,900 local option residence homestead exemptions for taxpayers who are 65 years of age or older. A taxpayer who qualifies for both the age 65 or older exemption and the disabled exemption must choose one of the options to claim.

The District grants a State mandated residence homestead exemption for disabled veterans ranging from \$5,000 to \$12,000.

The District grants a local option homestead exemption of 20% with a \$5,000 minimum for homesteads.

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

<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 ^(a)	12	6	18

(a) Additional penalty of 20% of delinquent taxes, penalty and interest is assessed after July 1 in order to defray attorney collection expenses.

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

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TAX RATE LIMITATIONS

A school district is authorized to levy maintenance and operation taxes ("M&O Tax") subject to approval of a proposition submitted to district voters. The maximum M&O Tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the next succeeding paragraph. The maximum voted M&O Tax rate for the District is \$1.50 per \$100 of assessed valuation as approved by the voters at an election held on April 1, 1969 pursuant to Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended ("Article 2784e-1").

Article 2784e-1 limits the District's annual M&O Tax rate based upon a comparison between the District's outstanding bonded indebtedness and the District's taxable assessed value per \$100 of assessed valuation. Article 2784e-1 provides for a reduction of \$0.10 for each one percent (1%) or major fraction thereof increase in bonded indebtedness beyond seven percent (7%) of assessed valuation of property in the District. This limitation is capped when the District's bonded indebtedness is ten percent (10%) or greater, of the District's assessed valuation which would result in an annual M&O Tax rate not to exceed \$1.20. Lastly, the Texas Attorney General in reviewing the District's transcript of proceedings will allow the District to reduce the amount of its outstanding bonded indebtedness by the amount of funds (on a percentage basis) that the District receives in State assistance for the repayment of this bonded indebtedness (for example, if the District anticipates that it will pay 75% of its bonded indebtedness from State assistance, for the purposes of Article 2784e-1, the Texas Attorney General will assume that only 25% of the District's bonded indebtedness is outstanding and payable from local ad valorem taxes). The bonded indebtedness of the District after the issuance of the Bonds will be approximately 5.97% of the District's current taxable assessed valuation of property. (See APPENDIX A – Table 1 "EXEMPTIONS AND TAX SUPPORTED DEBT" and Table 2 – "GENERAL OBLIGATION BONDED DEBT" herein.)

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, or such lower rate as described in the preceding paragraph and (B) the sum of (1) the rate of \$0.17, and (2) the product of the "state compression percentage" multiplied by \$1.50. The State Compression Percentage has been set, and will remain, at 66.67% for the 2018 – 19 State fiscal biennium. The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. For a more detailed description of the state compression percentage, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Funding For School Districts." Furthermore, a school district cannot annually increase its tax rate in excess of the district's "rollback tax rate" without submitting such tax rate to a referendum election and a majority of the voters voting at such election approving the adopted rate. (See "TAX RATE LIMITATIONS - Public Hearing and Rollback Tax Rate.")

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

Section 45.0031, Texas Education Code, as amended ("Section 45.0031"), requires a district to demonstrate to the Texas Attorney General that it has the prospective ability to pay its maximum annual debt service on a proposed issue of bonds and all previously issued bonds, other than bonds approved by district voters at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds, collectively, "exempt bonds"), from a tax levied at a rate of \$0.50 per \$100 of assessed valuation before bonds may be issued. In demonstrating the ability to pay debt service at a rate of \$0.50, a district may take into account EDA and IFA allotments to the district, which effectively reduce the district's local share of debt service, and may also take into account Tier One funds allotted to the district. The District is required to deposit any State allotments provided solely for payment of debt service into the District's interest and sinking fund upon receipt of such amounts. In addition, the District must, prior to levying an interest and sinking fund tax rate that exceeds \$0.50 per \$100 of assessed valuation, credit to the interest and sinking fund other State assistance, including Tier One funds that may be used for either operating purposes or for payment of debt service, in an amount equal to the amount needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Once the prospective ability to pay such tax has been shown and the bonds are issued, a district may levy an unlimited tax to pay debt service. Taxes levied to pay refunding bonds issued pursuant to Chapter 1207, Texas Government Code, are not subject to the \$0.50 tax rate test; however, taxes levied to pay debt service on such bonds (other than bonds issued to refund exempt bonds) are included in maximum annual debt service for calculation of the \$0.50 threshold tax rate test when applied to subsequent bond issues. The Bonds are issued for school building purposes pursuant to Chapter 45, Texas Education Code as new debt and are subject to the threshold tax rate test. Under current law, a district may demonstrate its ability to comply with the \$0.50 threshold tax rate test by applying the \$0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a district uses projected future taxable values to meet the \$0.50 threshold tax rate test and subsequently imposes a tax at a rate greater than \$0.50 per \$100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Texas Attorney General must find that the district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the \$0.50 threshold tax rate test from a tax rate of \$0.45 per \$100 of valuation. The District has not used State assistance other than EDA or IFA allotment funding or projected property values to satisfy this threshold test.

Public Hearing and Rollback Tax Rate

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

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

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

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. In demonstrating compliance with these requirements, a district may take into account State equalization payments. The State Attorney General reviews a district's calculations showing the compliance with these tests as a condition to the legal approval of the debt.

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TAX MATTERS

Opinion

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

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

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

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

A ruling was not sought from the Internal Revenue Service by the Issuer with respect to the Bonds or the facilities financed with proceeds of the Bonds. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds. Bond Counsel's opinion is not binding on the Internal Revenue Service. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the Issuer as the taxpayer and the Bond Owners may have no right to participate in such procedure. No additional tax-exempt interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment of Original Issue Discount

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

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

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

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

periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

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

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on Existing Law, which is subject to change or modification, retroactively. The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with Subchapter C earnings and profits, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

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

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

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

State, Local and Foreign Taxes

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

Information Reporting and Backup Withholding

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

Future and Proposed Legislation

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

CONTINUING DISCLOSURE OF INFORMATION

In the Order, the District has made the following agreement for the benefit of the holders and Beneficial Owners of the Bonds. The District is required to observe the agreement for so long as it remains 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 MSRB through its Electronic Municipal Market Access (“EMMA”) system, when it will be available to the general public, free of charge at www.emma.msrb.com.

Annual Reports

The District will file certain updated financial information and operating data with the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement as Table 1, in APPENDIX A (numbered Tables 1-12), and in APPENDIX D. The District will update and provide this information within six months after the end of each Fiscal Year ending in or after 2018.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB’s EMMA Internet Website or filed with the United States Securities and Exchange Commission (the “SEC”); as permitted by SEC Rule 15c2-12 (the “Rule”). The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial information by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX 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 end is August 31. Accordingly, it must provide updated information by the last day of February in each year following the end of its fiscal year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Notice of Occurrence of Certain Events, Whether or Not Material

The District will notify the MSRB through EMMA (in an electronic format as prescribed by the MSRB) within ten business days following the occurrence of any of the following events with respect to the Bonds, without regard to whether such event is material within the meaning of the federal securities laws: (1) principal and interest payment delinquencies; (2) unscheduled draws on debt service reserves reflecting financial difficulties; (3) unscheduled draws on credit enhancements reflecting financial difficulties; (4) substitution of credit or liquidity providers, or their failure to perform; (5) adverse tax opinions or 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 events affecting the tax status of the Bonds; (6) tender offers; (7) defeasances; (8) rating changes; and (9) bankruptcy, insolvency, receivership or similar event of an obligated person. (Neither the Bonds nor the Order make any provision for credit enhancement (other than the Permanent School Fund Guarantee), liquidity enhancement, or a debt service reserve with respect to the Bonds.)

Notice of Occurrence of Certain Events, If Material

The District also will notify the MSRB through EMMA (in an electronic format as prescribed by the MSRB) within ten business days following the occurrence of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws: (1) non-payment related defaults; (2) modifications to rights of Bond Owners; (3) Bond calls (if applicable); (4) release, substitution, or sale of property securing repayment of the Bonds; (5) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, 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; and (6) appointment of a successor or additional trustee or the change of name of a trustee.

Notice of Failure to Timely File

The District also will notify the MSRB through EMMA, in a timely manner, of any failure by the District to provide financial information or operating data in accordance with the provisions described above.

Availability of Information

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

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

Limitations and Amendments

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

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

Compliance with Prior Undertakings

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

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LEGAL MATTERS

Legal Opinions and No-Litigation Certificate

The Issuer will furnish the Underwriters with a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Initial Bond is a valid and legally binding obligation of the Issuer, and based upon examination of such transcript of proceedings, the legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "TAX MATTERS" herein. Though it represents the Financial Advisor and the Underwriters from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel was engaged by, and only represents, the District in connection with the issuance of the Bonds. McCall, Parkhurst & Horton L.L.P. also advises the TEA in connection with its disclosure obligations under the federal securities laws, but such firm has not passed upon any TEA disclosures contained in this Official Statement. In its capacity as Bond Counsel, McCall, Parkhurst & Horton L.L.P. has reviewed the information under the captions and subcaptions "THE BONDS" (except for the subcaption "Payment Record"), "REGISTRATION, TRANSFER AND EXCHANGE", "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM", "TAX RATE LIMITATIONS", "TAX MATTERS", "OTHER PERTINENT INFORMATION - Registration and Qualification of Bonds for Sale", "LEGAL MATTERS - Legal Investments and Eligibility to Secure Public Funds in Texas", "LEGAL MATTERS – Legal Opinions and No-Litigation Certificate", and CONTINUING DISCLOSURE OF INFORMATION (except the information under the subheading "Compliance with Prior Undertakings" as to which no opinion is expressed) in the Official Statement and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. 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 provision made for their payment or security, or in any manner questioning the validity of the Bonds will also be furnished. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of Bonds are contingent on the sale and delivery of the Bonds. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by Norton Rose Fulbright US LLP, San Antonio, Texas, as Counsel to the Underwriters.

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

Litigation

On the date of delivery of the Bonds to the Underwriters, the District will execute and deliver to the Underwriters a certificate to the effect that, except as disclosed herein, no litigation of any nature has been filed or is pending, as of that date, to restrain or enjoin the issuance or delivery of the Bonds or which would affect the provisions made for their payment or security or in any manner question the validity of the Bonds.

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

Legal Investments and Eligibility to Secure Public Funds in Texas

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency. (See "OTHER PERTINENT INFORMATION - Ratings" herein.) In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

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.

OTHER PERTINENT INFORMATION

Registration and Qualification of Bonds for Sale

The sale of the Bonds has not been registered under the Securities Act of 1933, as amended, in reliance upon exemptions provided in such Act; the Bonds have not been qualified under the Securities Act of Texas in reliance upon exemptions contained therein; nor have the Bonds been qualified under the securities acts of any other jurisdiction. The Issuer assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which they 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 or qualification provisions.

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

Ratings

S&P Global Ratings ("S&P") has rated the Bonds "AAA" based on the payment of the Bonds being guaranteed by the Permanent School Fund of Texas. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein. The unenhanced, underlying rating of the District's unlimited ad-valorem tax-supported bonds, which includes the Bonds, is "A" (stable outlook) by S&P.

The rating of the Bonds by S&P reflects only the view of such company at the time the rating is given and the District makes no representations as to the appropriateness of the rating. There is no assurance that the rating will continue for any given period of time, or that the rating will not be revised downward or withdrawn entirely by S&P, if, in the judgment of said company, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

Authenticity of Financial Information

The financial data and other information contained herein have been obtained from the Issuer's records, audited financial statements and other sources which are believed to be reliable. All of the summaries of the statutes, documents and Order contained in this Official Statement are made subject to all of the provisions of such statutes, documents and Order. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. All information contained in this Official Statement is subject, in all respects, to the complete body of information contained in the original sources thereof and no guaranty, warranty or other representation is made concerning the accuracy or completeness of the information herein. In particular, no opinion or representation is rendered as to whether any projection will approximate actual results, and all opinions, estimates and assumptions, whether or not expressly identified as such, should not be considered statements of fact.

Information from External Sources

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

Financial Advisor

Frost Bank Capital Markets Division is employed as the Financial Advisor to the Issuer in connection with the issuance of the Bonds. In this capacity, the Financial Advisor has compiled certain data relating to the Bonds and has drafted 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 Issuer 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 fees for the Financial Advisor are contingent upon the issuance, sale and delivery of the Bonds.

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

Forward Looking Statements

The statements contained in this Official Statement, and in any other information provided by the Issuer, that are not purely historical, are forward-looking statements, including statements regarding the Issuer'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 Issuer on the date hereof, and the Issuer assumes no obligation to update any such forward-looking statements. It is important to note that the Issuer'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 Issuer. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

Underwriting

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the District, at a price equal to the initial offering prices as shown on the inside cover of this Official Statement, at an underwriting discount of \$98,715.00 plus accrued interest.

The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

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

Authorization of the Official Statement

The Official Statement was approved as to form and content and the use thereof in the offering of the Bonds will be authorized, ratified and approved by the Board of Trustees in the Order, and the Underwriters will be furnished, upon request, at the time of payment for and the delivery of the Bonds, a certified copy of such approval, duly executed by the proper officials of the Issuer.

The Order has approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto issued on behalf of the Issuer, and authorize its further use in the reoffering of the Bonds by the Underwriters.

This Official Statement was approved by the Board of Trustees of the Issuer for distribution in accordance with the provisions of the United States Securities and Exchange Commission's rule codified at 17 C.F.R. Section 240.15c2-12.

BISHOP CONSOLIDATED INDEPENDENT SCHOOL DISTRICT

/s/ Mr. Marc Morales
President, Board of Trustees
Bishop Consolidated School District

/s/ Ms. Yolanda Cruz
Secretary, Board of Trustees
Bishop Consolidated Independent School District

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APPENDIX A

Financial Information for the Bishop Consolidated Independent School District

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FINANCIAL INFORMATION OF THE ISSUER

EXEMPTIONS AND TAX SUPPORTED DEBT

TABLE 1

2017 Total Appraised Value	\$800,821,641
Less:	
Local - Homestead Exemption Loss	\$26,590,069
State - Homestead Exemption Loss	32,729,197
Local - Over 65/Surviving Spouse Exemption	4,366,944
State - Over 65/Surviving Spouse Exemption	4,351,954
Disabled Persons/Surviving Spouse Exemption	888,083
Disabled Veterans/Surviving Spouse Exemption	656,846
Disabled Veterans/Surviving Spouse Homestead Exemption	2,494,282
Solar Wind Exemption Loss	6,375
Pollution Control Exemption Loss	9,025,500
Productivity Loss	165,269,752
Homestead Cap	<u>14,789,692</u>
2017 Net Taxable Assessed Valuation	\$539,652,947 ⁽¹⁾
2018 Preliminary Net Taxable Assessed Valuation	\$548,417,670

Note: The above figures were taken from the Nueces County Appraisal District and the Office of the State of Texas Property Tax Reports which are compiled during the initial phase of the tax year and are subject to change.

⁽¹⁾ See "APPENDIX A - PRINCIPAL TAXPAYERS - Tax Value Concentration."

GENERAL OBLIGATION BONDED DEBT

TABLE 2

[As of May 1, 2018]

General Obligation Debt Outstanding:

Unlimited Tax Debt⁽¹⁾:

Unlimited Tax School Building Bonds, Series 2008	\$676,369
Unlimited Tax School Building Bonds, Series 2009	3,155,000
Unlimited Tax Refunding Bonds, Series 2016	6,600,000
Unlimited Tax Refunding Bonds, Series 2017	7,365,000
The Bonds	<u>13,865,000</u>
Total Unlimited Tax Debt	\$31,661,369

Limited Tax Debt:

Maintenance Tax Notes, Series 2017	<u>\$1,055,000</u>
Total Limited Tax Debt	\$1,055,000

Total General Obligation Debt \$32,716,369

General Obligation Interest and Sinking Fund Balance as of August 31, 2017 \$590,869

2018 Preliminary Net Taxable Assessed Valuation \$548,417,670

Ratio of Total General Obligation Debt to 2018 Preliminary Net Taxable Assessed Valuation 5.97%

⁽¹⁾ See "AD VALOREM TAX PROCEDURES" in this Official Statement for a description of the Issuer's taxation procedures.

Area of District:	170 Square Miles
Estimated Population:	6,124
Per Capita 2018 Preliminary Net Taxable Assessed Valuation:	\$89,552
Per Capita General Obligation Debt:	\$5,342

GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

[Includes the Bonds]

Year Ending 8/31	Current Total Debt Service ⁽¹⁾	The Bonds			Combined Debt Service
		Principal	Interest	Total	
2018	\$1,654,950				\$1,654,950
2019	1,658,075	\$190,000	\$751,721	\$941,721	2,599,796
2020	1,658,700	235,000	666,050	901,050	2,559,750
2021	1,656,700	240,000	659,000	899,000	2,555,700
2022	1,437,450	250,000	649,400	899,400	2,336,850
2023	1,430,550	260,000	639,400	899,400	2,329,950
2024	1,432,750	270,000	629,000	899,000	2,331,750
2025	1,428,650	280,000	618,200	898,200	2,326,850
2026	1,428,500	295,000	607,000	902,000	2,330,500
2027	1,432,700	305,000	592,250	897,250	2,329,950
2028	1,430,100	320,000	577,000	897,000	2,327,100
2029	1,435,900	340,000	561,000	901,000	2,336,900
2030	1,429,700	355,000	544,000	899,000	2,328,700
2031	1,322,000	375,000	526,250	901,250	2,223,250
2032	1,321,800	390,000	507,500	897,500	2,219,300
2033	1,319,800	410,000	488,000	898,000	2,217,800
2034	1,326,000	430,000	467,500	897,500	2,223,500
2035		455,000	446,000	901,000	901,000
2036		475,000	423,250	898,250	898,250
2037		500,000	399,500	899,500	899,500
2038		525,000	374,500	899,500	899,500
2039		550,000	348,250	898,250	898,250
2040		580,000	320,750	900,750	900,750
2041		610,000	291,750	901,750	901,750
2042		640,000	261,250	901,250	901,250
2043		670,000	229,250	899,250	899,250
2044		705,000	195,750	900,750	900,750
2045		740,000	160,500	900,500	900,500
2046		775,000	123,500	898,500	898,500
2047		815,000	84,750	899,750	899,750
2048		880,000	22,000	902,000	902,000
	<u>\$24,804,325</u>	<u>\$13,865,000</u>	<u>\$13,164,271</u>	<u>\$27,029,271</u>	<u>\$51,833,596</u>

⁽¹⁾ Excludes limited tax debt. Includes the principal amount of capital appreciation bonds as of the issuance date thereof and excludes interest accreted on outstanding capital appreciation bonds.

TAX ADEQUACY

2018 Preliminary Net Taxable Assessed Valuation		\$548,417,670
Estimated Maximum Annual Debt Service Requirements for Year Ending:	8/31/2019	\$2,599,796
Less: Existing Debt Allotment		0
Less: Instructional Facilities Allotment		0
Net Debt Service Requirement		<u>\$2,599,796</u>
Indicated Interest and Sinking Fund Tax Rate		\$0.4838
Indicated Interest and Sinking Fund Tax Levy at the following Collections:	98%	\$2,599,957

Note: See "TAX DATA" herein.

INTEREST AND SINKING FUND MANAGEMENT INDEX

Interest and Sinking Fund Balance, Fiscal Year Ending: 8/31/2017	\$590,869
2017 Interest and Sinking Fund Tax Levy at 98% Collections Produce	1,720,483
Plus: Existing Debt Allotment	0
Plus: Instructional Facilities Allotment	0
Plus: Available General Fund Balance Transfer	<u>373,055</u>
Total Available for Debt Service	<u>\$2,684,407</u>
Less: General Obligation Debt Service Requirements, Fiscal Year Ending: 8/31/2018	<u>1,654,950</u>
Estimated Balance at Fiscal Year Ended 8/31/2018	<u><u>\$1,029,457</u></u>

GENERAL OBLIGATION PRINCIPAL REPAYMENT SCHEDULE

Year Ending 8/31	Currently Outstanding Obligations Principal Repayment Schedule⁽¹⁾	The Bonds Principal Repayment Schedule	Combined Principal Repayment Schedule	Obligations Remaining Outstanding End of the Year	Percent of Principal Retired
2018	\$860,613		\$860,613	\$30,800,756	
2019	875,308	\$190,000	1,065,308	29,735,449	
2020	890,449	235,000	1,125,449	28,610,000	
2021	1,075,000	240,000	1,315,000	27,295,000	
2022	895,000	250,000	1,145,000	26,150,000	17.41%
2023	920,000	260,000	1,180,000	24,970,000	
2024	955,000	270,000	1,225,000	23,745,000	
2025	985,000	280,000	1,265,000	22,480,000	
2026	1,020,000	295,000	1,315,000	21,165,000	
2027	1,065,000	305,000	1,370,000	19,795,000	37.48%
2028	1,105,000	320,000	1,425,000	18,370,000	
2029	1,155,000	340,000	1,495,000	16,875,000	
2030	1,195,000	355,000	1,550,000	15,325,000	
2031	1,130,000	375,000	1,505,000	13,820,000	
2032	1,175,000	390,000	1,565,000	12,255,000	61.29%
2033	1,220,000	410,000	1,630,000	10,625,000	
2034	1,275,000	430,000	1,705,000	8,920,000	
2035		455,000	455,000	8,465,000	
2036		475,000	475,000	7,990,000	
2037		500,000	500,000	7,490,000	76.34%
2038		525,000	525,000	6,965,000	
2039		550,000	550,000	6,415,000	
2040		580,000	580,000	5,835,000	
2041		610,000	610,000	5,225,000	
2042		640,000	640,000	4,585,000	85.52%
2043		670,000	670,000	3,915,000	
2044		705,000	705,000	3,210,000	
2045		740,000	740,000	2,470,000	
2046		775,000	775,000	1,695,000	
2047		815,000	815,000	880,000	97.22%
2048		880,000	880,000	0	100.00%
	<u>\$17,796,369</u>	<u>\$13,865,000</u>	<u>\$31,661,369</u>		

⁽¹⁾ Excludes limited tax debt. Includes the principal amount of capital appreciation bonds as of the issuance date thereof and excludes interest accreted on outstanding capital appreciation bonds.

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Capital Lease:

Commitments under capitalized lease agreements for office equipment provide for minimum future lease payments as of August 31, 2017, as follows:

<u>Year Ending August 31:</u>	
2018	\$69,884
2019	28,055
Total Minimum Lease Payments	<u>\$97,939</u>
Less Amount Representing Interest	3,564
Present Value of Net Minimum Lease Payments	<u>\$94,375</u>

The effective interest rate on capital leases is 3.39%.

Note: The above information was taken from the Issuer's 2017 Annual Financial Report.

TAXABLE ASSESSED VALUATION FOR YEARS 2013-2017

TABLE 4

Tax Year	Net Taxable Assessed Valuation	Change from Preceding Year	
		Amount (\$)	Percent (%)
2013 ⁽¹⁾	\$474,361,315	\$15,226,895	3.32%
2014 ⁽¹⁾	493,099,960	18,738,645	3.95%
2015 ⁽¹⁾	499,993,817	6,893,857	1.40%
2016 ⁽¹⁾	498,973,343	(1,020,474)	-0.20%
2017 ⁽²⁾	539,652,947	40,679,604	8.15%

⁽¹⁾ Source: Issuer's 2017 Annual Financial Report.

⁽²⁾ Source: Nueces County Appraisal District.

PRINCIPAL TAXPAYERS

TABLE 5

Name	Type of Property	2017 Net Taxable Assessed Valuation	% of Total 2017 Assessed Valuation
Celanese LTD	Petrochemical	\$181,740,170	33.68%
BASF Corporation - Ibuprofen	Chemicals	46,430,910	8.60%
AEP Texas Inc.	Utility	18,938,470	3.51%
Ticona Polymers Inc.	Plastic/Resin Materials	14,558,020	2.70%
Oxea Bishop LLC	Chemicals	10,601,620	1.96%
Net Mexico Pipeline Partners	Oil & Gas	6,434,270	1.19%
McGrath RentCorp.	Rental Business	6,326,252	1.17%
Union Pacific RR Co.	Railroad	5,220,950	0.97%
Urban Oil & Gas Group	Oil & Gas	4,853,277	0.90%
ETC Lobo Pipeline	Oil & Gas	3,513,470	0.65%
Total (55.34% of 2017 Net Taxable Assessed Valuation)		\$298,617,409	55.34%

Note: The above information was provided by the Nueces County Appraisal District.

Tax Value Concentration

As shown in Table 5 above, the top ten taxpayers in the District currently account for approximately fifty-five percent (55%), and the top taxpayer alone accounts for approximately thirty-three percent (33%), of the District's tax base. Adverse developments in economic conditions, especially the chemical, oil, gas and natural resources market, could impact these taxpayers and the tax values in the District, resulting in less local tax revenues. 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 which can only occur annually, or, perhaps, to sell tax anticipation notes until such amounts could be collected, if ever. See "AD VALOREM TAX PROCEDURES – District's Rights in the Event of Tax Delinquencies" in this Official Statement.

CLASSIFICATION OF ASSESSED VALUATION

TABLE 6

	2017	% of Total	2016	% of Total	2015	% of Total
Real, Residential, Single-Family	\$189,126,622	23.62%	\$196,420,259	25.51%	\$166,545,828	23.43%
Real, Residential, Multi-Family	1,039,853	0.13%	1,111,981	0.14%	1,099,962	0.15%
Real, Vacant Lots/Tracts & Colonia Lots/Tracts	7,548,947	0.94%	6,814,565	0.89%	6,560,601	0.92%
Real, Qualified Open-Space Land	201,127,149	25.12%	197,668,725	25.67%	154,395,932	21.72%
Real, Farm, Ranch & Open Space Improvements	1,847,794	0.23%	1,673,288	0.22%	1,647,438	0.23%
Real, Rural Land (NQ)/Residential Improvements	27,307,277	3.41%	25,263,283	3.28%	22,352,142	3.14%
Real, Commercial	12,192,799	1.52%	13,065,940	1.70%	10,949,688	1.54%
Real, Industrial and Manufacturing	204,246,800	25.50%	198,415,213	25.77%	197,635,951	27.80%
Real, Minerals, Oil and Gas	12,362,308	1.54%	10,486,872	1.36%	15,623,735	2.20%
Real & Tangible, Personal Utilities	54,281,250	6.78%	52,361,465	6.80%	53,069,085	7.46%
Tangible Personal, Commercial	19,537,923	2.44%	12,190,258	1.58%	16,497,956	2.32%
Tangible Personal, Industrial	67,895,960	8.48%	52,204,698	6.78%	62,614,037	8.81%
Tangible Personal, Mobile Homes	2,234,121	0.28%	2,277,068	0.30%	1,961,215	0.28%
Residential Inventory	57,634	0.01%	38,400	0.00%	0	0.00%
Special Inventory	15,204	0.00%	12,550	0.00%	0	0.00%
Total Appraised Value	\$800,821,641	100.00%	\$770,004,565	100.00%	\$710,953,570	100.00%
Less:						
Local - Homestead Exemption Loss	\$26,590,069		\$24,464,119		\$22,666,109	
State - Homestead Exemption Loss	32,729,197		32,331,446		32,368,431	
Local - Over 65/Surviving Spouse Exemption	4,366,944		4,072,692		3,912,180	
State - Over 65/Surviving Spouse Exemption	4,351,954		4,153,460		4,051,200	
Disabled Persons/Surviving Spouse Exemption	888,083		823,797		880,521	
Disabled Veterans/Surviving Spouse Exemption	656,846		633,137		619,270	
Disabled Veterans/Surviving Spouse Homestead Exemption	2,494,282		2,040,730		1,382,138	
Solar Wind Exemption Loss	6,375		6,375		6,375	
Pollution Control Exemption Loss	9,025,500		9,025,500		9,025,500	
Productivity Loss	165,269,752		162,902,339		119,546,656	
Homestead Cap	14,789,692		28,210,719		18,188,137	
Taxable Assessed Valuation	\$539,652,947		\$501,340,251		\$498,307,053	

Note: The above figures were taken from the Nueces County Appraisal District and are compiled during the initial phase of the tax year and are subject to change.

TAX DATA

TABLE 7

Taxes are due October 1 and become delinquent after January 31. No split payments or discounts are allowed. Penalties and Interest: (a) a delinquent tax incurs a penalty of six percent of the amount of the tax for the first calendar month it is delinquent plus one percent for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. However, a tax delinquent on July 1 incurs a total penalty of twelve percent of the amount of the delinquent tax without regard to the number of months the tax has been delinquent; (b) a delinquent tax accrues interest at a rate of one percent for each month or portion of a month the tax remains unpaid; and an additional penalty up to one percent for each month or portion of a month the tax remains unpaid; and an additional penalty up to a maximum of 20% of delinquent taxes, penalty and interest may be imposed to defray costs of collection for taxes delinquent after July 1. All percentage of collections set forth below exclude penalties and interest.

Tax Year	Net Taxable Assessed Valuation	Tax Rate	Tax Levy	% Collections		Year Ended
				Current	Total	
2013	\$474,361,315	\$1.5327	\$7,248,067	97.71	99.84	8/31/2014
2014	493,099,960	1.5327	7,439,799	97.85	100.17	8/31/2015
2015	499,993,817	1.4064	6,928,020	97.83	99.92	8/31/2016
2016	498,973,343	1.3994	6,860,885	96.85	98.53	8/31/2017
2017	539,652,947	1.3594	7,398,502	95.40*	97.36*	8/31/2018

Note: The above figures were taken from the Municipal Advisory Council of Texas, Texas Municipal Reports, the Nueces County Appraisal's Office and the Issuer's 2017 Annual Financial Report.

*Unaudited, as of April 30, 2018.

TAX RATE DISTRIBUTION

TABLE 8

Tax Year	2017	2016	2015	2014	2013
General Fund	\$1.0392	\$1.0392	\$1.0392	\$1.0392	\$1.0392
I & S Fund	0.3201	0.3601	0.3671	0.4934	0.4934
Total Tax Rate	\$1.3594	\$1.3994	\$1.4064	\$1.5327	\$1.5327

Note: The above information was taken from the Issuer's 2017 Annual Financial Report and the Nueces County Appraisal District.

GENERAL FUND COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES AND ANALYSIS OF CHANGES IN FUND BALANCES

TABLE 9

Fiscal Year Ended ⁽³⁾	8/31/2017	8/31/2016	8/31/2015	8/31/2014	8/31/2013
Revenues:					
Local and Intermediate Sources	\$5,458,283	\$5,436,841	\$5,313,018	\$5,083,678	\$4,935,184
State Program Revenues	6,464,347	6,354,355	5,887,861	5,329,027	4,816,633
Federal Program Revenues	77,228	181,560	122,708	139,221	80,408
Total Revenues	\$11,999,858	\$11,972,756	\$11,323,587	\$10,551,926	\$9,832,225
Expenditures:					
Instruction	\$5,664,660	\$5,837,383	\$5,869,381	\$5,505,150	\$4,922,915
Instructional Resources and Media Services	4,622	10,183	6,380	24,533	29,924
Curriculum & Staff Development	323,278	325,619	351,941	319,599	213,433
Instructional Leadership	129,735	177,800	182,813	77,598	117,141
School Leadership	760,472	784,900	777,139	796,408	734,954
Guidance, Counseling and Evaluation Services	432,028	427,898	353,515	348,333	363,756
Health Services	99,060	112,539	109,044	103,844	78,940
Student (Pupil) Transportation	301,522	312,629	322,910	195,483	199,146
Curricular/Extracurricular Activities	630,281	570,055	563,784	505,761	466,033
General Administration	569,890	634,563	613,384	747,059	636,105
Plant Maintenance and Operations	2,962,106	2,052,903	1,967,846	1,823,069	1,823,985
Security and Monitoring Services	42,425	13,351	8,252	8,023	8,922
Data Processing Services	251,510	225,781	257,866	246,845	291,180
Community Services	23,014	126	1,500	0	0
Principal on Long-Term Debt	25,523	24,591	34,695	33,403	32,159
Interest on Long-Term Debt	2,532	3,464	943	2,235	3,479
Bond Issuance Costs and Fees	18,284	0	0	0	0
Capital Outlay	0	0	0	93,423	0
Other Intergovernmental Charges	60,675	78,626	80,308	87,429	90,045
Total Expenditures	\$12,301,617	\$11,592,411	\$11,501,701	\$10,918,195	\$10,012,117
Excess (Deficiency) of Revenues Over (Under) Expenditures	(\$301,759)	\$380,345	(\$178,114)	(\$366,269)	(\$179,892)
Other Financing Sources (Uses):					
Sale of real and personal property	\$0	\$0	\$0	\$0	\$0
Issuance of Non-Current Debt	\$1,055,000	\$0	\$0	\$0	\$0
Issuance of Capital Leases	0	104,100	0	0	0
Transfers In	8,567	0	1,021	1,965	0
Transfers Out	(8,567)	(7,105)	(5,843)	(230,196)	(17,900)
Total Other Financing Sources and (Uses)	\$1,055,000 ⁽²⁾	\$96,995	(\$4,822)	(\$228,231)	(\$17,900)
Net Change in Fund Balance	\$753,241	\$477,340	(\$182,936)	(\$594,500)	(\$197,792)
Fund Balance - Beginning	\$2,652,479	\$2,175,141	\$2,358,077	\$2,952,576	\$3,150,368
Prior Period Adjustment	0	0	0	0	0
Fund Balances - Beginning, as Restated	0	0	0	0	0
Fund Balance - Ending	\$3,405,720	\$2,652,481	\$2,175,141 ⁽¹⁾	\$2,358,076	\$2,952,576

Note: The above information was taken from the Issuer's Annual Reports dated August 31, 2013-2017.

(1) During fiscal year 2015, the District adopted GASB Statement No. 68 for Accounting and Reporting Pensions, which was later amended by GASB Statement No. 71 Pension Transition for Contributions Made Subsequent to the Measurement Date. With GASB Statement No. 68, the District must assume its proportionate share of the Net Pension Liability of the Teacher Retirement System of Texas.

(2) Represents the District's issuance of its "Maintenance Tax Notes, Series 2017".

(3) The District estimates that its Fiscal Year ending August 31, 2018 General Fund balance will be approximately \$3,447,716.

OVERLAPPING DEBT DATA AND INFORMATION

(As of May 1, 2018)

The following table indicates the indebtedness, defined as outstanding bonds payable from ad valorem taxes, of governmental entities overlapping the District and the estimated percentages and amounts of such indebtedness attributable to property within the District. Expenditures of the various taxing bodies overlapping the territory of the Issuer are paid out of ad valorem taxes levied by these taxing bodies on properties overlapping the Issuer. These political taxing bodies are independent of the Issuer and may incur borrowings to finance their expenditures.

The following statements of direct and estimated overlapping ad valorem bonds were developed from information contained in the "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the Issuer, the Issuer 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 below may have authorized or issued additional bonds since the date stated below, and such entities may have programs requiring the authorization and/or issuance of substantial amounts of additional bonds, the amount of which cannot be determined.

Taxing Body	Gross Debt	% Overlapping	Amount Overlapping
Bishop, City of	\$4,131,000	100.00%	\$4,131,000
Nueces County	120,196,324	1.83%	2,199,593
South Texas Water Authority	4,315,000	29.09%	1,255,234
Total Gross Overlapping Debt			\$7,585,826
Bishop Consolidated Independent School District	\$32,716,369 *	100.00%	32,716,369
Total Direct and Overlapping Debt			\$40,302,195
Ratio of Direct and Overlapping Debt to the 2017 Assessed Valuation			7.47%
Per Capita Direct and Overlapping Debt			\$6,581

Source: Texas Municipal Reports published by the Municipal Advisory Council of Texas.

*Includes the Bonds and limited tax debt.

ASSESSED VALUATION AND TAX RATE OF OVERLAPPING ISSUERS

Governmental Subdivision	2017 Assessed Valuation	2017 Tax Rate
Bishop, City of	\$115,255,535	\$0.7941
Nueces County	28,356,449,485	0.3041
South Texas Water Authority	1,785,570,265	0.0851

Source: The Nueces and San Patricio County Appraisal Districts.

OVERLAPPING GOVERNMENTAL SUBDIVISIONS

Issuer	Date of Authorization	Purpose	Amount Authorized	Issued To-Date	Unissued
Bishop, City of	None				
Nueces County	None				
South Texas Water Authority	None				
Bishop CISD	5/5/2018	School Building & Security	\$15,225,000	\$15,225,000 *	\$0

Source: Texas Municipal Reports published by the Municipal Advisory Council of Texas.

*Includes the Bonds (including premium on the Bonds allocated to voted authorization).

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.

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

	2016	2017
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	\$190,506	
District's 2017 Member Contributions	\$584,984	
NECE 2016 On-Behalf Contributions to District	\$429,002	

(To be continued on next page.)

PENSION PLAN (continuation from previous page)

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

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

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

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

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

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.

(To be continued on next page.)

PENSION PLAN (continuation from previous page)

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%
Directorial Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Inflation Expectations			2.2%
Alpha			1.0%
Total	100%		8.7%

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

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 7%	Discount Rate 8%	1% Increase in Discount Rate 9%
District's proportionate share of the net pension liability:	\$3,464,098	\$2,238,277	\$1,198,532

(To be continued on next page.)

PENSION PLAN (continuation from previous page)

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

At August 31, 2017, the District reported a liability of \$2,238,277 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	\$2,238,277
State's proportionate share that is associated with District	<u>5,092,183</u>
Total	\$7,330,460

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 0.0059232%. which was an increase (decrease) of -0.6269568% 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 \$528,447 and revenue of \$528,447 for support provided by the State.

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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$35,096	\$66,834
Changes in actuarial assumptions	68,219	62,042
Difference between projected and actual investment earnings	189,533	\$0
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	514,317	14,887
Contributions paid to TRS subsequent to the measurement date [to be calculated by employer]	<u>190,506</u>	<u>0</u>
Total	\$997,671	\$143,763

Note: The above information was taken from the Issuer's 2017 Annual Financial Report.

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 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 \$75,971, \$75,318, and \$74,397, respectively, the active member contributions were \$49,381, \$48,957, and \$48,359, respectively, and the District's contributions were \$41,785, \$41,426, and \$40,920, 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 \$24,016, \$30,970, and \$32,140, respectively.

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Health Care:

The District contracts with an insurance company to provide the District with a minimum premium group health plan and to administer the plan. The plan provides that the District's liability for individual claims is limited to \$50,000 and the aggregate claims are limited to the aggregate maximum which was \$1,350,513 for 2017 and \$1,078,075 for 2016. Settlements did exceed insurance coverages during the current year.

All funds of the District participate in the program and make payments to the Self-Insurance Fund based on estimates of amounts needed to pay prior and current year claims. The claims liability of \$99,806 at August 31, 2017 is based on requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements and the amount of the loss can be reasonably estimated. Changes in the fund claims liability amounts for fiscal year 2017 and 2016 were:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2016	\$13,022	\$645,820	\$624,650	\$34,192
2017	\$34,192	\$966,530	\$900,847	\$99,875

During the year ended August 31, 2017, employees of the Bishop Consolidated Independent School District were covered by a health insurance plan (the Plan). The District paid premiums of \$350 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a third party administrator, acting on behalf of the licensed insurer. The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreement.

The contract between the Bishop Consolidated Independent School District and the third party administrator is renewable September 1, 2016, and terms of coverage and premium costs are included in the contractual provisions. Latest financial statements for the Healthcare Benefits, Inc., are available for the year ended December 31, 2016. They have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

Note: The above information was taken from the Issuer's 2017 Annual Financial Report.

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APPENDIX B

General Information Regarding the Bishop Consolidated Independent School District, the City of Bishop, Texas
and Nueces County, Texas

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GENERAL INFORMATION REGARDING THE DISTRICT, THE CITY OF BISHOP, AND NUECES COUNTY, TEXAS

The District:

The Bishop Consolidated Independent School District (the "District") located in Nueces County encompasses approximately 169.60 square miles. The City of Bishop is a commercial center located 4 miles northeast of Kingsville on U.S. Hwy 77, 20 miles inland from the Gulf of Mexico and Padre Island, 33 miles southwest of Corpus Christi and 155 miles south of San Antonio.

The Schools:

Historical Enrollment for the District

School Year	Enrollment
2013-14	1,297
2014-15	1,354
2015-16	1,375
2016-17	1,379
2017-18	1,466

Number of Schools:

Type of School	Grade Level	Number of Schools
High School	9 - 12	1
Jr. High/Middle School	7 - 8	1
Bishop Elementary School	4 – 6	1
Bishop Primary School	PK - 3	1
Petronila Elementary	PK - 5	1

Enrollment and School Facilities:

School	Grades	2017-2018 Enrollment	Teachers
High School	9 - 12	478	32
Jr. High/Middle School	7 - 8	354	23
Bishop Elementary School	4 – 6	258	15
Bishop Primary School	PK - 3	271	16
Petronila Elementary	PK - 5	<u>105</u>	<u>7</u>
Total:		1,466	93

Educational status of the teachers is as follows:

Doctorate's degree	1
Masters' degree	18
Bachelor's degree	74
Average years of classroom experience per teacher	12

Personnel distribution is as follows:

District Level Administrators	4
Building Level Administrators	7
Instructional Staff	112
Professional Support Staff (Counselors, Librarians, Nurses, Social Workers, Etc.)	12
General Personnel (Secretaries, Aides, Clerks, Bus Drivers, Food Service, Maintenance, Etc.)	<u>41</u>
TOTAL	176

Teacher salaries are competitive with surrounding districts. Teacher salaries range from \$37,000 for beginning teachers to a maximum of \$55,700.

THE CITY OF BISHOP AND NUECES COUNTY, TEXAS

The City of Bishop, Texas

The City of Bishop is a commercial center located four miles northeast of Kingsville on U.S. Highway 77, the major highway to the Rio Grande Valley. The Mexican border is a 2 1/2 hour drive. There are three chemical plants near the City. The economy is diversified by petroleum, tourism, coastal shipping, manufacturing and a military complex

Nueces County, Texas

County Characteristics: Nueces County, Texas ("Nueces County") was created and organized in 1846 from San Patricio County. Tourists are attracted by the mild winter climates. The County is the second largest port in the state and the fifth largest port in the nation. The County was the state's largest producer of sorghum in 2016. The County's 2018 estimated population is 359,715

Economic Base: Mineral: Sand, oil, gravel and gas.
 Industry: Tourism, petroleum, military bases, manufacturing, coastal shipping and agriculture.
 Agricultural: Sunflowers, hay, grain sorghum, cotton, corn, canola and beef cattle.

Oil & Gas 2017: The oil production for this county accounts for 0.02% of the total state production. The county ranks 137 out of all the counties in Texas for oil production. The gas production for this county accounts for 0.22% of the total state production. The county ranks 58 out of all the counties in Texas for gas production.

Oil Production:	<u>Year</u>	<u>Description</u>	<u>Volume</u>	<u>%Change from Previous Year)</u>
	2016	Oil	221,528 BBL	-9.30
	2017	Oil	209,810 BBL	-5.29
Casinghead:	<u>Year</u>	<u>Description</u>	<u>Volume</u>	<u>%Change from Previous Year)</u>
(Texas Railroad	2016	Casinghead	436,114 MCF	-24.82
Commission)	2017	Casinghead	387,971 MCF	-11.04
Gas Well Production:	<u>Year</u>	<u>Description</u>	<u>Volume</u>	<u>%Change from Previous Year)</u>
(Texas Railroad	2015	GW Gas	11,479,546 MCF	-16.52
Commission)	2016	GW Gas	12,361,583 MCF	-7.68
Condensate:	<u>Year</u>	<u>Description</u>	<u>Volume</u>	<u>%Change from Previous Year)</u>
(Texas Railroad	2016	Condensate	219,398 BBL	-8.35
Commission)	2017	Condensate	164,776 BBL	-24.90

Retail Sales & Effective Buying Income:	Year	<u>2017</u>	<u>2016</u>	<u>2015</u>
	Retail Sales	\$4.6B	\$5.6B	\$5.6B
	Effective Buying Income (EBI)	\$8.3B	\$7.9B	\$7.9B
	County Median Household Income	\$47,450	\$45,999	\$45,409
	State Median Household Income	\$57,227	\$55,352	\$53,037
	% of Households with EBI below \$25K	24.2%	12.7%	10.9%
	% of Households with EBI above \$25K	66.3%	65.1%	66.8%

Employment Data:	<u>2017</u>		<u>2016</u>		<u>2015</u>	
	<u>Employed</u>	<u>Earnings</u>	<u>Employed</u>	<u>Earnings</u>	<u>Employed</u>	<u>Earnings</u>
1st Quarter:	161,178	\$1.9B	158,981	\$1.8B	163,245	\$1.9B
2nd Quarter:	163,914	\$1.8B	159,940	\$1.8B	163,614	\$1.8B
3rd Quarter:	160,954	\$1.8B	162,133	\$1.9B	162,726	\$1.8B
4th Quarter:	N/A	N/A	162,878	\$1.9B	162,878	\$2.0B

Major Colleges and Universities: Texas A&M University-Corpus Christi, Del Mar College

Colleges and Universities:	Year	Total	Fall Enrollment
	2016	2	23,891
	2017	2	23,554

*Sources: Texas Municipal Reports, published by the Municipal Advisory Council of Texas and Demographics USA County Edition.
 Any data on population, value added by manufacturing or production of minerals or agricultural products are from US Census or other official sources.*

Labor Force Statistics for Nueces County

Labor Force Statistics*	<u>April 2018</u>	<u>March 2018</u>	<u>April 2017</u>	<u>Monthly Change</u>	<u>Year Ago Change</u>
% Unemployment (U.S.)	3.9	4.1	4.4	-0.2	-0.5
% Unemployment (Texas)	4.1	4.0	4.5	0.1	-0.4
% Unemployment (Nueces)	4.8	5.1	5.2	-0.3	-0.4

*Amended format: Texas Labor Market Review.

Labor Force Statistics for Nueces County

Labor Force Statistics	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
% Unemployment (U.S.)	4.1	4.5	4.8	5.4	6.5
% Unemployment (Texas)	4.0	4.6	4.2	4.1	5.6
% Unemployment (Nueces County)	5.4	5.7	5.0	4.0	5.2

Source: Texas Labor Market Review.

Employment and Wages by Industry for Nueces County

	<u>2017*</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Natural Resources and Mining	3,396	3,232	4,104	7,213	6,617
Construction	16,783	17,215	14,248	14,225	13,623
Manufacturing	7,338	7,352	7,823	8,149	7,856
Trade, Transportation & Utilities	28,335	29,297	30,898	31,173	30,059
Information	1,690	1,562	1,706	1,817	1,847
Financial Activities	6,739	6,683	7,561	7,594	7,014
Professional & Business Services	14,446	14,168	14,724	14,424	14,079
Education & Health Services	28,792	28,970	27,304	26,978	27,215
Leisure & Hospitality	21,348	21,274	21,777	21,309	20,514
Other Services	4,422	4,444	4,816	5,180	5,095
Unclassified	91	55	30	14	39
Federal Government	5,586	5,680	5,838	6,063	6,275
State Government	5,112	5,291	5,211	5,204	5,083
Local Government	<u>17,298</u>	<u>17,197</u>	<u>16,840</u>	<u>16,525</u>	<u>16,571</u>
Total Employment	161,377	162,419	162,881	165,870	161,887
Total Wages	\$1,913,443,924	\$1,901,710,526	\$1,973,082,491	\$2,010,964,919	\$1,842,362,669

Source: Texas Quarterly Census of Employment & Wages.

*First Quarter only.

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APPENDIX C

Form of Opinion of Bond Counsel.

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July 24, 2018

**BISHOP CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018
DATED AS OF JULY 1, 2018
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$13,865,000**

AS BOND COUNSEL FOR THE BISHOP CONSOLIDATED INDEPENDENT SCHOOL DISTRICT (the "*District*") in connection with the issuance of the bonds described above (the "*Bonds*"), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds until maturity or prior redemption at the rates and are payable on the dates as stated in the text of the Bonds, all in accordance with the terms and conditions stated in the text of the Bonds.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas and a transcript of certified proceedings of the District, and other pertinent instruments authorizing and relating to the issuance of the Bonds including (i) the order authorizing the issuance of the Bonds (the "*Order*"), (ii) one the executed Bonds (Bond No. T-1), and (iii) the District's Federal Tax Certificate of even date herewith.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Bonds have been authorized, issued and delivered in accordance with law; that the Bonds constitute valid and legally binding general obligations of the District in accordance with their terms except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally; that the District has the legal authority to issue the Bonds and to repay the Bonds; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of the Bonds, as such interest comes due, and as such principal matures, have been levied and ordered to be levied against all taxable property in the District, and have been pledged for such payment, without limit as to rate or amount.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "*Code*"). In expressing the aforementioned opinions, we have relied on, and assumed compliance by the District with, certain representations and covenants regarding the use and investment of the proceeds of the Bonds. We call your attention to the fact that failure by the District to comply with such representations and covenants may cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance of the Bonds.



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

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

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

Respectfully,

APPENDIX D

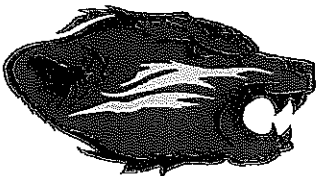
Excerpts (Table of Contents, Independent Auditor's Report, General Financial Statements and Notes to the Financial Statements), from the Bishop Consolidated Independent School District, Texas Audited Financial Statements for the fiscal year ended August 31, 2017, and is not intended to be a complete statement of the Issuer's financial condition. Reference is made to the complete Annual Financial Report for further information.

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BISHOP CONSOLIDATED
INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2017



Bishop Consolidated Independent School District

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

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Bishop Consolidated Independent School District
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Introductory Section

CERTIFICATE OF BOARD

Bishop Consolidated Independent School District
Name of School District

Nueces
County

178-902
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) approved disapproved for the year ended August 31, 2017, at a meeting of the board of trustees of such school district on the 18 day of December, 2017.



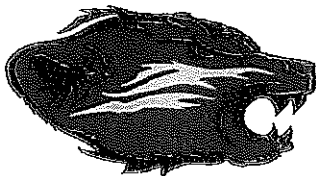
Signature of Board Secretary



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)

Financial Section



Bishop Consolidated Independent School District

JOHN WOMACK & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

JOHN L. WOMACK, CPA
MARGARET KELLY, CPA

P. O. BOX 1147
KINGSVILLE, TEXAS 78364
(361) 592-2671
FAX (361) 592-1411

Independent Auditor's Report

To the Board of Trustees
Bishop Consolidated Independent School District
719 East Sixth Street
Bishop, Texas 78343

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Bishop Consolidated 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.



PRIVATE COMPANIES PRACTICE SECTION, AICPA DIVISION FOR CPA FIRMS

Opinions

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

Emphasis of Matter

Change in Accounting Principle

As described in Note A to the financial statements, in 2017, Bishop Consolidated Independent School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*. Our opinion is not modified with respect to this matter.

As described in Note A to the financial statements, in 2017, Bishop Consolidated Independent School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 80, *Blending Requirements for Certain Component Units*. Our opinion is not modified with respect to this matter.

As described in Note A to the financial statements, in 2017, Bishop Consolidated Independent School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 82, *Pension Issues-An Amendment of GASB No. 67, No. 68 and No.73*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, 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 Bishop Consolidated Independent School District's basic financial statements. The introductory section is presented for purposes of additional analysis and is 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.

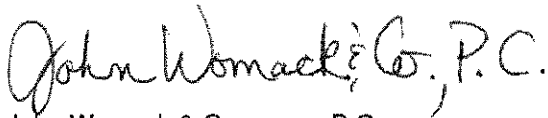
The other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the 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 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.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2017 on our consideration of Bishop Consolidated 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 Bishop Consolidated Independent School District's internal control over financial reporting and compliance.

Respectfully submitted,



John Womack & Company, P.C.
Kingsville, TX
November 10, 2017

Management's Discussion and Analysis

This section of Bishop Consolidated 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 follows this section.

FINANCIAL HIGHLIGHTS

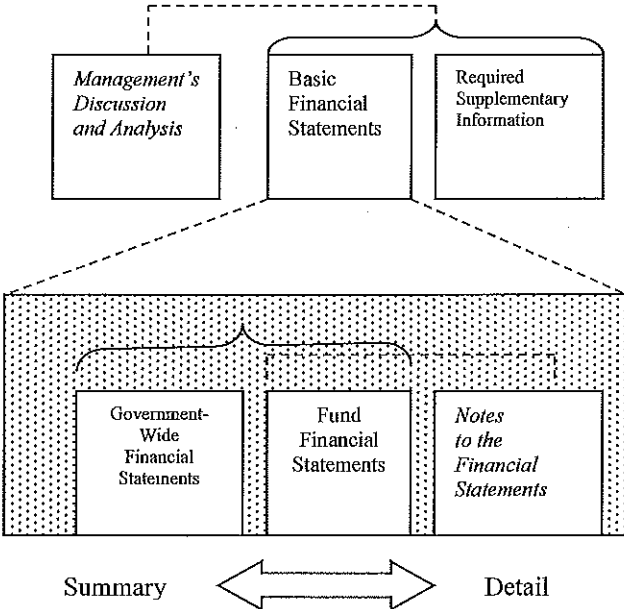
- The District's total combined net position was \$11,351,588 at August 31, 2017.
- During the year, the District's expenses were \$648,269 less than the \$15,837,783 generated in taxes and other revenues for governmental activities.
- The total cost of the District's programs for governmental activities decreased \$103,572 from last year.
- The general fund reported a fund balance this year of \$3,405,720.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

Figure A-2. Major Features of the District’s Government-Wide and Fund Financial Statements				
<i>Type of Statements</i>	Fund Statements			
	Government-Wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
<i>Scope</i>	Entire District’s government (except fiduciary funds) and the District’s component units	The activities of the District that are not proprietary or fiduciary	Activities the District operates similar to private businesses: self-insurance	Instances in which the district is the trustee or agent for someone else’s resources
<i>Required financial statement</i>	*Statement of net position	*Balance Sheet	*Statement of net position	*Statement of Fiduciary net position
	*Statement of activities	*Statement of revenues, expenditures & changes in fund balances	*Statement of revenues, expenses and changes in fund net position	*Statement of changes in fiduciary net position
			*Statement of cash flows	
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term, the District’s funds do not currently contain capital assets, although they can
<i>Type of inflow/outflow information</i>	All revenue and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year ; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

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 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 -- are one way to measure the District’s financial health or *position*.

- Over time, increases or decreases in the District’s net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional non-financial 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 three 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 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 statement, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains 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- and short-term financial information.
 - We use *internal service funds* to report activities that provide supplies and services for the District’s other programs and activities—such as the District’s 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. 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.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's *combined* net position was \$11,351,588 at August 31, 2017. (See Table A-1).

The \$3,784,885 of *combined* unrestricted net position represents resources available to fund the programs of the District next year.

Total *combined* current assets increased \$936,278, due to an increase in cash and cash equivalents of \$732,745 and a \$70,515 increase in property taxes receivable. Long-term liabilities experienced an increase of \$69,270.

**Table A-1
The District's Net Position**

	Governmental Activities		% Change	Business-Type Activities		% Change
	2017	2016		2017	2016	
Current and other assets	\$ 5,826,138	\$ 4,884,968	19.27%	\$ 122,227	\$ 127,119	-3.85%
Capital and non-current assets	27,423,660	27,360,125	0.23%	20,679	21,578	0.00%
Total Assets	<u>33,249,798</u>	<u>32,245,093</u>	3.12%	<u>142,906</u>	<u>148,697</u>	-3.89%
Deferred Outflow Related to Pensions						
Total Deferred Outflows of Resources	<u>997,671</u>	<u>1,202,003</u>		<u>-</u>	<u>-</u>	0.00%
Current liabilities	1,845,354	1,740,960	6.00%	417	2,726	0.00%
Long-term liabilities	18,810,976	18,741,706	0.37%	-	-	0.00%
Net Pension Liability	2,238,277	2,237,147		-	-	
Total Liabilities	<u>22,894,607</u>	<u>22,719,813</u>	0.77%	<u>417</u>	<u>2,726</u>	0.00%
Deferred Inflows of Resources						
Total deferred inflows of resources	<u>143,763</u>	<u>166,453</u>	100.00%	<u>-</u>	<u>-</u>	0.00%
Net Position						
Net investment in capital assets	7,546,024	7,575,971	-0.40%	20,679	21,578	0.00%
Unrestricted	<u>3,663,075</u>	<u>2,984,859</u>	22.72%	<u>121,810</u>	<u>124,393</u>	-2.08%
Total Net Position	<u>\$ 11,209,099</u>	<u>\$ 10,560,830</u>	6.14%	<u>\$ 142,489</u>	<u>\$ 145,971</u>	-2.39%

Changes in net position.

The District's total revenues were \$15,837,783. A significant portion, 44%, of the District's revenue comes from taxes. (See Figure A-3)

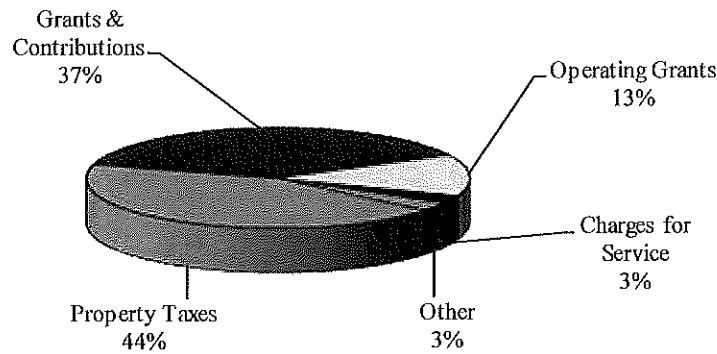
Grants and contributions remained stable at 37%, while operating grants decreased slightly from 15% to 13%.

The total cost of all programs and services was \$15,189,514, and 74% of these costs are for instructional and student services.

Governmental Activities

- Operating and maintenance property tax rates remained the same for 2017. With the refunding bond payment in 2016 and the increase of appraised valuations, the debt service tax rate was decreased. The state revenues increased because of increased ADA and decreased appraised values in prior years.

**Figure A-3
District Sources of Revenue for Fiscal Year**



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Table A-2
The District's Revenues and Expenditures

	Governmental Activities		% Change	Business - Type Activities		% Change
	2017	2016		2017	2016	
Revenues:						
Program Revenues:						
Charges for service	\$ 430,478	\$ 383,231	12.33%	\$ 18,900	\$ 11,000	71.82%
Operating grants and contributions	2,095,309	2,491,349	-15.90%	-	-	0.00%
General Revenues:						
Maintenance and operations taxes	5,125,255	5,181,180	-1.08%	-	-	0.00%
Debt service taxes	1,781,527	1,833,126	-2.81%	-	-	0.00%
Grants and contributions not restricted to specific functions	5,946,074	5,832,702	1.94%	-	-	0.00%
Investment earnings	32,147	10,982	192.72%	-	-	0.00%
Miscellaneous	426,993	382,612	11.60%	-	3,667	-100.00%
Total Revenue	15,837,783	16,115,182	-1.72%	18,900	14,667	28.86%
Expenses:						
Instruction, curriculum and media services	7,344,638	7,406,120	-0.83%	-	-	0.00%
Instructional and school leadership	1,089,950	1,153,460	-5.51%	-	-	0.00%
Student support services	871,067	911,624	-4.45%	-	-	0.00%
Child nutrition	997,325	992,110	0.53%	-	-	0.00%
Cocurricular activities	904,087	806,223	12.14%	-	-	0.00%
General administration	627,321	693,621	-9.56%	-	-	0.00%
Facilities maintenance, security & data processing	2,451,903	2,377,792	3.12%	-	-	0.00%
Community Services	28,510	6,782	320.38%	-	-	0.00%
Debt service	631,831	866,728	-27.10%	-	-	0.00%
Capital Outlay	-	-	0.00%	-	-	0.00%
Other Intergovernmental Charges	60,675	78,626	-22.83%	-	-	0.00%
Bond Issuance Costs	182,207	-	100.00%	-	-	0.00%
Rental Property	-	-	0.00%	22,382	10,356	116.13%
Total Expenses	15,189,514	15,293,086	-0.68%	22,382	10,356	116.13%
Increase in net position	648,269	822,096	-21.14%	(3,482)	4,311	-180.77%
Net position at beginning of year	10,560,830	9,738,734	8.44%	145,971	141,660	3.04%
Prior Period Adjustment	-	-	0.00%	-	-	0.00%
Net position at end of year	\$ 11,209,099	\$ 10,560,830	6.14%	\$ 142,489	\$ 145,971	-2.39%

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 was funded by state revenues as well as local tax dollars.

- The cost of all *governmental* activities this year was \$15,189,514.
- The amount that our taxpayers paid for these activities through property taxes was \$6,906,782..
- Some of the cost was paid by those who directly benefited from the programs, \$430,478, and by grants and contributions, \$2,095,309.

**Table A-3
Net Cost of Selected District Functions**

	Total Cost of Services		% Change	Net Cost of Services		% Change
	2017	2016		2017	2016	
Instruction	\$ 6,809,301	\$ 6,827,011	-0.26%	\$ 5,953,210	\$ 5,868,725	1.44%
School leadership	844,287	876,871	-3.72%	794,149	813,210	-2.34%
Facilities maintenance & operations	2,131,223	2,114,268	0.80%	2,069,283	2,033,872	1.74%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues from governmental fund types totaled \$15,662,451 and were down 1.0% from the preceding year. The \$52,655 net decrease in local revenues was due to decreased tax collections.

General Fund Budgetary Highlights

Over the course of the year, the District revised its budget several times. The actual expenditures were \$741,309 below final budgeted amounts. Staffing was budgeted for full employment throughout the full year.

Resources available were \$146,340 over the financial budgeted amount. As noted earlier:

- Property tax collections and state revenues were more than budgeted with a combined net positive variance of \$194,112. Federal program revenues were down \$47,772 less than expected.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of the 2017 school year, the District had invested \$42,485,115 in a broad range of capital assets, including land, buildings, and vehicles before depreciation. (See Table A-4) This amount represents a net increase (including additions and deletions) of \$1,179,225 or approximately 2.9% over last year.

**Table A-4
District's Capital Assets**

	Governmental Activities		% Change	Business-Type Activities		% Change
	2017	2016		2017	2016	
Land	\$ 428,446	\$ 428,446	0.00%	\$ -	\$ -	0.00%
Construction in Progress	-	-	0.00%	-	-	0.00%
Buildings and improvements	38,887,581	38,887,581	0.00%	22,477	22,477	0.00%
Equipment	1,634,007	466,452	250.31%	-	-	0.00%
Vehicles	1,535,081	1,523,411	0.77%	-	-	0.00%
Totals at historical cost	<u>42,485,115</u>	<u>41,305,890</u>	2.85%	<u>22,477</u>	<u>22,477</u>	0.00%
Total accumulated depreciation	<u>15,061,455</u>	<u>13,945,765</u>	8.00%	<u>1,798</u>	<u>899</u>	-100.00%
Net capital assets	\$ <u><u>27,423,660</u></u>	\$ <u><u>27,360,125</u></u>	0.23%	\$ <u><u>20,679</u></u>	\$ <u><u>21,578</u></u>	-4.17%

Long –Term Debt

The District, as of August 31, 2017, had \$18,175,000 in outstanding Tax School Building Bonds Series 2008 & 2011. The District had a \$1,594,403 Premium on Bonds and \$676,369 in Capital Appreciation Bonds Series 2008 and \$367,638 in accumulated bond accretion on the 2008 CAB. The District had \$94,375 in Capital Leases. See note F for additional information.

**Table A-5
The District's Long-Term Debt**

<u>Governmental Activities</u>	<u>2017</u>	<u>2016</u>	<u>Total % Change</u>
Tax school building bonds	\$ 18,175,000	\$ 17,960,000	1.20%
Capital appreciation bonds	676,369	922,762	-26.70%
Premium on bonds	1,594,403	804,794	98.11%
Deferred loss on refunding bond	(1,030,150)	(505,109)	103.95%
Accumulated accretion			
'08 & '11 CAP bonds	367,638	444,884	-17.36%
Capital Lease	94,375	158,838	-40.58%
Net Pension Liability	<u>2,238,277</u>	<u>2,237,147</u>	0.05%
Total governmental activities	\$ <u><u>22,115,912</u></u>	\$ <u><u>22,023,316</u></u>	0.42%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Net taxable valuations for the 2017 tax assessments will be up \$38 million, or 9% above the 2016 tax year valuations.
- General operating fund spending per student in the 2018 budget is \$5,432.
- The district's 2018 refined average daily attendance is expected to remain stable.

These indicators were taken into account when adopting the general fund budget for 2018. Amounts available for appropriation in the general fund budget are \$12,641,770, an increase of 6.6% over the final 2017 budget of \$11,853,518. The combined tax rate will decrease because of a reduction in the bond payment. State revenues are expected to increase to offset the reduced tax collections.

The District opened the 2018 school year with all teacher positions filled with highly qualified teachers. The District has added no major new programs or initiatives to the 2018 budget.

If these estimates are realized, the District's budgetary general fund balance is expected to stay the same.

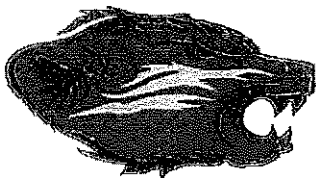
CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

Bishop Consolidated Independent School District
719 East Sixth Street
Bishop, Texas 78343

(361) 584-3591
(361) 584-3147 fax

Basic Financial Statements



Bishop Consolidated Independent School District

BISHOP CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2017

Data Control Codes	1	2	3
	Governmental Activities	Business-type Activities	Total
ASSETS:			
1110 <i>Cash and Cash Equivalents</i>	\$ 4,778,044	\$ 122,227	\$ 4,900,271
1225 <i>Property Taxes Receivable (Net)</i>	416,476	--	416,476
1240 <i>Due from Other Governments</i>	447,028	--	447,028
1290 <i>Other Receivables (Net)</i>	33,454	--	33,454
1410 <i>Unrealized Expenses</i>	151,136	--	151,136
Capital Assets:			
1510 <i>Land</i>	428,443	--	428,443
1520 <i>Buildings and Improvements, Net</i>	25,666,677	20,679	25,687,356
1530 <i>Furniture and Equipment, Net</i>	1,235,699	--	1,235,699
1550 <i>Capital Lease Assets, Net</i>	92,841	--	92,841
1000 Total Assets	<u>33,249,798</u>	<u>142,906</u>	<u>33,392,704</u>
DEFERRED OUTFLOWS OF RESOURCES:			
1705 <i>Deferred Outflow Related to Pensions</i>	997,671	--	997,671
1700 Total Deferred Outflows of Resources	<u>997,671</u>	<u>--</u>	<u>997,671</u>
LIABILITIES:			
2110 <i>Accounts Payable</i>	309,410	417	309,827
2140 <i>Interest Payable</i>	36,047	--	36,047
2165 <i>Accrued Liabilities</i>	389,539	--	389,539
2177 <i>Due to Fiduciary</i>	39,663	--	39,663
2300 <i>Unearned Revenue</i>	4,035	--	4,035
Noncurrent Liabilities:			
2501 <i>Due Within One Year</i>	1,066,660	--	1,066,660
2502 <i>Due in More Than One Year</i>	18,810,976	--	18,810,976
2540 <i>Net Pension Liability</i>	2,238,277	--	2,238,277
2000 Total Liabilities	<u>22,894,607</u>	<u>417</u>	<u>22,895,024</u>
DEFERRED INFLOWS OF RESOURCES:			
2605 <i>Deferred Inflow Related to Pensions</i>	143,763	--	143,763
2600 Total Deferred Inflows of Resources	<u>143,763</u>	<u>--</u>	<u>143,763</u>
NET POSITION:			
3200 <i>Net Investment in Capital Assets</i>	7,546,024	20,679	7,566,703
3900 <i>Unrestricted</i>	3,663,075	121,810	3,784,885
3000 Total Net Position	<u>\$ 11,209,099</u>	<u>\$ 142,489</u>	<u>\$ 11,351,588</u>

The accompanying notes are an integral part of this statement.

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

Data Control Codes	Functions/Programs	1 Expenses	3 Program Revenues	
			Charges for Services	4 Operating Grants and Contributions
	Governmental Activities:			
11	<i>Instruction</i>	\$ 6,809,301	\$ 100,457	\$ 755,634
12	<i>Instructional Resources and Media Services</i>	153,632	181	116,995
13	<i>Curriculum and Staff Development</i>	381,705	15	38,010
21	<i>Instructional Leadership</i>	245,663	--	101,422
23	<i>School Leadership</i>	844,287	11	50,127
31	<i>Guidance, Counseling, & Evaluation Services</i>	491,011	--	40,443
33	<i>Health Services</i>	109,204	--	83,885
34	<i>Student Transportation</i>	270,852	--	7,639
35	<i>Food Service</i>	997,325	237,688	731,268
36	<i>Cocurricular/Extracurricular Activities</i>	904,087	88,211	21,226
41	<i>General Administration</i>	627,321	3,739	29,821
51	<i>Facilities Maintenance and Operations</i>	2,131,223	176	61,764
52	<i>Security and Monitoring Services</i>	45,810	--	672
53	<i>Data Processing Services</i>	274,870	--	12,422
61	<i>Community Services</i>	28,510	--	3,526
72	<i>Interest on Long-term Debt</i>	631,831	--	40,455
73	<i>Bond Issuance Costs and Fees</i>	182,207	--	--
99	<i>Other Intergovernmental Charges</i>	60,675	--	--
TG	Total Governmental Activities	<u>15,189,514</u>	<u>430,478</u>	<u>2,095,309</u>
	Business-type Activities:			
03	Fund 713	22,382	18,900	--
TB	Total Business-type Activities	<u>22,382</u>	<u>18,900</u>	<u>--</u>
TP	Total Primary Government	<u>\$ 15,211,896</u>	<u>\$ 449,378</u>	<u>\$ 2,095,309</u>
	General Revenues:			
MT	<i>Property Taxes, Levied for General Purposes</i>			
DT	<i>Property Taxes, Levied for Debt Service</i>			
IE	<i>Investment Earnings</i>			
GC	<i>Grants and Contributions Not Restricted to Specific Programs</i>			
MI	<i>Miscellaneous</i>			
TR	Total General Revenues			
CN	Change in Net Position			
NB	Net Position - Beginning			
NE	Net Position - Ending			

The accompanying notes are an integral part of this statement.

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Net (Expense) Revenue and Changes in Net Position

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (5,953,210)		\$ (5,953,210)
(36,456)		(36,456)
(343,680)		(343,680)
(144,241)		(144,241)
(794,149)		(794,149)
(450,568)		(450,568)
(25,319)		(25,319)
(263,213)		(263,213)
(28,369)		(28,369)
(794,650)		(794,650)
(593,761)		(593,761)
(2,069,283)		(2,069,283)
(45,138)		(45,138)
(262,448)		(262,448)
(24,984)		(24,984)
(591,376)		(591,376)
(182,207)		(182,207)
(60,675)		(60,675)
<u>(12,663,727)</u>		<u>(12,663,727)</u>
--	<u>(3,482)</u>	<u>(3,482)</u>
--	<u>(3,482)</u>	<u>(3,482)</u>
<u>(12,663,727)</u>	<u>(3,482)</u>	<u>(12,667,209)</u>
5,125,255	--	5,125,255
1,781,527	--	1,781,527
32,147	--	32,147
5,946,074	--	5,946,074
426,993	--	426,993
<u>13,311,996</u>	<u>--</u>	<u>13,311,996</u>
648,269	<u>(3,482)</u>	644,787
10,560,830	145,971	10,706,801
<u>\$ 11,209,099</u>	<u>\$ 142,489</u>	<u>\$ 11,351,588</u>

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

Data Control Codes	10 <u>General Fund</u>	24 National School Breakfast/Lunch Program
ASSETS:		
1110 <i>Cash and Cash Equivalents</i>	\$ 3,269,986	\$ 471,288
1225 <i>Taxes Receivable, Net</i>	289,538	--
1240 <i>Due from Other Governments</i>	382,909	13,660
1260 <i>Due from Other Funds</i>	144,399	--
1290 <i>Other Receivables</i>	32,721	--
1410 <i>Unrealized Expenditures</i>	142,539	--
1000 Total Assets	<u>4,262,092</u>	<u>484,948</u>
LIABILITIES:		
Current Liabilities:		
2110 <i>Accounts Payable</i>	\$ 74,732	\$ 134,898
2150 <i>Payroll Deductions & Withholdings</i>	65,945	--
2160 <i>Accrued Wages Payable</i>	203,222	--
2170 <i>Due to Other Funds</i>	214,466	--
2200 <i>Accrued Expenditures</i>	4,434	--
2300 <i>Unearned Revenue</i>	4,035	--
2000 Total Liabilities	<u>566,834</u>	<u>134,898</u>
DEFERRED INFLOWS OF RESOURCES:		
	<i>Deferred Revenue</i>	--
2600 Total Deferred Inflows of Resources	<u>289,538</u>	<u>--</u>
FUND BALANCES:		
Restricted Fund Balances:		
3450 <i>Federal/State Funds Grant Restrictions</i>	--	350,050
3480 <i>Retirement of Long-Term Debt</i>	--	--
3490 <i>Other Restrictions of Fund Balance</i>	--	--
Committed Fund Balances:		
3510 <i>Construction</i>	200,000	--
3545 <i>Other Committed Fund Balance</i>	200,000	--
Assigned Fund Balances:		
3590 <i>Other Assigned Fund Balance</i>	--	--
3600 <i>Unassigned</i>	3,005,720	--
3000 Total Fund Balances	<u>3,405,720</u>	<u>350,050</u>
4000 Total Liabilities, Deferred Inflow of Resources and Fund Balances	<u>\$ 4,262,092</u>	<u>\$ 484,948</u>

The accompanying notes are an integral part of this statement.

EXHIBIT C-1

50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
\$ 590,148	\$ 69,023	\$ 4,400,445
126,938	--	416,476
--	50,459	447,028
--	--	144,399
721	12	33,454
--	--	142,539
<u>717,807</u>	<u>119,494</u>	<u>5,584,341</u>
\$ --	\$ 28,570	\$ 238,200
--	5,573	71,518
--	7,737	210,959
--	--	214,466
--	720	5,154
--	--	4,035
<u>--</u>	<u>42,600</u>	<u>744,332</u>
126,938	--	416,476
<u>126,938</u>	<u>--</u>	<u>416,476</u>
--	1,343	351,393
590,869	--	590,869
--	46,157	46,157
--	--	200,000
--	--	200,000
--	29,394	29,394
--	--	3,005,720
<u>590,869</u>	<u>76,894</u>	<u>4,423,533</u>
<u>\$ 717,807</u>	<u>\$ 119,494</u>	<u>\$ 5,584,341</u>

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BISHOP CONSOLIDATED 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 \$ 4,423,533

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not reported in the funds.	27,212,888
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	416,476
The assets and liabilities of internal service funds are included in governmental activities in the SNP.	413,866
Payables for bond principal which are not due in the current period are not reported in the funds.	(20,813,411)
Payables for capital leases which are not due in the current period are not reported in the funds.	(53,987)
Payables for bond interest which are not due in the current period are not reported in the funds.	(36,047)
Other long-term assets are not available to pay for current period expenditures and are deferred in the funds.	1,030,150
Recognition of the District's proportionate share of the net pension liability is not reported in the funds.	(2,238,277)
Deferred Resource Inflows related to the pension plan are not reported in the funds.	(143,763)
Deferred Resource Outflows related to the pension plan are not reported in the funds.	997,671

Net position of governmental activities - Statement of Net Position \$ 11,209,099

The accompanying notes are an integral part of this statement.

BISHOP CONSOLIDATED 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 <u>General Fund</u>	24 <u>National School Breakfast/Lunch Program</u>
REVENUES:		
5700 <i>Local and Intermediate Sources</i>	\$ 5,458,283	\$ 237,688
5800 <i>State Program Revenues</i>	6,464,347	4,849
5900 <i>Federal Program Revenues</i>	77,228	726,419
5020 Total Revenues	<u>11,999,858</u>	<u>968,956</u>
EXPENDITURES:		
Current:		
0011 <i>Instruction</i>	5,664,660	--
0012 <i>Instructional Resources and Media Services</i>	4,622	--
0013 <i>Curriculum and Staff Development</i>	323,278	--
0021 <i>Instructional Leadership</i>	129,735	--
0023 <i>School Leadership</i>	760,472	--
0031 <i>Guidance, Counseling, & Evaluation Services</i>	432,028	--
0033 <i>Health Services</i>	99,060	--
0034 <i>Student Transportation</i>	301,522	--
0035 <i>Food Service</i>	--	1,007,523
0036 <i>Cocurricular/Extracurricular Activities</i>	630,281	--
0041 <i>General Administration</i>	569,890	--
0051 <i>Facilities Maintenance and Operations</i>	2,962,106	--
0052 <i>Security and Monitoring Services</i>	42,425	--
0053 <i>Data Processing Services</i>	251,510	--
0061 <i>Community Services</i>	23,014	--
0071 <i>Principal on Long-term Debt</i>	25,523	--
0072 <i>Interest on Long-term Debt</i>	2,532	--
0073 <i>Bond Issuance Costs and Fees</i>	18,284	--
0099 <i>Other Intergovernmental Charges</i>	60,675	--
6030 Total Expenditures	<u>12,301,617</u>	<u>1,007,523</u>
1100 Excess (Deficiency) of Revenues Over (Under)		
1100 Expenditures	<u>(301,759)</u>	<u>(38,567)</u>
Other Financing Sources and (Uses):		
7911 <i>Capital-Related Debt Issued (Regular Bonds)</i>	--	--
7914 <i>Issuance of Non-Current Debt</i>	1,055,000	--
7915 <i>Transfers In</i>	8,567	--
7916 <i>Premium or Discount on Issuance of Bonds</i>	--	--
8911 <i>Transfers Out</i>	(8,567)	--
8940 <i>Payment to Bond Refunding Escrow Agent</i>	--	--
7080 Total Other Financing Sources and (Uses)	<u>1,055,000</u>	<u>--</u>
1200 Net Change in Fund Balances	<u>753,241</u>	<u>(38,567)</u>
0100 Fund Balances - Beginning	<u>2,652,479</u>	<u>388,617</u>
3000 Fund Balances - Ending	<u>\$ 3,405,720</u>	<u>\$ 350,050</u>

The accompanying notes are an integral part of this statement.

EXHIBIT C-2

50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
\$ 1,772,147	\$ 268,093	\$ 7,736,211
40,455	128,804	6,638,455
--	484,138	1,287,785
<u>1,812,602</u>	<u>881,035</u>	<u>15,662,451</u>
--	389,323	6,053,983
--	131,918	136,540
--	22,836	346,114
--	93,477	223,212
--	4,453	764,925
--	12,758	444,786
--	--	99,060
--	--	301,522
--	--	1,007,523
--	207,180	837,461
--	711	570,601
--	3,912	2,966,018
--	--	42,425
--	--	251,510
--	3,515	26,529
891,394	--	916,917
792,747	--	795,279
105,763	--	124,047
--	--	60,675
<u>1,789,904</u>	<u>870,083</u>	<u>15,969,127</u>
<u>22,698</u>	<u>10,952</u>	<u>(306,676)</u>
7,405,000	--	7,405,000
--	--	1,055,000
--	--	8,567
880,263	--	880,263
--	--	(8,567)
<u>(8,183,200)</u>	<u>--</u>	<u>(8,183,200)</u>
102,063	--	1,157,063
124,761	<u>10,952</u>	850,387
466,108	65,942	3,573,146
<u>\$ 590,869</u>	<u>\$ 76,894</u>	<u>\$ 4,423,533</u>

BISHOP CONSOLIDATED 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	\$ 850,387
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	1,167,555
The depreciation of capital assets used in governmental activities is not reported in the funds.	(1,054,923)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	70,513
Expenses not requiring the use of current financial resources are not reported as expenditures in the funds.	8,183,200
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	1,020,000
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	25,523
The accretion of interest on capital appreciation bonds is not reported in the funds.	(51,361)
(Increase) decrease in accrued interest from beginning of period to end of period.	28,045
The net revenue (expense) of internal service funds is reported with governmental activities.	(67,635)
Proceeds of notes do not provide revenue in the SOA, but are reported as current resources in the funds.	(1,055,000)
Proceeds of bonds do not provide revenue in the SOA, but are reported as current resources in the funds.	(7,405,000)
Bond premiums are reported in the funds but not in the SOA.	(934,062)
Bond discounts are reported in the funds but not in the SOA.	53,799
Pension expense relating to GASB 68 is recorded in the SOA but not in the funds.	<u>(182,772)</u>
Change in net position of governmental activities - Statement of Activities	<u>\$ 648,269</u>

The accompanying notes are an integral part of this statement.

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

Data Control Codes	Nonmajor Enterprise Funds	Internal Service Funds
ASSETS:		
Current Assets:		
1110 Cash and Cash Equivalents	\$ 122,227	\$ 377,599
Receivables:		
1260 Due from Other Funds	--	214,466
1410 Unrealized Expenses	--	8,597
Total Current Assets	<u>122,227</u>	<u>600,662</u>
Noncurrent Assets:		
Capital Assets:		
1520 Buildings and Improvements	22,477	--
1530 Furniture and Equipment	--	1,022,656
1550 Assets Purchased Under Capital Leases	--	422,553
1570 Accumulated Depreciation	(1,798)	(1,234,437)
Total Noncurrent Assets	<u>20,679</u>	<u>210,772</u>
1000 Total Assets	<u>142,906</u>	<u>811,434</u>
LIABILITIES:		
Current Liabilities:		
2110 Accounts Payable	\$ 417	\$ 71,210
2130 Capital Leases Payable	--	40,388
2160 Accrued Wages Payable	--	2,033
2170 Due to Other Funds	--	184,062
2200 Accrued Expenses	--	99,875
Total Current Liabilities	<u>417</u>	<u>397,568</u>
2000 Total Liabilities	<u>417</u>	<u>397,568</u>
NET POSITION:		
3200 Net Investment in Capital Assets	20,679	170,384
3900 Unrestricted	121,810	243,482
3000 Total Net Position	<u>\$ 142,489</u>	<u>\$ 413,866</u>

The accompanying notes are an integral part of this statement.

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

Data Control Codes	Nonmajor Enterprise Funds	Internal Service Funds
OPERATING REVENUES:		
5700 <i>Local and Intermediate Sources</i>	\$ 18,900	\$ 1,468,301
5800 <i>State Program Revenues</i>	--	6,492
5020 Total Revenues	<u>18,900</u>	<u>1,474,793</u>
OPERATING EXPENSES:		
6100 <i>Payroll Costs</i>	--	101,059
6200 <i>Professional and Contracted Services</i>	20,100	919,765
6300 <i>Supplies and Materials</i>	1,383	56,447
6400 <i>Other Operating Costs</i>	899	462,207
6030 Total Expenses	<u>22,382</u>	<u>1,539,478</u>
Operating Income (Loss)	<u>(3,482)</u>	<u>(64,685)</u>
NON-OPERATING REVENUES (EXPENSES):		
8989 <i>Other Non-operating Expenses</i>	--	(2,949)
8030 Total Non-operating Revenues (Expenses)	<u>--</u>	<u>(2,949)</u>
1300 Change in Net Position	(3,482)	(67,634)
0100 Total Net Position - Beginning	145,971	481,500
3300 Total Net Position - Ending	\$ <u>142,489</u>	\$ <u>413,866</u>

The accompanying notes are an integral part of this statement.

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

	Nonmajor Enterprise Funds	Internal Service Funds
Cash Flows from Operating Activities:		
<i>Cash Received from Customers</i>	\$ 18,900 \$	\$ --
<i>Cash Receipts (Payments) for Quasi-external Operating Transactions with Other Funds</i>	--	1,468,301
<i>Cash Payments to Employees for Services</i>	--	(100,263)
<i>Cash Payments to Other Suppliers for Goods and Services</i>	(23,791)	(1,283,449)
<i>Other Operating Cash Receipts</i>	--	6,492
Net Cash Provided (Used) by Operating Activities	<u>(4,891)</u>	<u>91,081</u>
Cash Flows from Non-capital Financing Activities:		
<i>Proceeds (Payments) from (for) Borrowings</i>	--	46,828
Net Cash Provided (Used) by Non-capital Financing Activities	<u>--</u>	<u>46,828</u>
Cash Flows from Capital and Related Financing Activities:		
<i>Principal and Interest Paid</i>	--	(41,889)
<i>Acquisition or Construction of Capital Assets</i>	--	(11,670)
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>--</u>	<u>(53,559)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(4,891)	84,350
Cash and Cash Equivalents at Beginning of Year	127,118	293,249
Cash and Cash Equivalents at End of Year	<u>\$ 122,227 \$</u>	<u>\$ 377,599</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ (3,482) \$	\$ (64,685)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
<i>Depreciation</i>	899	60,768
Change in Assets and Liabilities:		
<i>Decrease (Increase) in Unrealized Expenditures</i>	--	(2,777)
<i>Increase (Decrease) in Accounts Payable</i>	(2,308)	31,319
<i>Increase (Decrease) in Accrued Expenses</i>	--	66,456
Total Adjustments	<u>(1,409)</u>	<u>155,766</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (4,891) \$</u>	<u>\$ 91,081</u>

The accompanying notes are an integral part of this statement.

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

Data Control Codes	Private-purpose Trust Funds	
<u>ASSETS:</u>	<u>Private-Purpose Trust Fund</u>	<u>Agency Funds</u>
1110 <i>Cash and Cash Equivalents</i>	\$ --	\$ 15,798
1240 <i>Due from Other Governments</i>	--	8,311
1260 <i>Due from Other Funds</i>	500	39,163
1800 <i>Restricted Assets-Cash and Cash Equivalents</i>	70,395	--
1000 Total Assets	<u>70,895</u>	<u>63,272</u>
<u>LIABILITIES:</u>		
Current Liabilities:		
2110 <i>Accounts Payable</i>	\$ --	\$ 185
2180 <i>Due to Other Governments</i>	--	8,695
2190 <i>Due to Student Groups</i>	--	42,623
2000 Total Liabilities	<u>--</u>	<u>51,503</u>
<u>NET POSITION:</u>		
3800 <i>Held in Trust</i>	70,895	--
3000 Total Net Position	<u>\$ 70,895</u>	<u>\$ 11,769</u>

The accompanying notes are an integral part of this statement.

BISHOP CONSOLIDATED 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	\$ 503
Gifts and Bequests	2,000
Total Additions	<u>2,503</u>
Deductions:	
Scholarship Awards	2,000
Total Deductions	<u>2,000</u>
Change in Net Position	503
Net Position-Beginning of the Year	70,392
Net Position-End of the Year	<u>\$ 70,895</u>

The accompanying notes are an integral part of this statement.

BISHOP CONSOLIDATED 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 Bishop Consolidated 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. These statements distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the District and 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 and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise 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.

BISHOP CONSOLIDATED INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2017

National School Breakfast/Lunch Program. This fund accounts for the reimbursements for meals served that are received from the National School Breakfast and Lunch Programs and the related costs of providing meal services to students of the District.

Debt Service Fund: The property tax revenue collected for payment of long-term debt and the related principal, interest payments, and related fees are accounted for in a debt service fund.

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, with the exception of property taxes which are fully deferred because the amount collected within sixty days after year end is considered immaterial. 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.

BISHOP CONSOLIDATED 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. The assessed value of the roll on January 1, 2016, upon which the levy for the 2017 fiscal year was based, was \$498,973,343.

The tax rates assessed for the year ended August 31, 2017, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.0392 and \$.36012 per \$100 valuation, respectively, for a total of \$1.3993 per \$100 valuation.

Current tax collections for the year ended August 31, 2017, were 96.85% of the year-end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on the rates adopted for the year of the levy.

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.

The following table shows a schedule of delinquent taxes receivable and the allowance for uncollectible taxes for the District:

	Balance 09/01/16	Current Year Levy	Total Collections	Yearly Adjustments	Balance 08/31/17
Delinquent Taxes Receivable	\$ 613,617	\$ 6,860,885	\$ 6,759,878	\$ (16,771)	697,853
Allowance for Uncollectible Taxes	(267,656)			(13,721)	(281,377)
Net Delinquent Taxes Receivable	<u>\$ 345,961</u>	<u>\$ 6,860,885</u>	<u>\$ 6,759,878</u>	<u>\$ (30,492)</u>	<u>416,476</u>

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.

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

d. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed 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>
Infrastructure	30
Buildings	50
Building Improvements	20
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

Impairment losses related to capital assets are recognized and measured when there has been a significant, unexpected decline in the service utility of capital assets. The events or changes in circumstances which lead to impairment determinations are not considered to be normal or ordinary. The service utility of a capital asset is the usable capacity which, at acquisition, was expected to be used or provide service. Common indicators of impairment include - evidence of physical damage where the level of damage is such that restoration efforts are needed to restore service utility; enactment of laws or approval of regulations as well as changes in environmental factors; technological developments, or other evidence of obsolescence; changes in the manner of duration or use of capital assets; or construction stoppage due to lack of funding. There were no impairment charges during fiscal year 2017.

e. Deferred Outflows and Inflows of Resources

In addition to assets, the statements of financial position (the government-wide and proprietary Statements 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 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.

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

g. Compensated Absences

On retirement of certain employees who have been employed by the District at least five consecutive years, the District pays any accrued sick leave in a lump case payment to such employee at a rate of \$40/day, up to 50 days, not to exceed \$2,000. The amount of this accrual is immaterial and has not been recorded.

h. 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.

i. Use of Estimates

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

j. 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.

k. 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. 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 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.

BISHOP CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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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.

l. 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.

m. 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 2017, the District adopted three new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*
- Statement No. 80, *Blending Requirements for Certain Component Units*
- Statement No. 82, *Pension Issues - An Amendment of GASB No. 67, No. 68 and No. 73*

- a. Statement No. 74 improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*.

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The scope of this Statement includes OPEB plans, defined benefit and defined contribution that are administered through trusts that meet the following criteria:

- 1) Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- 2) OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- 3) OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria.

The District does not administer their OPEB plan through a trust that meets the criteria noted above. As a result, the adoption of GASB Statement No. 74 did not result in a change to the financial statements or note disclosures.

- b. GASB Statement No. 80 clarifies the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, The Financial Reporting Entity, as amended.

This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, Determining Whether Certain Organizations Are Component Units.

The District did not have any component units which met the definition noted above. As a result, the adoption of GASB Statement No. 80 did not result in a change to the financial statements or note disclosures.

- c. GASB Statement No. 82 addresses certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. Prior to the issuance of this Statement, Statements 67 and 68 required presentation of covered employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure.

This Statement clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of Statement 67, Statement 68, or Statement 73 for the selection of assumptions used in determining the total pension liability and related measures.

BISHOP CONSOLIDATED INDEPENDENT SCHOOL DISTRICT

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

This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits).

The financial statements and note disclosures have been updated for the affects of the adoption of GASB Statement No. 82.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

2. Deficit Fund Balance or Fund Net Position of Individual Funds

Following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

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 \$1,709,723 and the bank balance was \$1,783,700. 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.

BISHOP CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
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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.

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>
TexPool	N/A	\$ 2,365,194
Lone Star Investment Pool	N/A	911,545
Total Investments		<u>\$ 3,276,739</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:

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.

At August 31, 2017, the District's investments, other than those which are obligations of or guaranteed by the U. S. Government, are rated as to credit quality as follows:

TexPool, Rated AAAM
 Lone Star Investment Pool, Rated AAAM

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.

BISHOP CONSOLIDATED INDEPENDENT SCHOOL DISTRICT

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

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.

Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The District's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

Lone Star

The Lone Star Investment Pool (Lone Star) is a public funds investment pool created pursuant to the Interlocal Cooperation Act, Texas Government Code, Chapter 791, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. Lone Star is administered by First Public, a subsidiary of the Texas Association of School Boards (TASB), with Standish and American Beacon Advisors managing the investment and reinvestment of Lone Star's assets. State Street Bank provides custody and valuation services to Lone Star. All of the board of trustees' eleven members are Lone Star participants by either being employees or elected officials of a participant. Lone Star has established an advisory board composed of both pool members and non-members. Lone Star is rated AAA by Standard and Poor's and operated in a manner consistent with the the SEC's Rule 2a7 of the Investment Company Act of 1940. The District is invested in the Government Overnight Fund of Lone Star which seeks to maintain a net asset value of one dollar. Lone Star has 3 different funds: Government Overnight, Corporate Overnight and Corporate Overnight Plus. Government and Corporate Overnight maintain a net asset value of one dollar and the Corporate Overnight Plus maintains a net asset value of 50 cents.

BISHOP CONSOLIDATED INDEPENDENT SCHOOL DISTRICT

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

TexPool

The District invests in the Texas Local Government Investment Pool (TexPool), which is a local government investment pool that was established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and operates under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The State Comptroller of Public Accounts oversees TexPool. Federated Investors, Inc. is the administrator and investment manager of TexPool under a contract with the State Comptroller. In accordance with the Public Funds Investment Act, the State Comptroller has appointed the TexPool Investment Advisory Board to advise with respect to TexPool. The board is composed equally of participants in TexPool Portfolios and other persons who do not have a business relationship with TexPool Portfolios and are qualified to advise in respect to TexPool Portfolios. The Advisory Board members review the investment policy and management fee structure. TexPool is rated AAAM by Standard & Poor's and operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. All investments are stated at amortized cost, which usually approximates the market value of the securities. The stated objective of TexPool is to maintain a stable average \$1.00 per unit net asset value; however, the \$1.00 net asset value is not guaranteed or insured. The financial statements can be obtained from the Texas Trust Safekeeping Trust Company website at www.ttstc.org.

D. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 428,446	\$ --	\$ --	\$ 428,446
Total capital assets not being depreciated	<u>428,446</u>	<u>--</u>	<u>--</u>	<u>428,446</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	38,887,581	--	--	38,887,581
Equipment	466,452	1,167,555	--	1,634,007
Vehicles	1,523,411	11,670	--	1,535,081
Total capital assets being depreciated	<u>40,877,444</u>	<u>1,179,225</u>	<u>--</u>	<u>42,056,669</u>
Less accumulated depreciation for:				
Buildings and improvements	(12,415,906)	(805,000)	--	(13,220,906)
Equipment	(302,405)	(243,724)	--	(546,129)
Vehicles	(1,227,454)	(66,966)	--	(1,294,420)
Total accumulated depreciation	<u>(13,945,765)</u>	<u>(1,115,690)</u>	<u>--</u>	<u>(15,061,455)</u>
Total capital assets being depreciated, net	<u>26,931,679</u>	<u>63,535</u>	<u>--</u>	<u>26,995,214</u>
Governmental activities capital assets, net	<u>\$ 27,360,125</u>	<u>\$ 63,535</u>	<u>\$ --</u>	<u>\$ 27,423,660</u>
	Beginning Balances	Increases	Decreases	Ending Balances
<u>Business-type activities:</u>				
<i>Capital assets being depreciated:</i>				
Buildings and improvements	22,477	--	--	22,477
Total capital assets being depreciated	<u>22,477</u>	<u>--</u>	<u>--</u>	<u>22,477</u>
Less accumulated depreciation for:				
Buildings and improvements	(899)	(899)	--	(1,798)
Total accumulated depreciation	<u>(899)</u>	<u>(899)</u>	<u>--</u>	<u>(1,798)</u>
Total capital assets being depreciated, net	<u>21,578</u>	<u>(899)</u>	<u>--</u>	<u>20,679</u>
Business-type activities capital assets, net	<u>\$ 21,578</u>	<u>\$ (899)</u>	<u>\$ --</u>	<u>\$ 20,679</u>

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

Depreciation was charged to functions as follows:

Instruction	\$	454,668
Instructional Resources and Media Services		10,176
Curriculum and Staff Development		25,794
Instructional Leadership		16,635
School Leadership		57,006
Guidance, Counseling, & Evaluation Services		33,147
Health Services		7,382
Student Transportation		83,239
Food Services		77,785
Extracurricular Activities		62,411
General Administration		42,524
Plant Maintenance and Operations		221,041
Security and Monitoring Services		3,162
Data Processing Services		18,744
Community Services		1,976
	\$	<u>1,115,690</u>

E. 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:

<u>Due To Fund</u>	<u>Due From Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Nonmajor Internal Service Fund	\$ 144,399	Short-term loans
Nonmajor Internal Service Fund	General Funds	214,466	Short-term loans
Trust and Agency	Nonmajor Internal Service Fund	39,163	Short-term loans
	Total	<u>\$ 398,028</u>	

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

2. Transfers To and From Other Funds

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

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>	<u>Reason</u>
General fund	General fund	\$ 8,567	Supplement other funds sources
	Total	<u>\$ 8,567</u>	

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

F. Long-Term Obligations

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:					
Tax School Building Bonds	\$ 17,960,000	\$ 8,460,000	\$ 8,245,000	\$ 18,175,000	\$ 625,000
Capital Appreciation Bonds	922,763	--	246,394	676,369	235,394
Premium on Bonds	804,794	880,264	90,655	1,594,403	--
Accumulated Accretion					
2008 & 2011 CAP Bonds	444,882	51,362	128,606	367,638	139,388
Deferred Loss on					
Refunding Bonds	(505,110)	(583,200)	(58,160)	(1,030,150)	--
Capital leases	158,838	--	64,463	94,375	66,879
Net Pension Liability *	2,237,147	189,324	188,194	2,238,277	--
Total governmental activities	<u>\$ 22,023,314</u>	<u>\$ 8,997,750</u>	<u>\$ 8,905,152</u>	<u>\$ 22,115,912</u>	<u>\$ 1,066,661</u>

* Other long-term liabilities

The funds typically used to liquidate other long-term liabilities in the past are as follows:

Liability	Activity Type	Fund
Net Pension Liability *	Governmental	

Bonded debt consists of the following:

	2017	2016
2016 Unlimited Tax Refunding (CAP) Bonds, payable semi-annually, with principal payments of \$375,000 to \$590,000 plus interest at 3.00% to 4%, maturing August 31, 2034	\$ 6,600,000	\$ 6,600,000
2017 Unlimited Tax School Refunding Bonds, payable semi-annually interest only at 2% till August 15, 2023, with principal payments ranging from \$520,000 to \$685,000 (beginning August 15, 2023) plus interest at 4.00%, maturing August 15, 2034	7,365,000	--
2009 Unlimited Tax School Bonds payable semi-annually, with principal payments ranging from \$605,000 to \$730,000 plus interest at 3.00% to 4.75%, maturing August 15, 2034	3,155,000	11,360,000
2008 Capital Appreciation Bonds (CAB), payable semi-annually, with total payment of \$325,000 to \$375,000 including interest at 2.230% to 3.850%, maturing August 15, 2020	676,369	922,762
2017 Maintenance Tax Notes payable annually, with principal payments ranging from \$86,477 to \$86,167 including interest at 2.580%, maturing August 15, 2032	1,055,000	--
	<u>18,851,369</u>	<u>18,882,762</u>
Accumulated Bond Accretion on 2008 CAB	367,639	444,883
Premium on Bonds	1,594,403	804,794
Deferred Loss on Refunding	<u>(1,030,150)</u>	<u>(505,109)</u>
	19,783,261	19,627,330
Less Current Portion	<u>(999,781)</u>	<u>(980,000)</u>
	<u>\$ 18,783,480</u>	<u>\$ 18,647,330</u>

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

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	\$ 912,612	\$ 828,814	\$ 1,741,426
2019	935,308	808,645	1,743,953
2020	952,449	792,580	1,745,029
2021	1,139,000	604,430	1,743,430
2022	960,000	563,529	1,523,529
2023-2027	5,297,000	2,287,433	7,584,433
2028-2032	6,160,000	1,210,976	7,370,976
2033-2034	2,495,000	150,800	2,645,800
Totals	\$ 18,851,369	\$ 7,247,207	\$ 26,098,576

3. Advance Refunding of Debt

The District issued \$6,630,000 Bishop Consolidated Independent School District Unlimited Tax Bonds Series 2016 in March of 2016. The District refunded \$6,865,000 of the 2008 bond issue that was outstanding at August 31, 2016. The interest rate of the refunding bonds ranges from 3.0% to 4.0%. The refunding bonds are anticipated to generate a gross saving to the District of \$677,637 and present value savings of \$568,854.

The District issued \$7,405,000 Bishop Consolidated Independent School District Unlimited Tax Bonds Series 2017 in March of 2017. The District refunded \$7,600,000 of the 2009 bond issue that was outstanding at August 31, 2017. The interest rate of the refunding bonds ranges from 2.0% to 4.0%. The refunding bonds are anticipated to generate a gross saving to the District of \$914,041 and present value savings of \$739,477.

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.

Bond Issue	Amount
Series 2008	6,618,606
Series 2009	7,600,000
Total	14,218,606

4. Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of August 31, 2017, as follows:

Year Ending August 31:	Governmental
2018	\$ 69,884
2019	28,055
Total Minimum Lease Payments	\$ 97,939
Less Amount Representing Interest	3,564
Present Value of Net Minimum Lease Payments	\$ 94,375

The effective interest rate on capital leases is 3.39%.

BISHOP CONSOLIDATED INDEPENDENT SCHOOL DISTRICT

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

G. 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.

The District operates a risk management program for life and health, workers compensation, and state unemployment insurance claims. The District funds each plan 100% during the year, and has no additional funding liability. Any unused funds in the group health and workers compensation plans at year-end are available for carryover to the next operating year. Interfund premiums are paid into the Internal Service Fund and treated as charges for services and are available to pay claims and administrative costs of the program.

Health Care

The District contracts with an insurance company to provide the District with a minimum premium group health plan and to administer the plan. The plan provides that the District's liability for individual claims is limited to \$50,000 and the aggregate claims are limited to the aggregate maximum which was \$1,350,513 for 2017 and \$1,078,075 for 2016. Settlements did exceed insurance coverages during the current year.

All funds of the District participate in the program and make payments to the Self-Insurance Fund based on estimates of amounts needed to pay prior and current year claims. The claims liability of \$99,806 at August 31, 2017 is based on requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements and the amount of the loss can be reasonably estimated. Changes in the fund claims liability amounts for fiscal year 2017 and 2016 were:

	Beginning-of Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2016	\$ 13,022	\$ 645,820	\$ 624,650	\$ 34,192
2017	34,192	966,530	900,847	99,875

During the year ended August 31, 2017, employees of the Bishop Consolidated Independent School District were covered by a health insurance plan (the Plan). The District paid premiums of \$350 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a third party administrator, acting on behalf of the licensed insurer. The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreement.

The contract between the Bishop Consolidated Independent School District and the third party administrator is renewable September 1, 2016, and terms of coverage and premium costs are included in the contractual provisions. Latest financial statements for the Healthcare Benefits, Inc., are available for the year ended December 31, 2016. They have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

Workers Compensation

The District contracts with an insurance company to provide the District with a minimum premium workers compensation plan and with Claims Administration Service, Inc., to manage the plan. The fixed cost of the plan was \$33,585 for the year ended August 31, 2017, and \$30,411 in 2016, and estimated claims of \$69,879 and \$34,345 were recorded as a liability at August 31, 2017 and 2016, respectively. The maximum fund loss is \$61,703 and \$50,107 for 2017 and 2016, respectively.

BISHOP CONSOLIDATED INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2017

Unemployment

During the year ended August 31, 2017, Bishop CISD provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund meets its obligations to the Texas Workforce Commission. Expenses are accrued each month until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop loss coverage for Unemployment Compensation pool members.

The Fund engages the services of an independent auditor to conduct an independent financial audit after the close of each plan year on August 31. The audit is approved by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2014, are available at the TASB offices and have been filed with the Texas State Board of Insurance in Austin.

H. 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.

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.

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

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	
	2016	2017
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	\$ 190,506	
District's 2017 Member Contributions	\$ 584,984	
NECE 2016 On-Behalf Contributions to District	\$ 429,002	

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.

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

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

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

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.

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:

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

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.

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 7%	Discount Rate 8%	1% Increase in Discount Rate 9%
District's proportionate share of the net pension liability	\$ 3,464,098	\$ 2,238,277	\$ 1,198,532

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

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 \$2,238,277 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	\$ 2,238,277
State's proportionate share that is associated with District	<u>5,092,183</u>
Total	<u>\$ 7,330,460</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 0.0059232%. which was an increase (decrease) of -0.6269568% 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 \$528447 and revenue of \$528447 for support provided by the State.

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	\$ 35,096	\$ 66,834
Changes in actuarial assumptions	68,219	62,042
Difference between projected and actual investment earnings	189,533	
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	514,317	14,887
Contributions paid to TRS subsequent to the measurement date [to be calculated by employer]	<u>190,506</u>	
Total	<u>\$ 997,671</u>	<u>\$ 143,763</u>

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

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	\$ 310,391
2019	\$ 119,885
2020	\$ 240,778
2021	\$ 110,598
2022	\$ 71,697
Thereafter	\$ 559

I. 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 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 \$75,971, \$75,318, and \$74,397, respectively, the active member contributions were \$49,381, \$48,957, and \$48,359, respectively, and the District's contributions were \$41,785, \$41,426, and \$40,920, 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 \$24,016, \$30,970, and \$32,140, respectively.

BISHOP CONSOLIDATED INDEPENDENT SCHOOL DISTRICT

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

J. 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.

K. Subsequent Events

Subsequent events were evaluated through November 6, 2017 which is the date of the audit report.

L. Concentration of Risk

The District is located within Nueces County, Texas and it derives approximately 50% of all revenue from property taxes and related penalties and interest. The District's top ten taxpayers have a total taxable property value of \$269,127,232 or 53.94% of the total property tax value of 498,973,343. The top taxpayer is a chemical and plastics plant that has been in operation since 1946. The other top nine are in the fields of transportation, utilities and oil and gas.

<u>Taxpayer</u>	<u>Taxable Value</u>	<u>Percent of Total Taxable Value</u>
Celanese LTD	\$ 176,738,190	35.42%
BASF Corp.	41,352,450	8.29%
AEP Texas Central Co.	15,748,660	3.16%
Oxea Bishop LLC	11,890,450	2.38%
Net Mexio Pipeline LP	6,869,930	1.38%
Urban Oil and Gas Group	4,902,550	0.98%
Air Liquide Large Industries	3,255,560	0.65%
Urban Oil & Gas Group	3,147,412	0.63%
Enterprise Texas Pipeline LP	2,812,280	0.56%
ETC Texas Pipeline LTD	2,409,750	0.48%
Total Top Ten	<u>\$ 269,127,232</u>	<u>53.94%</u>
Total All Taxpayers	<u>\$ 498,973,343</u>	<u>100.00%</u>

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

M. Worker's Compensation Fund - Changes in Liability

	<u>1996 - 2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Total</u>
Unpaid Claims at 9/1:	\$12,186	\$3,107	\$4,617	\$14,435	--	\$34,345
Incurred Claims:						
Provision for insured events of the current year	--	--	--	--	61,703	\$61,703
Increases in provision for insured events of the prior year	(1,528)	160	--	2,194	--	\$826
Total Incurred Claims	(1,528)	160	--	2,194	61,703	62,529
Payments:						
Claims attributable to insured events of the current year	--	--	--	--	11,744	\$11,744
Claims attributable to insured events of the prior year	751	329	--	14,171	--	\$15,251
Total Payments	751	329	--	14,171	11,744	26,995
Total Unpaid Claims at 8/31:*	<u>\$9,907</u>	<u>\$2,938</u>	<u>\$5,661</u>	<u>\$2,458</u>	<u>\$49,959</u>	<u>\$69,879</u>
* Minimum amount to be encumbered. Calculation of this amount allows for estimated claims Incurred But Not Reported of:	<u>\$5,583</u>	<u>\$1,415</u>	<u>\$5,661</u>	<u>\$4,683</u>	<u>\$28,892</u>	<u>\$46,234</u>

N. Economic Dependency

The District receives a significant portion of its revenue from pass-through funds of federal grants. The District operated during the fiscal year under three major sources of funds. The grant amounts are appropriated each year at the federal level. If significant budget cuts are made at the federal and/or state level, the amount of funds the District receives could be reduced significantly and could have an adverse impact on its operations.



Bishop Consolidated Independent School District

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