

This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. These securities may not be sold, nor may offers to buy them be accepted, prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration, qualification or filing under the securities laws of any such jurisdiction.

Enhanced/Unenhanced Ratings: Moody's: "AAA"/"Aa2"
S&P: "AAA"/"AA"
PSF: "Applied For"
(See "OTHER PERTINENT INFORMATION - Ratings" and
"THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.)

PRELIMINARY OFFERING MEMORANDUM
Dated July 17, 2018

In the opinion of Bond Counsel, under existing law interest on the Bonds is excludable from gross income for federal income tax purposes and the Bonds are not "private activity bonds." See "TAX MATTERS" for a discussion of the opinion of Bond Counsel. Additionally, see "THE BONDS – Rate Period Changes" identifying circumstances when an opinion of nationally recognized bond counsel is required as a condition for an interest rate mode conversion.

\$19,820,000*

CORPUS CHRISTI INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Nueces and San Patricio Counties, Texas)
VARIABLE RATE UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018A

Dated Date: August 15, 2018 (Interest to accrue from Delivery Date)

Mandatory Tender Date: August __, 20__
Maturity Date: August 15, 2047

The Corpus Christi Independent School District (the "District") is issuing its \$19,820,000* Variable Rate Unlimited Tax School Building Bonds, Series 2018A (the "Bonds") pursuant to the Constitution and laws of the State of Texas, including Section 45.001 and Section 45.003(b)(1), Chapter 45, Texas Education Code, as amended ("Chapter 45"), Chapter 1371, Texas Government Code, as amended ("Chapter 1371"), an election held in the District on November 8, 2016 (the "Election"), and an order adopted by the District's Board of Trustees (the "Board") on May 14, 2018 (the "Bond Order"). In the Bond Order, and as permitted by Chapter 1371, the District delegated to certain District officials the authority to execute a pricing certificate (the "Pricing Certificate") evidencing the final terms of sale of the Bonds. (The Bond Order and the Pricing Certificate are collectively referred to herein as the "Order.") In close proximity to the issuance of the Bonds, the District plans to issue its \$59,565,000* Unlimited Tax School Building Bonds, Series 2018 (the "Series 2018 Bonds"), provided, however, that the combined aggregate principal amount of the Bonds together with the Series 2018 Bonds issued contemporaneously herewith will not exceed \$59,565,000.

Interest on the Bonds will be payable as described herein. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. In the hereinafter-defined Initial Rate Period, the Bonds will be issued in denominations of \$5,000. No physical delivery of the Bonds will be made to the owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the beneficial owners of the Bonds (see "BOOK-ENTRY-ONLY SYSTEM" herein). The initial Tender Agent and Paying Agent/Registrar for the Bonds is UMB Bank, N.A., Houston, Texas (see "THE BONDS - General").

The "Initial Rate Period" for the Bonds shall mean the period commencing on the date of initial delivery thereof to the initial purchaser thereof named below (the "Underwriter") to and including August __, 20__. During this Initial Rate Period, the Bonds will bear interest at the per annum rate of ____% per annum, which is the "Initial Rate" for the Bonds. During the Initial Rate Period, interest on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months and will be payable on each February 15 and August 15, commencing February 15, 2019, and on the hereinafter-defined Conversion Date, as part of herein-defined Purchase Price, if such date is not a regularly scheduled interest payment date. The Bonds are issued as a single Term Bond scheduled to mature as shown above and subject to redemption prior to maturity (but not during the Initial Rate Period) as described herein (see "THE BONDS – Optional Redemption" and "THE BONDS – Mandatory Redemption").

The Bonds are not subject to optional tender at the election of the holders thereof for purchase during the Initial Rate Period. The District has not entered into a standby bond purchase agreement, liquidity facility or similar agreement providing liquidity support for the Bonds nor is one currently contemplated to be entered into in the future.

The Order obligates the District to use its best efforts to cause the Bonds to be converted from the Initial Rate Period to a different Rate Period (as defined herein), effective August __, 20__ (the "Conversion Date"). On the Conversion Date, the Bonds will be subject to mandatory tender for purchase, without the right of retention by the holders thereof, to the Tender Agent at its designated office. In the event that all of the Bonds are not converted into one or more new Rate Periods and remarketed to new Holders for settlement thereto as hereinbefore described, the District will have no obligation to purchase any of such Bonds mandatorily tendered for purchase on such date, and the District's notice of mandatory tender will be deemed to be rescinded for that date with respect to the Bonds. The occurrence of the foregoing will not result in an event of default under the Order or the Bonds. Until such time as the District redeems or remarkets Bonds that have not been successfully remarketed as described above, such Bonds shall bear interest at the "Stepped Rate" for the duration of the Stepped Rate Period (as defined herein), calculated on the basis of a 360-day year of twelve 30-day months and the actual number of days elapsed. The Stepped Rate for the Bonds is a per annum rate of ____% (see "THE BONDS – Rate Period Changes" and "THE BONDS – Tender Provisions" herein).

Proceeds from the sale of the Bonds will be used for the purpose of acquiring, constructing, renovating and equipping of school buildings in the District, for the purchase of necessary sites for school buildings, and to pay the costs of issuing the Bonds (see "THE BONDS – Use Of Bond Proceeds").

In close proximity to its issuance of the Bonds, the District will sell the Series 2018 Bonds (for the same purposes pursuant to, and as the final installment of, the same authority provided by the Election). This Preliminary Offering Memorandum describes only the Bonds and not the Series 2018 Bonds (see "INTRODUCTORY STATEMENT – Contemporaneous Bond Sale" herein).

CUSIP PREFIX: 220147

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

The Bonds are offered when, as and if issued and received by the Underwriter and subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Bracewell LLP, San Antonio, Texas, Bond Counsel. Certain legal matters will be passed upon by Winstead PC, San Antonio, Texas and Mahomes Bolden PC, Dallas, Texas as Co-Counsel to the Underwriter. The Bonds are expected to be available for initial delivery through DTC on or about Tuesday, August 28, 2018 (the "Delivery Date").

FTN FINANCIAL CAPITAL MARKETS

**Preliminary, subject to change, provided, however, that the combined aggregate principal amount of the Bonds together with the Series 2018 Bonds issued contemporaneously herewith will not exceed \$59,565,000.*

\$19,820,000⁽¹⁾
CORPUS CHRISTI INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Nueces and San Patricio Counties, Texas)
VARIABLE RATE UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018A⁽²⁾

<u>Last Day of Initial Rate Period</u>	<u>Initial Mandatory Tender Date</u>	<u>Stated Maturity Date</u>	<u>Initial Interest Rate</u>	<u>Initial Yield⁽²⁾</u>	<u>Stepped Rate</u>	<u>CUSIP No.⁽³⁾</u>
08/__/20__	08/__/20__	08/15/2047	____%	____%	____%	220147__

(Interest to accrue from the Delivery Date)

The Bonds are initially issued as a Term Bond maturing on August 15, 2047. The Bonds are subject to mandatory redemption in the amounts and at the times provided in the Order and as described herein under the subcaption "THE BONDS – Mandatory Redemption." The Bonds are not subject to redemption prior to the expiration of the Initial Rate Period; provided, however, the Bonds are subject to optional redemption on the Conversion Date and on any Business Day during such time that the Bonds bear interest at the Stepped Rate. See "THE BONDS – Optional Redemption" and "THE BONDS – Tender Provisions – Effects of a Failed Remarketing."

⁽¹⁾Preliminary, subject to change, provided, however, that the combined aggregate principal amount of the Bonds together with the Series 2018 Bonds issued contemporaneously herewith will not exceed \$59,565,000.

⁽²⁾The Initial Yield is furnished by the Underwriter and represents the initial yield to the public to the conclusion of the Initial Rate Period, which may subsequently be changed.

⁽³⁾CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Underwriter, the District or the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

(Remainder of this page intentionally left blank.)

CORPUS CHRISTI INDEPENDENT SCHOOL DISTRICT

Mailing Address: P.O. Box 110
Corpus Christi, Texas 78403
Physical Address: 801 Leopard Street,
Corpus Christi, Texas 78403
Phone: (361) 695-7200
Facsimile: (361) 886-9282

ELECTED OFFICIALS

Name	Years Served	Term Expires (November)	Occupation
Mr. Tony Elizondo President	2	2020	Director of Operations Abrasives, Inc.
Ms. Catherine G. Susser Vice-President	3	2018	Community Volunteer
Ms. Alice Upshaw Hawkins Assistant Secretary	1	2020	Del Mar College Professor
Dr. Tony C. Diaz Board Member	3	2018	Retired Educator
Mr. Stuart M. Bell Board Member	1	2020	Retired Educator
Mr. John Longoria Board Member	11	2018	AEP Texas Executive
Ms. Jane Bell Board Member	5	2020	Civic Leader and Community Volunteer

ADMINISTRATION

Name	Position	Length of Service With the District	Length of Service in Present Position
Dr. Roland Hernandez	Superintendent	7 years	3 years
Ms. Donna Hohn	Comptroller	20 years	15 years

CONSULTANTS AND ADVISORS

Bond CounselBracewell LLP
San Antonio, Texas

Certified Public Accountants Collier, Johnson & Woods, P.C.
Corpus Christi, Texas

Financial AdvisorFrost Bank Capital Markets Division
San Antonio, Texas

For Additional Information Please Contact:

Ms. Donna Hohn
Comptroller
Corpus Christi Independent School District
Mailing: P.O. Box 110
Corpus Christi, Texas 78401
Physical: 801 Leopard
Corpus Christi, Texas 78403
Phone: (361) 695-7331
Facsimile: (361) 886-9888
donna.hohn@ccisd.us

Mr. Victor Quiroga, Jr.
Senior Vice President
Mr. Phil Martin
Vice President
Frost Bank Capital Markets Division
100 West Houston Street, Suite 110
San Antonio, Texas 78205
Phone: (210) 220-5701 or (713) 388-1547
Facsimile: (210) 220-4111
victor.quiroga@frostbank.com
phil.martin@frostbank.com

USE OF INFORMATION IN THE OFFERING MEMORANDUM

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended (the "Rule"), this Preliminary Offering Memorandum constitutes an "official statement" of the District with respect to the Bonds that has been "deemed final" by the District as of its date except for the omission of no more than the information permitted by the Rule.

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 Offering Memorandum, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Issuer or the Underwriter. This Offering Memorandum 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 the 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 Offering Memorandum 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 UNDERWRITER 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 Offering Memorandum 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 OFFERING MEMORANDUM, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

None of the District, the Financial Advisor, or the Underwriter makes any representation or warranty with respect to the information contained in this Offering Memorandum 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 Underwriter has provided the following sentence for inclusion in this Offering Memorandum. The Underwriter has reviewed the information in this Offering Memorandum in accordance with its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

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

THE COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY AND IS NOT INTENDED AS A SUMMARY OF THIS OFFERING. INVESTORS SHOULD READ THIS ENTIRE OFFERING MEMORANDUM, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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 Offering Memorandum for purposes of, and as that term is defined in the Rule.

TABLE OF CONTENTS

COVER PAGE	1	POSSIBLE EFFECTS OF WEALTH TRANSFER	
ELECTED AND APPOINTED OFFICIALS	3	PROVISIONS ON THE DISTRICT'S FINANCIAL	
USE OF INFORMATION IN THE OFFERING MEMORANDUM	4	CONDITION	37
SELECTED DATA FROM THE OFFERING MEMORANDUM	5	INVESTMENT POLICIES	38
INTRODUCTORY STATEMENT	7	AD VALOREM TAX PROCEDURES	40
THE BONDS	7	THE PROPERTY TAX CODE AS APPLIED TO THE	
BOOK-ENTRY-ONLY SYSTEM	15	DISTRICT	44
SOURCES AND USES OF FUNDS	16	TAX RATE LIMITATIONS	45
THE PERMANENT SCHOOL FUND GUARANTEE		DEBT LIMITATIONS	46
PROGRAM	17	EFFECTS OF SEQUESTRATION ON	
STATE AND LOCAL FUNDING OF SCHOOL		CERTAIN OBLIGATIONS	47
DISTRICTS IN TEXAS	33	TAX MATTERS	48
CURRENT PUBLIC SCHOOL FINANCE SYSTEM	34	CONTINUING DISCLOSURE OF INFORMATION	50
		LEGAL MATTERS	52
		OTHER PERTINENT INFORMATION	53
Financial Information for the Corpus Christi Independent School District.....			APPENDIX A
General Information Regarding the District, the City of Corpus Christi, Texas and Nueces and San Patricio Counties, Texas.....			APPENDIX B
Form of Opinion of Bond Counsel			APPENDIX C
Excerpts from the Issuer's Audited Financial Statements for the Year Ended August 31, 2017.....			APPENDIX D

The cover page, subsequent pages hereof, and appendices attached hereto, are part of this Offering Memorandum.

SELECTED DATA FROM THE OFFERING MEMORANDUM

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

The Issuer

The Corpus Christi Independent School District (the "Issuer" or the "District") is a political subdivision of the State of Texas primarily located in Nueces County with small amounts in San Patricio County, and includes a major portion of the City of Corpus Christi, Texas, the county seat of Nueces County, a trade center and shipping point located on the Gulf Coast. The District's 2018 population is approximately 229,579.

The Issuer was created under State law and is governed by an elected seven-member Board of Trustees (the "Board") of which each member serves a staggered three-year term. (See "APPENDIX B - General Information Regarding the Corpus Christi Independent School District, the City of Corpus Christi, Texas and Nueces and San Patricio Counties, Texas" herein.)

The Bonds and Authority for Issuance

The District's Variable Rate Unlimited Tax School Building Bonds, Series 2018A (the "Bonds") are being issued pursuant to the Constitution and laws of the State of Texas (the "State"), including Section 45.001 and Section 45.003(b)(1), Chapter 45 Texas Education Code, as amended, Chapter 1371, Texas Government Code, as amended ("Chapter 1371"), an election held in the District on November 8, 2016 (the "Election"), and an order (the "Bond Order") adopted by the Board on May 14, 2018. In the Bond Order, as permitted by Chapter 1371, the Board delegated to certain Authorized Officers of the District the authority to approve the final terms of sale of the Bonds and to execute a pricing certificate (the "Pricing Certificate") to effectuate the sale of the Bonds. (The Bond Order and the Pricing Certificate are collectively referred to herein as the "Order.") (See "THE BONDS - Authority for Issuance" herein.) In close proximity with its issuance of the Bonds, the District plans to issue approximately \$59,565,000* Unlimited Tax School Building Bonds, Series 2018 (the "Series 2018 Bonds"), for the same purposes, and as the final installment of, the authority provided by the Election, provided, however, that the combined aggregate principal amount of the Bonds together with the Series 2018 Bonds issued contemporaneously herewith will not exceed \$59,565,000. (See "INTRODUCTORY STATEMENT – Contemporaneous Bond Sale" herein.)

Initial Interest Rate; Tender; Failed Remarketing

The "Initial Rate Period" for the Bonds shall mean the period commencing on the date of their date of initial delivery to the Underwriter to and including August __, 20___. During this Initial Rate Period, the Bonds shall bear interest at the per annum rate of __.____%, which is the "Initial Rate" for the Bonds. Interest on the Bonds during the Initial Rate Period will be payable on each February 15 and August 15, commencing on February 15, 2019, and on the hereinafter-defined Conversion Date as part of the herein-defined Purchase Price if such date is not a regularly scheduled Interest Payment Date, calculated on the basis of a 360-day year of twelve 30-day months.

The Order obligates the District to use its best efforts to cause the Bonds to be converted from the Initial Rate Period to a different Rate Period (as defined herein), effective August __, 20__ (the "Conversion Date"). On the Conversion Date, the Bonds will be subject to mandatory tender for purchase, without the right of retention by the holders thereof, to the Tender Agent at its designated office.

The District has not entered into a standby bond purchase agreement, liquidity facility or similar agreement providing liquidity support for the Bonds nor is one currently contemplated to be entered into in the future. The Permanent School Fund Guarantee does not provide liquidity support for the Bonds. Accordingly, in the event that all of the Bonds are not converted into one or more new Rate Periods and remarketed to new Holders for settlement thereto as hereinbefore described, the District will have no obligation to purchase any of such Bonds mandatorily tendered for purchase on such date, and the District's notice of mandatory tender will be deemed to be rescinded for that date with respect to the Bonds. The occurrence of the foregoing will not result in an event of default under the Order or the Bonds. Until such time as the District redeems or remarkets Bonds that have not been successfully remarketed as described above, such Bonds shall bear interest at the "Stepped Rate" for the duration of the Stepped Rate Period (as defined herein), calculated on the basis of a 360-day year of twelve 30-day months and the actual number of days elapsed. The Stepped Rate for the Bonds is a per annum rate of __.____%.

During the Initial Rate Period, the Bonds are not subject to optional tender. On the Conversion Date, the Bonds are subject to mandatory tender with no right of retention, subject only to the successful conversion and remarketing of the Bonds into a new Rate Period or Periods, as described above.

See "THE BONDS" herein for a description of the characteristics of the Bonds in the Initial Rate Period.

*Preliminary, subject to change, provided, however, that the combined aggregate principal amount of the Bonds together with the Series 2018 Bonds issued contemporaneously herewith will not exceed \$59,565,000.

Paying Agent/ Registrar and Tender Agent	The initial Paying Agent/Registrar and Tender Agent is UMB Bank, N.A., Houston, Texas.
Security	The Bonds constitute direct and voted obligations of the District, payable from a continuing direct annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property within the District. Additionally, the payment of the Bonds is expected to be guaranteed by the Permanent School Fund of Texas which guarantee will become effective when the Attorney General of Texas approves the Bond. (see "The BONDS - Security" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.)
Permanent School Fund Guarantee	The District has made application to the Texas Education Agency (the "TEA") and has received conditional approval for the Bonds to be guaranteed by the corpus of the Permanent School Fund. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.)
Optional and Mandatory Redemption	The Bonds are not subject to optional redemption prior to the expiration of the Initial Rate Period; provided, however, the Bonds are subject to optional redemption on the Conversion Date and on any Business Day during such time that such Bonds bear interest at the Stepped Rate. (See "THE BONDS – Tender Provisions – <i>Effects of a Failed Remarketing</i> ," and "THE BONDS - Optional Redemption" herein.) The Bonds are subject to mandatory redemption in the amounts and at the times provided in the Order and as described herein under the subcaption "THE BONDS – Mandatory Redemption".
Tax Exemption	In the opinion of Bond Counsel, under existing law interest on the Bonds is excludable from gross income for federal income tax purposes and the Bonds are not "private activity bonds". See "TAX MATTERS" herein for a discussion of the opinion of Bond Counsel. Additionally, see "THE BONDS – Rate Period Changes" herein identifying circumstances when an opinion of nationally recognized bond counsel is required as a condition for an interest rate mode conversion.
Use of Proceeds	Proceeds from the sale of the Bonds will be used for the purpose of acquiring, constructing, renovating and equipping of school buildings in the District, for the purchase of necessary sites for school buildings, and to pay the costs of issuing the Bonds (see "THE BONDS – Use Of Bond Proceeds" herein).
Ratings	Moody's Investors Service, Inc. ("Moody's") and S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("S&P"), have rated the Bonds "Aaa" and "AAA" respectively, 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 ratings of the District's unlimited ad-valorem tax-supported bonds, which includes the Bonds, are "Aa2" and "AA" (stable outlook) by Moody's and S&P, respectively. See "OTHER PERTINENT INFORMATION – Ratings" herein.
Book-Entry-Only System	The District has received conditional approval from the TEA for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of the State of Texas. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. No physical delivery of the Bonds will be made to the beneficial owners thereof. The principal of, premium, if any, and interest on the Bonds at maturity or on a prior redemption date 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 and the Series 2018 Bonds, the Issuer does not anticipate the issuance of additional ad valorem tax supported debt in 2018. (See "INTRODUCTORY STATEMENT – Contemporaneous Bond Sale" herein.) After the issuance of the Bonds and the Series 2018 Bonds issued contemporaneously herewith, the District will have no remaining authorized but unissued bonds approved by the voters at the Election.
Delivery	When issued, anticipated on or about August 28, 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 Bracewell LLP, San Antonio, Texas, Bond Counsel.

PRELIMINARY OFFERING MEMORANDUM
relating to

\$19,820,000*

CORPUS CHRISTI INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Nueces and San Patricio Counties, Texas)
VARIABLE RATE UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018A

INTRODUCTORY STATEMENT

This Preliminary Offering Memorandum, which includes the appendices hereto, provides certain information in connection with the issuance by the Corpus Christi Independent School District (the "District" or "Issuer") of its \$19,820,000* Variable Rate Unlimited Tax School Building Bonds, Series 2018A (the "Bonds") identified on page 2 hereof.

The Issuer is a body corporate and a political subdivision of the State of Texas (the "State") duly organized and existing under the laws of the State. The Bonds are issued pursuant to the Constitution and laws of the State, including Sections 45.001 and 45.003(b)(1), Chapter 45, Texas Education Code, as amended ("Chapter 45"), Chapter 1371, Texas Government Code, as amended ("Chapter 1371"), an election held in the District on November 8, 2016 (the "Election"), and an order (the "Bond Order") adopted by the Board of Trustees (the "Board") of the District on May 14, 2018. In the Bond Order, as permitted by Chapter 1371, the Board delegated to certain Authorized Officers of the District the authority to approve the final terms of sale of the Bonds and to execute a pricing certificate (the "Pricing Certificate") to effectuate the sale of the Bonds. (See "THE BONDS – Authority for Issuance" herein.) The Bond Order and the Pricing Certificate are collectively referred to herein as the "Order."

Unless otherwise indicated, capitalized terms used in this Offering Memorandum have the same meanings assigned to such terms in the Order. Included in this Offering Memorandum 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, by electronic mail or upon payment of reasonable mailing, handling, and delivery charges.

This Offering Memorandum speaks only as of its date, and the information contained herein is subject to change. A copy of the Offering Memorandum 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.

This Offering Memorandum does not describe the terms and provisions of the Bonds or the Order as they relate to the Bonds following the Initial Rate Period (defined herein) except as described herein in connection with the mandatory tender for purchase following the conclusion of the Initial Rate Period. See "THE BONDS – Tender Provisions." Upon mandatory tender for purchase of the Bonds as described herein, the Bonds are expected to be remarketed. At the time of such remarketing, a new offering document or supplement to this Offering Memorandum will be prepared for such remarketing of the Bonds into a new Rate Period or Periods.

Contemporaneous Bond Sale

In close proximity with its issuance of the Bonds, the District plans to issue its \$59,565,000* Unlimited Tax School Building Bonds, Series 2018 (the "Series 2018 Bonds"). Although issued according to a common plan of finance (the Series 2018 Bonds are issued as the final installment of and pursuant to the same authority granted to the District through the Election and for the same authorized purposes as the Bonds), this Offering Memorandum describes only the Bonds, provided, however, that the combined aggregate principal amount of the Bonds together with the Series 2018 Bonds issued contemporaneously herewith will not exceed \$59,565,000. Investors interested in purchasing the Series 2018 Bonds should review the offering document related thereto.

THE BONDS

Authority for Issuance

The Bonds are issued pursuant to the Constitution and the laws of the State of Texas, including Chapter 45 Texas Education Code, as amended ("Chapter 45"), Chapter 1371 Texas Government Code, as amended ("Chapter 1371"), the Election, and the Order.

At the Election held on November 8, 2016, registered voters of the District approved and authorized the District to issue bonds in the amount of \$194,565,000 for the purpose of acquiring, constructing, renovating, and equipping school buildings in the District and the purchase of the necessary sites for school buildings. The Bonds and the Series 2018 Bonds represent the third and fourth, and final, issuances of indebtedness from this voted authorization. After the issuance of the Bonds and the Series 2018 Bonds, the District will have approximately \$0 in voted authority remaining from the Election.

Use Of Bond Proceeds

Proceeds from the sale of the Bonds will be used for the purpose of acquiring, constructing, renovating and equipping of school buildings in the District, for the purchase of necessary sites for school buildings, and to pay the costs of issuing the Bonds (see "SOURCES AND USES OF FUNDS" herein).

**Preliminary, subject to change, provided, however, that the combined aggregate principal amount of the Bonds together with the Series 2018 Bonds issued contemporaneously herewith will not exceed \$59,565,000.*

Security

The Bonds are payable from a continuing direct annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property within the District (see "TAX RATE LIMITATIONS" herein). Additionally, the District has received from the Texas Education Agency (the "TEA") conditional approval for the payment of scheduled principal and interest on the Bonds, when due, to be guaranteed by the Permanent School Fund, however the Permanent School Fund Guarantee is not effective with respect to the payment of the Purchase Price (defined herein) for Bonds tendered on the Conversion Date (defined herein). (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM", "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" herein.)

Permanent School Fund Guarantee

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

General

Authorized Denominations. During the Initial Rate Period, the Bonds will be issued in denominations of \$5,000 and any integral multiple thereof.

Calculation of Interest. Interest on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months while the Bonds bear interest at the Initial Rate and on the basis of a 360-day year of twelve 30-day months and the actual number of days elapsed while Bonds bear interest at the Stepped Rate.

Interest Payment Methods. While the Bonds bear interest at the Initial Rate or the Stepped Rate, interest on the Bonds will be paid by check, sent by first class mail, to the owner of record on the Record Date or by such other customary banking arrangement acceptable to the Paying Agent/Registrar requested by and at the risk and expense of the Owner.

Book-Entry System of Registration and Payment. The Bonds will be issued as Book-Entry-Only securities through The Depository Trust Company ("DTC"). Use of the DTC Book-Entry-Only System will affect the timing and receipt of payment of interest on and principal of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM."

Interest Payment Dates. Interest on the Bonds during the Initial Rate Period will accrue from the date of their initial delivery to the Underwriter (anticipated to occur on or about August 28, 2018) through and including the last day of the Initial Rate Period (being August __, 20__). During the Initial Rate Period, interest on the Bonds will be payable on each February 15 and August 15, commencing February 15, 2019, and on the Conversion Date as part of the Purchase Price if such date is not a regularly scheduled Interest Payment Date. Interest on Bonds in a Stepped Rate Period (as defined herein) will be payable on each February 15 and August 15 during such period and on the day such Bonds are converted from the Stepped Rate Period to a different Rate Period (as defined herein).

Payment and Performance on Business Days. In the Order, "Business Day" is defined to mean any day other than (i) a Saturday, Sunday or legal holiday, or (ii) a day on which banking institutions located in New York, New York, Dallas, Texas, or in any city in which the corporate trust office or designated payment/transfer office of the Paying Agent/Registrar, the Tender Agent or the primary office of the Remarketing Agent are located, are required or authorized by law to remain closed, or (iii) a day on which the New York Stock Exchange or DTC is closed. If the date for the scheduled payment of the principal of or interest on the Bonds is not a Business Day, the date for such payment shall be the next succeeding Business Day and payment on such date shall for all purposes be deemed to have been made on the due date thereof and no interest shall accrue on such payments in the interim. In addition, unless otherwise provided in the Order, in the event that the day on which any act or function is to be performed or done is not a Business Day, such act or function shall be performed or done on the next succeeding Business Day.

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

Tender Agent. UMB Bank, N.A., Houston, Texas, will serve as the initial tender agent (the "Tender Agent"), for the Bonds. In the event that the Book-Entry-Only System described herein is discontinued and certificated Bonds are issued, all Bonds are required to be physically delivered to UMB Bank, N.A., 5555 San Felipe, Suite 870, Houston, Texas 77056.

Remarketing Agent and Remarketing Agreement. In the Order, the District has covenanted to identify and enter into a contract with a qualified financial institution to serve as remarketing agent for the Bonds (the "Remarketing Agent") prior to the commencement of the remarketing of the Bonds, and to retain such Remarketing Agent for so long, as required by the provisions of the Order. The District anticipates identifying the initial Remarketing Agent for the Bonds at or about the time the Board, prior to the expiration of the Initial Rate Period, adopts the order authorizing the remarketing of the Bonds from the Initial Rate Period into a subsequent interest rate mode. The offering memorandum prepared by the District in conjunction with such remarketing of the Bonds will describe the terms of the agreement between the District and the Remarketing Agent, serving the District in such capacity.

Legality. The Bonds are offered when, as and if issued, and subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Bracewell LLP, San Antonio, Texas, Bond Counsel (whose legal opinion will be printed on or attached to the Bonds (see "LEGAL MATTERS" and "APPENDIX C – FORM OF OPINION OF BOND COUNSEL" herein).

Payment Record. The District has never defaulted in payment of its tax supported debt.

Initial Interest Rate

AS STATED HEREIN UNDER "INTRODUCTORY STATEMENT", THE BONDS ARE SUBJECT TO CONVERSION TO OTHER INTEREST RATE MODES AT THE TIMES AND UPON THE CONDITIONS DESCRIBED IN THE ORDER FOLLOWING A MANDATORY TENDER FOR PURCHASE OF SUCH BONDS. THIS OFFERING MEMORANDUM IS NOT INTENDED TO PROVIDE INFORMATION WITH RESPECT TO THE BONDS AFTER CONVERSION TO ANY NEW INTEREST RATE MODE OR INTEREST RATE PERIOD (INCLUDING ANY SUBSEQUENT TERM RATE PERIOD). PURCHASERS OF THE BONDS SHOULD NOT RELY ON THIS OFFERING MEMORANDUM FOR INFORMATION CONCERNING ANY OTHER INTEREST RATE MODE OR INTEREST RATE PERIOD FOR THE BONDS OTHER THAN THE HEREINAFTER DEFINED INITIAL RATE PERIOD.

The "Initial Rate Period" for the Bonds shall mean the period commencing on the date of initial delivery thereof to the Underwriter (anticipated to occur on or about August 28, 2018) to and including August __, 20___. During this Initial Rate Period, the Bonds shall bear interest at the per annum rate of __.____%, which is the "Initial Rate" for the Bonds. Interest on the Bonds during the Initial Rate Period will be payable on each February 15 and August 15, commencing on February 15, 2019, and on the Conversion Date as part of the Purchase Price if such date is not a regularly scheduled interest payment date, calculated on the basis of a 360-day year of twelve 30-day months.

During the Initial Rate Period, the Bonds are not benefitted by a standby bond purchase agreement, liquidity facility or similar agreement providing liquidity support for the Bonds, nor is one currently contemplated to be entered into in the future.

In the event that all of the Bonds are not converted into one or more Rate Periods and remarketed to new purchasers on the Conversion Date (as defined herein) for such Bonds, all such Bonds will bear interest at the Stepped Rate, calculated on the basis of a 360-day year of twelve 30-day months and the actual number of days elapsed, until all such Bonds are subsequently converted and remarketed by the Remarketing Agent or redeemed by the District (such period, the "Stepped Rate Period") (see "THE BONDS – Rate Period Changes" and "THE BONDS – Tender Provisions – Effects of a Failed Remarketing"). The Stepped Rate for the Bonds is a per annum rate of __.____%.

Rate Period Changes

The Order obligates the District to use its best efforts to cause the Bonds to be converted from the Initial Rate Period to a different Rate Period (as defined herein), effective August __, 20__ (the "Conversion Date"). On the Conversion Date, the Bonds are subject to mandatory tender for purchase, without the right of retention by the holders thereof, to the Tender Agent at its designated office, and are to be converted from the Initial Rate Period to one or more different Rate Periods established under the Order (see "THE BONDS – Tender Provisions – Mandatory Tender"). The "Rate Periods" established under the Order include a weekly rate period, monthly rate period, quarterly rate period, semiannual rate period, term rate period, flexible rate period and fixed rate period. The Order does not obligate the District to obtain a liquidity facility providing liquidity support for the Bonds upon the conversion thereof from the Initial Rate Period to a term rate period or the fixed rate period. Any liquidity facility obtained by the District in connection with the conversion of the Bonds following the Initial Rate Period will not be available to pay any portion of the Purchase Price of the Bonds on the Conversion Date.

The District may elect to convert the Bonds from the Initial Rate Period to one or more Rate Periods by notice given to the Paying Agent/Registrar and certain other notice parties at least 30 days prior to the Conversion Date. Such notice shall specify the Conversion Date and the Rate Period or Periods to which the conversion is expected to be made. Such notice shall also specify the conditions, if any, to the conversion and the consequences of such conditions not being fulfilled. Not less than 20 days prior to the Conversion Date (or 15 days if the conversion is to a fixed rate), the Paying Agent/Registrar shall send a written notice of the conversion and the mandatory tender of the Bonds to the registered owners thereof. See "THE BONDS – Tender Provisions – Mandatory Tender." While the Bonds are in book-entry form, registered to DTC, such notice will be given only to DTC.

Any conversion from the Initial Rate Period to any other Rate Period will be conditioned on delivery of an opinion of nationally recognized bond counsel to the effect that the conversion is authorized or permitted by the Order and State law and will not adversely affect the excludability of interest on the Bonds from gross income of the owners thereof for federal income tax purposes. Bond Counsel expresses no opinion as to the effect on excludability from gross income for federal income tax purposes of any action taken which requires the receipt of an opinion of a nationally recognized bond counsel.

Following the Initial Rate Period, the interest rate determined for the applicable Rate Period (other than the Stepped Rate Period) shall be the lowest rate of interest which in the judgment of the Remarketing Agent, in cooperation with the District, would cause the Bonds to have a market value equal to not less than 100% of the principal amount thereof plus accrued interest thereon under prevailing market conditions as of the date such interest rate is determined.

In no event will the interest rate borne while the Bonds are in any Rate Period exceed the “Maximum Rate,” which is defined in the Order to mean the lesser of ____% and the maximum net effective interest rate permitted under Chapter 1204, Texas Government Code, as amended (or any successor provision), which is 15%.

Tender Provisions

Optional Tender. The Bonds are not subject to optional tender at the election of the holders thereof for purchase during the Initial Rate Period.

Mandatory Tender. The Bonds are subject to mandatory tender for purchase, without the right of retention by the holders thereof, (i) on the Conversion Date for such Bonds (see “THE BONDS – Rate Period Changes”), and (ii) on any date during the Stepped Rate Period upon which a conversion of such Bonds to a different Rate Period occurs (see “THE BONDS – Tender Provisions – Effects of a Failed Remarketing”), in each case, at a price equal to the par amount thereof, plus accrued but unpaid interest thereon to the date of purchase (the “Purchase Price”); provided, however, that accrued interest will not be taken into account in the computation of the Purchase Price if the applicable date of purchase is a scheduled Interest Payment Date (see “THE BONDS – General – Interest Payment Dates”).

Payment of the Purchase Price of Bonds to be purchased upon mandatory tender as described herein will be made by the Tender Agent by wire transfer in immediately available funds.

Interest on any Bond that is not tendered on the mandatory tender date, but for which there has been irrevocably deposited with the Tender Agent an amount sufficient to pay the Purchase Price thereof, will cease to accrue on the mandatory tender date. Thereafter, the Owner of such Bond will not be entitled to any payment other than the Purchase Price for such Bond from money held by the Tender Agent for such payment, and such Bond will not otherwise be outstanding or entitled to the benefits of the Order. On the mandatory tender date, the Tender Agent will authenticate and deliver substitute Bonds in lieu of such untendered Bonds.

Remarketing and Purchase. In the Order, the District is obligated to engage a Remarketing Agent that will be required to use its best efforts to remarket the Bonds on each mandatory tender date. The Purchase Price of Bonds tendered for purchase is required to be paid by the Tender Agent from the money derived from the remarketing of such Bonds by the Remarketing Agent, however, should the date for the mandatory tender of the Bonds occur on a scheduled Interest Payment Date, the accrued interest portion of the Purchase Price is to be paid by the District.

Effects of a Failed Remarketing. The Order obligates the District to use its best efforts to take all such actions required by the Order to be performed by the District to cause all Bonds to be converted from the Initial Rate Period to a different Rate Period on the Conversion Date for such Bonds (see “THE BONDS – Rate Period Changes”).

The Bonds are subject to mandatory tender for purchase, without right of retention by the holders thereof, on the Conversion Date for such Bonds at the Purchase Price (see “THE BONDS – Tender Provisions – Mandatory Tender”). **In the event that all of the Bonds subject to such mandatory tender are not converted into one or more Rate Periods and remarketed to new purchasers on the scheduled date of mandatory tender, the District shall have no obligation to purchase any of the Bonds tendered on such date, the failed conversion and remarketing shall not constitute an event of default under the Order or the Bonds, the mandatory tender will be deemed to have been rescinded for that date with respect to all of the Bonds, and the Bonds (i) will continue to be Outstanding, (ii) will be purchased upon the availability of funds to be received from the subsequent remarketing of the Bonds, (iii) will bear interest at the Stepped Rate during the Stepped Rate Period, (iv) will be subject to redemption and mandatory tender for purchase at the Purchase Price on any date during the Stepped Rate Period upon which a conversion occurs (which shall occur at the District’s discretion upon delivery of at least one day’s notice to the holders thereof), and (v) will be deemed to continue in an Initial Rate Period for all other purposes of the Order (including the identification of interest payment dates until the Bonds are remarketed or redeemed), though bearing interest during such time at the Stepped Rate calculated and on the basis of a 360-day year of twelve 30-day months and the actual number of days elapsed, until remarketed or redeemed in accordance with the terms of the Order. In the event of a failed conversion and remarketing as described in this caption, the District will use its best efforts to cause such Bonds to be converted and remarketed on the earliest reasonably practicable date on which such Bonds can be sold at not less than par plus accrued interest, in such Rate Period or Rate Periods as the District directs, at a rate not exceeding the Maximum Rate. See “THE BONDS – Rate Period Changes.”**

Optional Redemption

The Bonds are not subject to optional redemption prior to the expiration of the Initial Rate Period; provided, however, the Bonds are subject to optional redemption on the Conversion Date (being the first Interest Payment Date immediately succeeding the conclusion of the Initial Rate Period) and on any Business Day during such time that the Bonds bear interest at the Stepped Rate (see “THE BONDS – Tender Provisions – *Effects of a Failed Remarketing*”).

In addition to the foregoing and notwithstanding the notice provisions set forth below, the District, at its option, may purchase for cancellation or redeem any Bond subject to mandatory tender on any mandatory tender date therefor (including on the Conversion Date) without notice to any Owner, at a price equal to the principal amount thereof plus any accrued and unpaid interest.

Mandatory Redemption

Scheduled Mandatory Redemption for the Bonds. The Bonds are subject to scheduled mandatory redemption prior to stated maturity as follows:

Mandatory Redemption ⁽¹⁾			
<u>Date</u>	<u>Redemption</u>	<u>Date</u>	<u>Redemption</u>

⁽¹⁾ Scheduled final maturity.

Prior to each scheduled mandatory redemption date for the Bonds required to be redeemed pursuant to the provisions of the Order described above in “THE BONDS – Mandatory Redemption – *Scheduled Mandatory Redemption for the Bonds*”, the Paying Agent/Registrar shall select for redemption by lot, or by any other customary method that results in a random selection, a principal amount of Bonds equal to the aggregate principal amount of such Bonds to be redeemed, shall call such Bonds for redemption on such scheduled mandatory redemption date, and shall give notice of such redemption, as provided in the Order.

The principal amount of the Bonds required to be redeemed on any redemption date pursuant to the provisions of the Order described above in “THE BONDS – Mandatory Redemption – *Scheduled Mandatory Redemption for the Bonds*”, shall be reduced by the principal amount of any Bonds of the same maturity which, at least 45 days prior to the mandatory sinking fund redemption date (i) shall have been acquired by the District at a price not exceeding the principal amount of such Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, or (ii) shall have been redeemed pursuant to the optional redemption provisions of the Order described herein and not previously credited to a mandatory sinking fund redemption. Bonds purchased for cancellation or redeemed pursuant to the optional redemption provisions of the Order described herein that are required to be redeemed pursuant to the provisions of the Order described above in “THE BONDS – Mandatory Redemption – *Scheduled Mandatory Redemption for the Bonds*”, shall be credited against future mandatory redemption payments in accordance with the provisions of the following sentence. In lieu of mandatorily redeeming the Bonds subject to the provisions of the Order described above in “THE BONDS – Mandatory Redemption – *Scheduled Mandatory Redemption for the Bonds*”, the District reserves the right to purchase for cancellation such Bonds of the same maturity at a price no greater than the applicable redemption price of such Bonds.

Additional Mandatory Redemption.

In each fiscal year in which the Bonds are outstanding and accruing interest at the Initial Rate, the District shall, at the District's discretion, budget for such fiscal year and levy taxes for the payment of interest on the Bonds based on an interest rate on the Bonds equal to the actual rate borne thereby or the per annum rate prescribed by the Board not exceeding the Maximum Rate. At the end of the fiscal year in which the District levies a tax based on the interest rate on the Bonds being equal to the per annum rate prescribed by the Board not exceeding the Maximum Rate, the District shall determine whether the interest paid on the Bonds in such fiscal year is less than an amount equal to the per annum rate prescribed by the Board not exceeding the Maximum Rate. If in such circumstance the amount of interest paid on the Bonds is less than an amount equal to the per annum rate prescribed by the Board not exceeding the Maximum Rate, the District shall cause the difference between the amount budgeted at the per annum rate prescribed by the Board not exceeding the Maximum Rate and the amount paid on the Bonds (the “Excess Interest Funds”) to be allocated and appropriated for the payment of the mandatory redemption of Bonds on the first August 15 next following the end of such fiscal year; provided the amount of such Excess Interest Funds is equal to or greater than \$100,000. In each fiscal year when the amount of Excess Interest Funds is equal to or greater than \$100,000, the District shall cause Bonds in a principal amount equivalent to the Excess Interest Funds to be redeemed on the August 15 next following the end of such fiscal year at the redemption price of par plus accrued interest to the date of redemption. The mandatory redemption of Bonds in accordance with the provision of the Order described in this paragraph shall be in addition to the amount of Bonds to be mandatorily redeemed as set forth in “THE BONDS – Mandatory Redemption – *Scheduled Mandatory Redemption for the Bonds*”. Given the timing of the District's ad valorem tax levy, the earliest that a mandatory redemption using Excess Interest Funds could occur is August 15, 2019.

At least 45 days prior to each mandatory redemption date, the District will notify the Paying Agent/Registrar and the Remarketing Agent in writing of the principal amount of Bonds to be mandatorily redeemed on such mandatory redemption date, and instruct the Paying Agent/Registrar to select by lot or other customary random selection method the Bonds or portions thereof to be redeemed.

Bonds to be redeemed in any year by mandatory redemption shall be redeemed at par, plus accrued interest to the date of redemption, and shall be selected by the Paying Agent/Registrar by lot or other method that results in a random selection thereof. The District, at its option, may credit against any mandatory redemption requirement, Bonds which have been purchased by the District, using funds other than remarketing proceeds, at a price not exceeding the principal amount of such Bonds plus accrued interest to the date of purchase and canceled by the Paying Agent/Registrar, or have been optionally redeemed and not theretofore applied as a credit against any mandatory redemption requirement.

Notices of Redemption and DTC Notices

The Paying Agent/Registrar is required to cause notice of any redemption of Bonds to be mailed to each Rating Agency and Owner of Bonds to be redeemed at the respective addresses appearing in the registration books for the Bonds. Notice of redemption is required to (i) be mailed at least one Business Day prior to the redemption date with respect to Bonds bearing interest at the Stepped Rate and at least 30 days prior to the redemption date with respect to Bonds bearing interest at the Initial Rate (except for Bonds subject to mandatory tender for purchase on the Conversion Date, which may be redeemed by the District at its option without additional notice); (ii) identify the Bonds to be redeemed (specifying the numbers assigned to the Bonds if not held in a Book-Entry-Only System); (iii) specify the redemption date and the redemption price; and (iv) state that (A) on the redemption date the Bonds called for redemption will be payable at the designated office of the Paying Agent/Registrar, and (B) on and after the redemption date interest will cease to accrue.

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN AND ANY OTHER CONDITION TO REDEMPTION HAVING BEEN SATISFIED, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BONDS OR PORTION THEREOF HAVE NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BONDS OR PORTION THEREOF SHALL CEASE TO ACCRUE.

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

Transfer, Exchange and Registration

In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred only upon the presentation and surrender of the Bond at the designated trust office of the Paying Agent/Registrar with such endorsement or other evidence of transfer as is acceptable to the Paying Agent/Registrar. The Bonds shall be exchangeable upon the presentation and surrender thereof at the designated office of the Paying Agent/Registrar for a Bond or Bonds of the same series, maturity and interest rate and in any Authorized Denomination and in an aggregate principal amount equal to the unpaid principal amount of the Bonds presented for exchange. Each exchange Bond delivered by the Paying Agent/Registrar in accordance with the Order shall be entitled to the benefits and security of the Order to the same extent as the Bond or Bonds in lieu of which such exchange Bond is delivered. No service charge shall be made to the Owner for the initial registration, any subsequent transfer, or exchange for a different denomination of any of the Bonds. The Paying Agent/Registrar, as applicable, however, may require the Owner to pay a sum sufficient to cover any tax or other governmental charge that is authorized to be imposed in connection with the registration, transfer, or exchange of a Bond.

Replacement Bonds

In the event any outstanding Bond is damaged, mutilated, lost, stolen, or destroyed, the Paying Agent/Registrar shall cause to be printed, executed, and delivered, a new bond of the same series, principal amount, maturity, and interest rate, as the damaged, mutilated, lost, stolen, or destroyed Bond, in replacement for such Bond.

Application for replacement of damaged, mutilated, lost, stolen, or destroyed Bonds shall be made by the registered owner thereof to the Paying Agent/Registrar. In every case of loss, theft, or destruction of a Bond, the registered owner applying for a replacement bond shall furnish to the District and to the Paying Agent/Registrar such security or indemnity as may be required by them to save

each of them harmless from any loss or damage with respect thereto. Also, in every case of loss, theft, or destruction of a Bond, the registered owner shall furnish to the District and to the Paying Agent/Registrar evidence to their satisfaction of the loss, theft, or destruction of such Bond, as the case may be. In every case of damage or mutilation of a Bond, the registered owner shall surrender to the Paying Agent/Registrar for cancellation the Bond so damaged or mutilated. Notwithstanding the foregoing provisions of the Order described in this subcaption, in the event any such Bond shall have matured, and no default has occurred which is then continuing in the payment of the principal of, redemption premium, if any, or interest on the Bond, the District may authorize the payment of the same (without surrender thereof except in the case of a damaged or mutilated Bond) instead of issuing a replacement Bond, provided security or indemnity is furnished as provided above. Prior to the issuance of any replacement bond, the Paying Agent/Registrar shall charge the registered owner of such Bond with all legal, printing, and other expenses in connection therewith. Every replacement bond issued by virtue of the fact that any Bond is lost, stolen, or destroyed shall constitute a contractual obligation of the District whether or not the lost, stolen, or destroyed Bond shall be found at any time, or be enforceable by anyone, and shall be entitled to all the benefits of the Order equally and proportionately with any and all other Bonds of the same series duly issued under the Order.

Defeasance

The Order provides that the Bonds may be defeased, refunded or discharged in any manner now or hereafter permitted by applicable law. Defeasance will cancel the Permanent School Fund Guarantee with respect to those defeased Bonds.

Amendments

In the Order, the District has reserved the right to amend or supplement the Order without notice to or the consent of any registered owner of the Bonds (including any series thereof): (a) to cure or correct any ambiguity or defective provision in the Order or to correct or supplement any provision in the Order which may be inconsistent with any other provision contained therein; (b) to modify the Order or the Bonds to permit qualification under the Trust Indenture Act of 1939, as amended, or any similar federal statute at the time in effect, or to permit the qualification of the Bonds for sale under the securities laws of any state of the United States; (c) to authorize different authorized denominations of the Bonds and to make correlative amendments and modifications to the Order regarding exchangeability of Bonds of different authorized denominations, redemptions of portions of Bonds of particular authorized denominations and similar amendments and modifications of a technical nature; (d) to increase or decrease the number of days specified for the giving of notices in Articles III, IV and V of the Order, provided that no decreases in any such number of days shall become effective except while the Bonds bear interest at a Variable Rate and until 30 days after the Paying Agent/Registrar has given notice to the Owners of such Bonds of such amendment or supplement; (e) to provide for an uncertificated system of registering the Bonds or to provide for the change to or from a Book-Entry Only System for the Bonds; (f) to make any change to the Order when all Bonds have been tendered to the Remarketing Agent pursuant to the terms of the Order, but have not been remarketed following such tender; provided, however, that the Remarketing Agent consents to such amendment or supplement; (g) to provide for the benefit of all of the Bonds a liquidity facility (or a substitute liquidity facility, as the case may be), which may change the provisions of the Order regarding payment, remedies and any other matter which affects the registered owners of Bonds; (h) effective upon any Conversion Date to a new Rate Period, to make any changes to the Order affecting only the Bonds being converted; (i) to increase the Maximum Rate; or (j) to make any other change that does not, in the opinion of bond counsel to the District, materially adversely affect the interests of the registered owners of the Bonds.

If an amendment of or supplement to the Order or the Bonds without any consent of the registered owners thereof is not permitted by the provisions of the Order described in the immediately preceding paragraph, the District may enter into such amendment or supplement without prior notice to any registered owner of such Bonds but with the consent of registered owners of at least a majority in principal amount of the Bonds then Outstanding affected by such amendment or supplement. However, except as permitted by clauses (f), (g) and (h) of the immediately preceding paragraph, nothing contained in the Order shall permit or be construed to permit the amendment, without the consent of each registered owner affected thereby, of or supplement to the terms and conditions in the Order, so as to: (a) change the sinking fund requirements, if any, Interest Payment Dates, rights of the registered owners to tender or the maturity or maturities of the Outstanding Bonds; (b) reduce the rate of interest borne by any of the Outstanding Bonds; (c) reduce the amount of the principal or Purchase Price of or premium, if any, payable on the Outstanding Bonds; (d) modify the terms of payment of principal or Purchase Price of, premium, if any, or interest on the Outstanding Bonds, or impose any conditions with respect to such payments; (e) affect the rights of the registered owners of fewer than all of the Outstanding Bonds; or (f) decrease the minimum percentage of the principal amount of Outstanding Bonds necessary for consent to any such amendment.

Record Date for Interest Payment

The record date ("Record Date") for determining the party to whom interest on the Bonds is payable on any Interest Payment Date means with respect to Bonds bearing interest at the Initial Rate, the close of business on the Business Day immediately preceding the Interest Payment Date.

Legality

The Bonds are offered when, as and if issued, subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Bracewell LLP, San Antonio, Texas, Bond Counsel. (See LEGAL MATTERS" and APPENDIX C – "FORM OF OPINION OF BOND COUNSEL").

Payment Record

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

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.

Future Bond Issues

Except for the issuance of the Bonds and the Series 2018 Bonds the Issuer does not anticipate the issuance of additional ad valorem tax supported debt in the next twelve months. (See "INTRODUCTORY STATEMENT – Contemporaneous Bond Sale" herein.) After the issuance of the Bonds and the Series 2018 Bonds issued contemporaneously herewith, the District will have no remaining authorized but unissued bonds approved by the voters at the Election.

Bondholders' Remedies

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, and the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or Order and the District's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Chapter 1371, which pertains to the issuance of public securities by issuers such as the District, permits the District to waive sovereign immunity in the proceedings authorizing the issuance of the Bonds. Notwithstanding its reliance upon the provisions of Chapter 1371 in connection with the issuance of the Bonds (as further described under the caption "THE BONDS – Authority for Issuance"), the District has not waived the defense of sovereign immunity with respect thereto. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages outside of Chapter 1371, bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the United States Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity that permit the exercise of judicial discretion.

(Remainder of this page intentionally left blank.)

BOOK-ENTRY-ONLY SYSTEM

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

Neither the District nor the Underwriter can or do give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants (defined herein), (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners (defined herein), or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Offering Memorandum. 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). One fully-registered certificate will be issued for each maturity of each series of the Bonds in the aggregate principal amount of each such maturity and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, 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" and, together with the Direct Participants, the "DTC Participants"). DTC has a Standard & Poor's 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 transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the Book-Entry-Only System for the Bonds is discontinued. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/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. will consent or vote with respect to the 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 the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and principal and interest 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 dates in accordance with their respective holdings shown on DTC's records. Payments by DTC Participants to Beneficial Owners will be governed by standing instructions and customary practices, as in 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 DTC Participant and not of DTC, the Paying Agent or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC, is the responsibility of the District, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

The requirement for physical delivery of Bonds in connection with a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Tender Agent's DTC account.

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

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

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

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

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

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		\$
Net Premium/Discount on Bonds		
Total Sources of Funds		\$
	<u>Uses of Funds</u>	
Deposit to Construction Fund		\$
Underwriter's Discount		
Issuance Expenses ⁽¹⁾		
Contingency		
Total Uses of Funds		\$

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

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 Underwriter.

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

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

History and Purpose

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

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

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

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

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

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

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

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

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

The Total Return Constitutional Amendment

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

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

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

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

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

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

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

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

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

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

Management and Administration of the Fund

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

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

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

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

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

Capacity Limits for the Guarantee Program

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

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

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

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

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

(Remainder of this page intentionally left blank.)

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

Fiscal Year Ended 8/31	School District Bonds		Charter District Bonds		Totals	
	No. of Issues	Principal Amount	No. of Issues	Principal Amount	No. of Issues	Principal Amount
2014 ⁽²⁾	2,869	\$58,061,805,783	10	\$302,545,000	2,879	\$58,364,350,783
2015	3,089	63,197,514,047	28	757,935,000	3,117	63,955,449,047
2016	3,244	67,342,303,445	35	961,025,000	3,279	68,303,328,445
2017 ⁽³⁾	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_State_ment_-_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.

(Remainder of this page intentionally left blank.)

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. May 13, 2016) ("*Morath*"). The plaintiffs and intervenors in the case had alleged that the Finance System, as modified by the Legislature in part in response to prior decisions of the Court, violated article VII, section 1 and article VIII, section 1-e of the Texas Constitution. In its opinion, the Court held that "[d]espite the imperfections of the current school funding regime, it meets minimum constitutional requirements." The Court also noted that:

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

Possible Effects of Changes in Law on District Bonds

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

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

(Remainder of this page intentionally left blank.)

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

Local Funding for School Districts

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

POSSIBLE EFFECTS OF WEALTH TRANSFER PROVISIONS ON THE DISTRICT'S FINANCIAL CONDITION

The District's wealth per student for the 2017-18 school year is more than the equalized wealth value. Accordingly, the District has been required to exercise one of the permitted wealth equalization options. As a District with wealth per student in excess of the equalized wealth value, the District has reduced its wealth per student by sending payments directly to the State to purchase weighted average daily attendance credits (Option 3) under Chapter 41, Texas Education Code for the purpose of achieving property wealth equalization. As a so-called "Chapter 41 district", the District does not receive any State funding to pay debt service requirements on its outstanding indebtedness, including the Bonds. For a detailed discussion of State funding for school districts, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Funding for School Districts."

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.

(Remainder of this page intentionally left blank.)

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.

Investment Authority and Investment Practices of the District

Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) 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) certificates of deposit (i) meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (7) or in any other manner and amount provided by law for District deposits or, (ii) where 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; (9) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1), require the securities being purchased by the District or cash held by the District to be pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (10) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (12) through (14) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less; (11) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (13) no-load money market funds registered with and regulated by the SEC that provide the District with a prospectus and other information required by SEC Rule 2a-7; and (14) 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 "AAA-m" 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, 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 and (9) provide specific investment training for the Treasurer, the chief financial officer (if not the Treasurer) and the investment officer, (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, the Issuer had investable funds in the amount of \$329,144,798.80 invested in the following:

<u>Type of Investment</u>	<u>Amount</u>
Investment Pool	\$329,144,798.80

*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.

(Remainder of this page intentionally left blank.)

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 and San Patricio Counties Appraisal Districts (each an "Appraisal District") are responsible for appraising property within the District generally as of January 1 of each year. The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board of each respective Appraisal District (each an "Appraisal Review Board"), which is appointed by the respective Appraisal District's Board of Directors. Such appraisal rolls, as approved by the Appraisal Review Board, are used by the District in establishing its tax roll and tax rate.

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 is 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; \$10,000 State mandated exemption to residential homesteads of persons ages 65 or over or disabled; a State mandated exemption up to a maximum of \$12,000 for real or personal property of disabled veterans or the surviving spouse or children of an individual who died while on active duty in the armed forces; a State mandated \$25,000 in market value exemption for all residential homesteads (see "Residential Homestead Exemptions" below); and certain classes of intangible property. In addition, except for increases attributable to certain improvements, the District is prohibited by State law from increasing the total ad valorem tax on the residence homestead of persons 65 years of age or older or disabled persons above the amount of tax imposed in the year such residence qualified for an exemption based on age of the owner.

The freeze on ad valorem taxes on the homesteads of 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 deceased spouse who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as (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 when the deceased spouse died and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and the property remains the residence homestead of the surviving spouse.

Pursuant to a constitutional amendment approved by the voters on May 12, 2007, legislation was enacted to reduce the school property tax limitation imposed by the freeze on taxes paid on residence homesteads of persons 65 years of age or over or of disabled persons to correspond to reductions in local school district tax rates from the 2005 tax year to the 2006 tax year and from the 2006 tax year to the 2007 tax year (see "CURRENT SCHOOL FINANCE SYSTEM - Overview" herein.) The school property tax limitation provided by the constitutional amendment and enabling legislation apply to the 2007 and subsequent tax years. Owners of agricultural and open space land, under certain circumstances, may request valuation of such land on the basis of productive capacity rather than market value.

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 of the Tax Code as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. The 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 goods-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 tangible personal property. Senate Bill 1, passed by the 82nd Texas Legislature, 1st Called Session, requires that the governmental entities take affirmative action on or after October 1, 2011 but prior to January 1 of the first tax year in which the governing body proposes to tax goods-in-transit in the 2012 tax year and beyond. The District took affirmative action on or after October 1, 2011 but prior to January 1, 2012, 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.

Prior to September 1, 2001, school districts were allowed to enter into tax abatement agreements to encourage economic development. Under such agreements, a property owner agrees to construct certain improvements on its property. The school district in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years. School districts have been prohibited from entering into new tax abatement agreements since September 1, 2001. Notwithstanding the foregoing, in 2001 the Legislature enacted legislation known as the Texas Economic Development Act, Chapter 313, Texas Code, as amended ("Chapter 313") which provides incentives for school districts to grant limitations on appraised property values and provide ad valorem tax credits to certain corporations and limited liability companies to encourage economic development within the district. Generally, for the ten-year term of a tax limitation agreement, the school district may only levy and collect ad valorem taxes for maintenance and operation purposes on the agreed-to limited appraised property value. In determining a district's property value wealth per student, the Commissioner of Education will not take into account (1) the appraised value, in excess of the "frozen" value, of property that is located in a tax increment financing zone created after May 31, 1999 (except in certain limited circumstances where the municipality creating the tax increment financing zone gave notice prior to May 31, 1999 to all other taxing units that levy ad valorem taxes in the zone of its intention to create the zone and the zone is created and has its final project and financing plan approved by the municipality prior to August 31, 1999), or (2) for the loss of value of abated property under any abatement agreement entered into after May 31, 1993.

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 roll 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. 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 roll.

Residential Homestead Exemptions

The Texas Constitution permits the exemption of certain percentages of the market value of residential homestead from ad valorem taxation. The Constitution authorizes the governing body of each political subdivision in the State to exempt up to twenty-percent (20%) of the market value of all residential homesteads from ad valorem taxation, and permits an additional optional homestead exemption for taxpayers 65 years of age or older.

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.

Section 11.131 of the Texas 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.

Following the approval by the voters at a November 5, 2013 statewide election, a partially disabled veteran or the surviving spouse of a partially disabled veteran is entitled to an exemption equal to the percentage of the veteran's disability, if the residence was donated at no cost to the veteran by a charitable organization. Effective January 1, 2018, this exemption also applies to a residence homestead that was donated by a charitable organization at some cost to such veterans.

Also approved by the November 5, 2013 election was a constitutional amendment providing that 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. Effective January 1, 2018, the surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to an exemption of the total appraised value of the surviving spouse's residence homestead if the surviving spouse has not remarried since the first responder's death, and said property was the first responder's residence homestead at the time of death. Such exemptions are transferable to a subsequent residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

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 residential 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 been previously pledged for the payment of debt if cessation of the levy would impair the obligation of the contract by which the debt was created.

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

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. Split payments are not permitted. Discounts are not permitted.

The District is responsible for the collections of its taxes, unless it elects to transfer such functions to another governmental entity. By the later of September 30, or 60 days after the certified appraisal roll is delivered to the District, the rate of taxation is set by the Board based upon the valuation of property within the District as of the preceding January 1 and the amount required to be raised for debt service and maintenance and operations purposes. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty from six percent (6%) to twelve percent (12%) of the amount of the tax, depending on the time of payment, and accrues interest at the rate of one percent (1%) per month. If the tax is not paid by the following July 1, an additional penalty of up to twenty percent (20%)

may under certain circumstances be imposed by the District. The 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.

(Remainder of this page intentionally left blank.)

THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT

Each Appraisal District has the responsibility for appraising property in the District as well as other taxing units in Nueces and San Patricio Counties, Texas (each, a "County").

Each Appraisal District is governed by a board of eight directors appointed by taxing units within the respective 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's taxes are collected by the Nueces County Tax Assessor/Collector's Office (the "Tax Assessor Collector") only.

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

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

The District does not allow split payments of taxes.

The District does not allow for early payment of discounts.

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

The District does not grant tax abatements.

The District has entered into two Economic Development Agreements authorized under Chapter 313, each limiting the taxable appraised value to \$30,000,000, and each beginning in Tax Year 2015 and 2016, with voestalpine Texas LLC and Corpus Christi Liquefaction LLC, respectively, and each ending in Tax Year 2027 and 2028, respectively.

The District does not grant a freeport exemption 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 \$50,000 local option residence homestead exemption 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.

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	32 ^(a) (12)	6	38 (18 +20%)

(a) An additional penalty of up to 20% may be 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.

(Remainder of this page intentionally left blank.)

TAX RATE LIMITATIONS

A school district is authorized to levy M&O taxes subject to approval of a proposition submitted to district voters. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the succeeding paragraphs. The maximum voted M&O tax rate for the District is \$1.50 per \$100 of assessed valuation as approved by the voters at an election held on May 25, 1959, 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 3.44% of the District's current taxable assessed valuation of property. See "APPENDIX A - Table 1 - Assessed Valuation" 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 fiscal years 2007-08 through 2017-18. 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".)

At an election held on November 4, 2008, the voters of the District approved a maintenance and operations tax rate of \$1.06005 per \$100 of assessed valuation. (See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Overview" and "– Local Funding for School Districts," and "TAX RATE LIMITATIONS – Public Hearing and Rollback Tax Rate," herein.)

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

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

Tax Liens

Taxes levied by the District are a personal obligation of the owner of the property. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each taxing unit, including the District, having the power to tax the property. The District's tax lien is on a parity with tax liens of all other such taxing units. A tax lien on real property has priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty and interest. At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. The ability of the District to collect delinquent taxes by foreclosure may be adversely affected by the amount of taxes owed to other taxing units, adverse market conditions, taxpayer redemption rights, or bankruptcy proceedings which restrain the collection of a taxpayer's debt. **Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from 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.**

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 was 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 - Overview" for a description of the "State Compression Percentage.") If for the preceding tax year a district adopted an M&O tax rate that was less than its effective M&O tax rate for that preceding tax year, the district's rollback tax for the current year is calculated as if the district had adopted an M&O tax rate for the preceding tax year equal to its effective M&O tax rate for that preceding tax year.

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

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

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. (See "TAX RATE LIMITATIONS" herein.)

EFFECTS OF SEQUESTRATION ON CERTAIN OBLIGATIONS

Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, certain automatic reductions in federal spending took effect as of March 1, 2013. These required reductions in federal spending include a reduction to refundable credits under section 6431 of the Internal Revenue Code of 1986, as amended (the "Code") applicable to certain qualified bonds, including "qualified school construction bonds" issued pursuant to sections 54A and 54F of the Code and "build America Bonds" issued pursuant to section 54AA of the Code, for which an issuer elected to receive a direct credit subsidy payment pursuant to section 6431 of the Code.

For such qualified bonds eligible for the direct credit subsidy payment, the Office of Management and Budget ("OMB") set a sequester percentage (i.e. reduction) of 5.1% (the annualized percentage was 8.7%) for FY 2013, 7.2% for FY 2014, 7.3% for FY 2015, 6.8% for FY 2016 and 6.9% for FY 2017. For FY 2018, the OMB set the sequester percentage at 6.6%, which applies to any payments processed on or after October 1, 2017 and on or before September 30, 2018, unless and until a law is enacted that cancels or otherwise impacts the sequester. Sequestration may continue past September 31, 2018, and the sequestration percentage may increase or decrease in any fiscal year.

The District has previously issued its Unlimited Tax School Building Bonds, Taxable Series 2010B (Direct Subsidy – Build America Bonds) and Unlimited Tax School Building Qualified School Construction Bonds, Taxable Series 2011 (Direct-Pay Subsidy Bonds) (collectively, the "Affected Bonds"). It is anticipated that the federal payments to the District for such Affected Bonds will be reduced as described above. Pursuant to the order authorizing the issuance of the Affected Bonds, the District is required to make interest and principal payments on the Affected Bonds regardless of whether any federal funding is received. The reductions in the payments to be received by the District have not materially adversely affected the financial condition or operations of the District. However, the District can make no prediction as to the length or long-term effects of the sequestration.

(Remainder of this page intentionally left blank.)

TAX MATTERS

Tax Exemption

In the opinion of Bracewell LLP, Bond Counsel, under existing law (i) interest on the Bonds is excludable from gross income for federal income tax purposes and (ii) the Bonds are not “private activity bonds” under the Code and, as such, interest on the Bonds is not subject to the alternative minimum tax.

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

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

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Bonds. Certain actions may be taken or omitted subject to the terms and conditions set forth in the Order from the advise or with an opinion of nationally recognized bond counsel. Bond Counsel will express no opinion with respect to Bond Counsel’s ability to render an opinion that such actions, if taken or omitted, will not adversely affect the excludability of interest of the Bonds from gross income for federal income tax purposes.

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

Additional Federal Income Tax Considerations

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

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

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

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

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

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

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

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

Tax Legislative Changes

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

CONTINUING DISCLOSURE OF INFORMATION

In the Order, the District has made the following agreement for the benefit of the holders and Beneficial Owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds within the meaning of the United States Securities and Exchange Commission Rule 15c2-12 (the "Rule"). Under the agreement, the District will be obligated to annually provide certain updated financial information and operating data, annually, and timely notice of certain specified events, to the Municipal Securities Rulemaking Board (the "MSRB"). The information provided to the MSRB will be available to the public free of charge via MSRB's Electronic Municipal Markets Access system ("EMMA") at www.emma.msrb.org. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" for a description of the TEA's continuing disclosure obligations with respect to the Permanent School Fund.

Annual Reports

The District shall provide annually to the MSRB, (i) within six (6) months after the end of each Fiscal Year of the District ending in or after 2018, financial information and operating data with respect to the District of the general type included in this Offering Memorandum in Tables 1 through 11 of "APPENDIX A - FINANCIAL INFORMATION REGARDING THE DISTRICT" and including audited financial statements of the District if audited financial statements of the District are then available, and (ii) if not provided as part such financial information and operating data, audited financial statements of the District, when and if available. Any financial statements so to be provided shall be (i) prepared in accordance with the accounting principles prescribed by the Texas State Board of Education or such other accounting principles as the District may be required to employ, from time to time, by State law or regulation, and (ii) audited, if the District commissions an audit of such statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the District shall file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available.

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

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

Notices of Certain Events

The District will provide to the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of ten (10) business days after the occurrence of the event, notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

Neither the Bonds nor the Order make any provision for debt service reserves or credit enhancement (except with respect to the Permanent School Fund guarantee).

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

Availability of Information from MSRB

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

Limitations and Amendments

The District has agreed to update information and to provide notices of certain specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results, operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the District to comply with its agreement. The District may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, but only if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount (or any greater amount required by any other provisions of the Order that authorizes such an amendment) of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the registered and beneficial owners of the Bonds. The District may also repeal or amend the provisions of its continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, and the District also may amend the provisions of its continuing disclosure agreement in its discretion in any other manner or circumstance, but in either case only if and to the extent that the provisions of such amendment would not have prevented an underwriter from lawfully purchasing or selling the Bonds in the primary offering of the Bonds, giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of the Rule. If the District so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

For a listing of the District's compliance with prior undertakings made in accordance with the Rule see www.emma.org.

(Remainder of this page intentionally left blank.)

LEGAL MATTERS

Legal Opinions and No-Litigation Certificate

The Issuer will furnish the Underwriter 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 Bonds are valid and legally binding obligations of the Issuer, and based upon examination of such transcript of proceedings, the legal opinion of Bond Counsel, to like effect and, by Bracewell LLP, as Bond Counsel to the effect that the interest on the Bonds is excludable from gross income for federal income tax purposes and the Bonds are not "private activity bonds", subject to the matters described under "TAX MATTERS" herein. Though they represent the Financial Advisor and the Underwriter 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. Except as noted below, Bond Counsel did not take part in the preparation of the Offering Memorandum, and such firm has not assumed any responsibility with respect hereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under captions or subcaptions "THE BONDS" (except for the subcaptions "Permanent School Fund Guarantee Program," "General - Payment Record" and "Use Of Bond Proceeds"; as to which no opinion is expressed), and "CONTINUING DISCLOSURE OF INFORMATION" (except for the information under the sub-caption "Compliance with Prior Undertakings," as to which no opinion is expressed), and Bond Counsel is of the opinion that the statements and information contained therein fairly and accurately reflect the provisions of the Order; further, Bond Counsel has reviewed the statements and information contained in the Offering Memorandum under the captions and sub-captions "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM," "TAX RATE LIMITATIONS" (first paragraph only), "TAX MATTERS," "LEGAL MATTERS - Legal Investments and Eligibility to Secure Public Funds in Texas," "LEGAL MATTERS – Legal Opinions and No-Litigation Certificate" (except the last sentence thereof, as to which no opinion is expressed), and Bond Counsel is of the opinion that the statements and information contained therein fairly and accurately describe the laws and legal issues addressed therein. 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 Underwriter by Winstead PC, San Antonio, Texas and Mahomes Bolden PC, Dallas, Texas as Co-Counsel to the Underwriter.

Litigation

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.

On the date of delivery of the Bonds to the Underwriter, the District will execute and deliver to the Underwriter 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.

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

Audited Financial Statements

Collier, Johnson & Woods, P.C., Corpus Christi, Texas, the District's independent auditor (the "Independent Auditor"), has not reviewed, commented on, or approved, and is not associated with, this Offering Memorandum. The report of the Independent Auditor relating to the District's financial statements for the fiscal year ended August 31, 2017 is included in this Offering Memorandum in APPENDIX D; however, the Independent Auditor has not performed any procedures on such financial statements since the date of such report, and has not performed any procedures on any other financial information of the District, including without limitation any of the information contained in this Offering Memorandum, and has not been asked to consent to the inclusion of its report, or otherwise be associated with this Offering Memorandum.

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.

Ratings

Moody's Investors Service, Inc. ("Moody's") and S&P Global Ratings ("S&P"), have rated the Bonds "Aaa" and "AAA" respectively, 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" herein. The unenhanced, underlying ratings of the District's unlimited ad-valorem tax-supported bonds, which includes the Bonds, are "Aa2" and "A+" (stable outlook) by Moody's and S&P, respectively.

The ratings of the Bonds by Moody's and S&P reflects only the view of each companies at the time the ratings are given and the District makes no representations as to the appropriateness of the ratings. There is no assurance that the ratings will continue for any given period of time, or that the ratings will not be revised downward or withdrawn entirely by Moody's and S&P, if, in the judgment of either company, circumstances so warrant. Any such downward revision or withdrawal of the ratings 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 Offering Memorandum 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 Offering Memorandum 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.

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 Offering Memorandum for purposes of, and as that term is defined in, the Rule 15c2-12.

Financial Advisor

The 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 Offering Memorandum. 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 Offering Memorandum. 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 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 Offering Memorandum. The Financial Advisor has reviewed the information in this Offering Memorandum 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 Offering Memorandum, 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 Offering Memorandum 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 Offering Memorandum would prove to be accurate.

Underwriting

The Underwriter will be performing underwriting services in connection with the sale of the Bonds and has agreed, subject to certain conditions, to purchase the Bonds from the District at the price indicated on the inside front cover page hereof, less an underwriting discount of \$_____. The Underwriter's obligation is subject to certain conditions precedent, and the Underwriter is obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than the public offering prices, and such public prices may be changed from time to time by the Underwriter.

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

Authorization of the Offering Memorandum

The Offering Memorandum will be 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 on the date of sale, and the Underwriter 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 Offering Memorandum, 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 Underwriter.

CORPUS CHRISTI INDEPENDENT SCHOOL DISTRICT

/s/ _____
Pricing Officer
Corpus Christi Independent School District

APPENDIX A

Financial Information for the Corpus Christi Independent School District

[This page is intentionally left blank.]

FINANCIAL INFORMATION OF THE ISSUER

ASSESSED VALUATION

TABLE 1

2017 Total Appraised Value	\$18,300,735,868
Less:	
Homestead Exemption Loss	\$1,120,011,731
Local - Over 65/Surviving Spouse Homestead Exemption	667,589,609
State - Over 65/Surviving Spouse Homestead Exemption	154,740,196
Disabled/Surviving Spouse	154,059,204
Disabled Veterans/Surviving Spouse Exemption	24,489,354
Disabled Veterans/Surviving Spouse Homestead Exemption	114,485,136
Pollution Control Exemption Loss	60,237,403
Productivity and Market Value Difference	120,367,870
Solar Wind	138,188
Value Lost to Texas Economic Development	1,320,260
10% Residential Cap	208,337,513
M&O Net Taxable Assessed Valuation*	<u>\$15,674,959,404</u>
Value Lost to Texas Economic Development	<u>1,320,260</u>
I&S Net Taxable Assessed Valuation	<u>\$15,676,279,664</u>

Note: The above figures were taken from the Nueces and San Patricio County Appraisal Districts which are compiled during the initial phase of the tax year and are subject to change. See "APPENDIX A - TABLE 5 - CLASSIFICATION OF ASSESSED VALUATION".

GENERAL OBLIGATION BONDED DEBT

[As of May 1, 2018]

General Obligation Debt Outstanding:

Unlimited Tax Debt⁽¹⁾⁽²⁾:

Unlimited Tax School Building Bonds, Series 2009	\$18,360,000
Unlimited Tax School Building Bonds, Series 2009A	2,850,000
Unlimited Tax School Building Bonds, Series 2010A	1,160,000
Unlimited Tax School Building Bonds Taxable Series 2010B (Direct Subsidy - Build America Bonds)	98,500,000
Unlimited Tax School Building Qualified Construction Bonds Taxable Series 2011 (Direct - Pay Subsidy Bonds)	25,000,000
Unlimited Tax School Building Bonds, Series 2015	94,560,000
Unlimited Tax Refunding Bonds, Series 2016	95,295,000
Unlimited Tax Refunding Bonds, Series 2017	9,480,000
Unlimited Tax School Building Bonds, Series 2017	74,820,000
Variable Rate Unlimited Tax School Building Bonds, Series 2017A	59,755,000
The Bonds - Variable Rate Unlimited Tax School Building Bonds, Series 2018A ⁽³⁾	19,820,000
The Bonds - Unlimited Tax School Building Bonds, Series 2018 ⁽³⁾	<u>59,565,000</u>
Total Unlimited Tax Debt ⁽¹⁾⁽²⁾	\$559,165,000

Total General Obligation Debt⁽²⁾ \$559,165,000

General Obligation Interest and Sinking Fund Balance as of August 31, 2017 \$12,026,389

2017 Net Taxable Assessed Valuation \$15,676,279,664

Ratio of Total General Obligation Debt to 2017 Net Taxable Assessed Valuation⁽²⁾⁽³⁾ 3.57%

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

⁽²⁾ Preliminary, subject to change.

⁽³⁾ Preliminary, subject to change, provided, however, that the combined aggregate principal amount of the Bonds together with the Series 2018 Bonds issued contemporaneously herewith will not exceed \$59,565,000. Delivery is anticipated on August 28, 2018, which will result in a reduction of the principal amount of the Series 2018 Bonds issued.

Area of District: 167 Square Miles
 Estimated Population: 232,204 in Year 2017
 Per Capita Net Assessed Valuation: \$67,511
 Per Capita General Obligation Debt: \$2,408

DEBT OBLIGATIONS - CAPITAL LEASE AND NOTES PAYABLE**TABLE 2**

The District entered into a Tax-Exempt Lease Purchase Agreement dated July 8, 2016 that will be paid off by fiscal year 2032. The lease proceeds were deposited into an escrow account to partially finance the energy savings performance contracting project to be engineered, designed, constructed and commissioned by Johnson Controls, Inc. All proceeds in this escrow account must be fully expended by January 2018. The fixed interest rate is 2.29%. The future minimum lease payment requirements are as follows:

Year Ended August 31,	Principal	Interest	Total
2018	\$319,488	\$183,108	\$502,596
2019	310,331	175,815	486,146
2020	333,215	168,550	501,765
2021	377,677	160,635	538,312
2022	424,847	151,683	576,530
2023-2027	2,681,022	591,866	3,272,888
2028-2032	3,597,511	236,484	3,833,995
	\$8,044,091	\$1,668,141	\$9,712,232

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

(The remainder of this page has been intentionally left blank.)

ESTIMATED GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS⁽¹⁾

[Includes the Bonds]

Year Ending 8/31	Current Total Debt Service ⁽¹⁾	Variable Rate Unlimited Tax School Building Bonds, Series 2018A ⁽²⁾			Unlimited Tax School Building Bonds, Series 2018 ⁽²⁾			Combined Debt Service ⁽¹⁾⁽²⁾⁽³⁾
		Principal	Interest ⁽³⁾	Total	Principal ⁽²⁾	Interest ⁽³⁾	Total ⁽²⁾	
2018	\$27,628,234		\$594,600	\$594,600		\$2,270,456	\$2,270,456	\$27,628,234
2019	29,222,096		594,600	594,600		2,270,456	2,270,456	32,087,153
2020	34,682,296		1,585,600	1,585,600	\$380,000	2,270,456	2,650,456	37,547,353
2021	35,088,596		1,585,600	1,585,600	550,000	2,259,056	2,809,056	39,324,653
2022	35,441,096		1,585,600	1,585,600	565,000	2,242,556	2,807,556	39,835,753
2023	35,811,746		1,585,600	1,585,600	565,000	2,225,606	2,790,606	40,204,903
2024	36,194,796		1,585,600	1,585,600	575,000	2,208,656	2,783,656	40,571,003
2025	36,576,046		1,585,600	1,585,600	955,000	2,191,406	3,146,406	40,945,303
2026	36,759,932		1,585,600	1,585,600	660,000	2,162,756	2,822,756	41,491,939
2027	37,163,922		1,585,600	1,585,600	520,000	2,142,956	2,662,956	41,572,279
2028	37,369,521		1,585,600	1,585,600	530,000	2,127,356	2,657,356	41,618,077
2029	37,368,940		1,585,600	1,585,600	545,000	2,111,456	2,656,456	41,611,897
2030	37,374,364		1,585,600	1,585,600	960,000	2,095,106	3,055,106	41,616,421
2031	36,873,537		1,585,600	1,585,600	1,390,000	2,066,306	3,456,306	41,514,243
2032	36,371,866		1,585,600	1,585,600	1,390,000	2,066,306	3,456,306	41,413,772
2033	22,865,750		1,585,600	1,585,600	9,025,000	2,022,869	11,047,869	35,499,219
2034	22,864,550		1,585,600	1,585,600	2,685,000	1,661,869	4,346,869	28,797,019
2035	16,288,950		1,585,600	1,585,600	6,385,000	1,554,469	7,939,469	25,814,019
2036	16,285,950		1,585,600	1,585,600	4,775,000	1,299,069	6,074,069	23,945,619
2037	16,279,350		1,585,600	1,585,600	2,655,000	1,108,069	3,763,069	21,628,019
2038	16,281,700		1,585,600	1,585,600	2,480,000	1,001,869	3,481,869	21,349,169
2039	16,231,700		1,585,600	1,585,600	2,480,000	902,669	3,382,669	21,199,969
2040	16,240,400		1,585,600	1,585,600	2,430,000	803,469	3,233,469	21,059,469
2041	16,234,400	\$2,220,000	1,585,600	3,805,600	2,340,000	706,269	3,046,269	23,086,269
2042	16,235,600	2,400,000	1,408,000	3,808,000	2,435,000	612,669	3,047,669	23,091,269
2043	16,236,200	2,590,000	1,216,000	3,806,000	2,530,000	515,269	3,045,269	23,087,469
2044	16,235,400	2,800,000	1,008,800	3,808,800	2,635,000	414,069	3,049,069	23,093,269
2045	16,232,400	3,020,000	784,800	3,804,800	2,735,000	308,669	3,043,669	23,080,869
2046	8,036,400	3,265,000	543,200	3,808,200	2,840,000	209,525	3,049,525	14,894,125
2047	8,039,200	3,525,000	282,000	3,807,000	2,940,000	106,575	3,046,575	14,892,775
	\$770,514,941	\$19,820,000	\$39,729,600	\$59,549,600	\$59,565,000	\$43,871,982	\$103,436,982	\$933,501,523

⁽¹⁾ Excludes that portion of interest payments on Total Current Debt Service offset by the refundable tax credit to be received by the District from the Department of Treasury as a result of the portion of the Affected Bonds styled as "Unlimited Tax School Building Bonds, Taxable Series 2010B (Direct Subsidy - Build America Bonds)", being designated as "build America bonds" and the portion of the Affected Bonds styled as "Unlimited Tax School Building Qualified School Construction Bonds, Taxable Series 2011 (Direct Pay Subsidy Bonds)", being designated as "qualified school construction bonds." (See "EFFECTS OF SEQUESTRATION ON CERTAIN OBLIGATIONS" herein.)

⁽²⁾ Preliminary, subject to change, provided, however, that the combined aggregate principal amount of the Bonds together with the Series 2018 Bonds issued contemporaneously herewith will not exceed \$59,565,000 thereby causing a reduction in the principal amount of the Series 2018 Bonds issued through a reduction in the principal amounts of the Series 2018 Bonds maturing in certain years.

⁽³⁾ Calculated at 8.0% for illustration purposes only.

TAX ADEQUACY

2017 Net Taxable Assessed Valuation		\$15,676,279,664
Estimated Maximum Annual Debt Service Requirements for Year Ending:	8/31/2028	\$41,618,077
Less: Existing Debt Allotment		0
Less: Instructional Facilities Allotment		0
Net Debt Service Requirement		<u>\$41,618,077</u>
Indicated Interest and Sinking Fund Tax Rate		\$0.2709
Indicated Interest and Sinking Fund Tax Levy at the following Collections:	98%	\$41,622,686

Note: See "Tax Data" herein.

INTEREST AND SINKING FUND MANAGEMENT INDEX

General Obligation Interest and Sinking Fund Balance as of August 31, 2017	\$12,026,389
2017 Interest and Sinking Fund Tax Levy at 98% Collections Produce	27,238,163
Plus: Existing Debt Allotment	0
Plus: Instructional Facilities Allotment	0
Total Available for Debt Service	<u>\$39,264,552</u>
Less: General Obligation Debt Service Requirements, Year Ending: 8/31/2018 ⁽¹⁾	<u>27,628,234</u>
Estimated Balance at Year Ended 8/31/2018	<u><u>\$11,636,318</u></u>

⁽¹⁾ Includes the Bonds; preliminary, subject to change.

(The remainder of this page intentionally left blank.)

ESTIMATED GENERAL OBLIGATION PRINCIPAL REPAYMENT SCHEDULE*

Year Ending 8/31	Currently Outstanding Obligations Principal Repayment Schedule	Variable Rate Unlimited Tax		Unlimited Tax School Building Bonds,		Combined Principal Repayment Schedule*	Obligations Remaining Outstanding End of the Year*	Percent of Principal Retired*
		School Building Bonds, Series 2018A - Principal Repayment Schedule*	School Building Bonds, Series 2018 - Principal Repayment Schedule*	School Building Bonds, Series 2018A - Principal Repayment Schedule*	School Building Bonds, Series 2018 - Principal Repayment Schedule*			
2018	\$10,160,000					\$10,160,000	\$549,095,000	
2019	12,270,000					12,270,000	536,825,000	
2020	14,420,000					14,420,000	522,405,000	
2021	11,575,000			\$380,000		11,955,000	510,450,000	8.73%
2022	12,300,000			550,000		12,850,000	497,600,000	
2023	13,100,000			565,000		13,665,000	483,935,000	
2024	13,990,000			565,000		14,555,000	469,380,000	
2025	14,835,000			575,000		15,410,000	453,970,000	
2026	20,875,000			955,000		21,830,000	432,140,000	
2027	22,025,000			660,000		22,685,000	409,455,000	22.73%
2028	23,085,000			520,000		23,605,000	385,850,000	
2029	24,045,000			530,000		24,575,000	361,275,000	
2030	49,965,000			545,000		50,510,000	310,765,000	
2031	27,150,000			960,000		28,110,000	282,655,000	
2032	27,725,000			1,390,000		29,115,000	253,540,000	49.46%
2033	15,280,000			9,025,000		24,305,000	229,235,000	
2034	15,890,000			2,685,000		18,575,000	210,660,000	
2035	9,950,000			6,385,000		16,335,000	194,325,000	
2036	10,345,000			4,775,000		15,120,000	179,205,000	
2037	10,805,000			2,655,000		13,460,000	165,745,000	67.96%
2038	11,295,000			2,480,000		13,775,000	151,970,000	
2039	11,755,000			2,480,000		14,235,000	137,735,000	
2040	12,295,000			2,430,000		14,725,000	123,010,000	
2041	12,845,000	\$2,220,000		2,340,000		17,405,000	105,605,000	
2042	13,360,000	2,400,000		2,435,000		18,195,000	87,410,000	81.12%
2043	13,895,000	2,590,000		2,530,000		19,015,000	68,395,000	
2044	14,450,000	2,800,000		2,635,000		19,885,000	48,510,000	
2045	15,025,000	3,020,000		2,735,000		20,780,000	27,730,000	
2046	7,430,000	3,265,000		2,840,000		13,535,000	14,195,000	97.46%
2047	7,730,000	3,525,000		2,940,000		14,195,000	0	100.00%
		\$19,820,000		\$59,565,000		\$559,255,000		

*Preliminary, subject to change, provided, however, that the combined aggregate principal amount of the Bonds together with the Series 2018 Bonds issued contemporaneously herewith will not exceed \$59,565,000 thereby causing a reduction in the principal amount of the Series 2018 Bonds issued through a reduction in the principal amounts of the Series 2018 Bonds maturing in certain years.

Tax Year	Net Taxable Assessed Valuation	Change From Preceding Year	
		Amount (\$)	Percent (%)
2013 ⁽¹⁾	\$12,672,561,618	\$1,076,137,740	9.28%
2014 ⁽¹⁾	13,872,163,201	1,199,601,583	9.47%
2015 ⁽¹⁾	14,361,894,401	489,731,200	3.53%
2016 ⁽¹⁾	15,434,108,451	1,072,214,050	7.47%
2017 ⁽²⁾	15,676,279,664	242,171,213	1.57%

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

⁽²⁾ Source: Nueces and San Patricio County Appraisal Districts.

PRINCIPAL TAXPAYERS

TABLE 4

Name	Type of Property	2017 Net Taxable Assessed Valuation ⁽¹⁾	% of Total 2017 Assessed Valuation
Valero Refining Texas LP (W)	Refinery	\$782,422,890	4.99%
Citgo Refining/Chemical Co. LP-PLT	Refinery	424,222,400	2.71%
Buckeye Texas HUB LLC	Marine Export Terminal	173,354,250	1.11%
Flint Hills Resources LLC-East Plant	Refinery	154,845,900	0.99%
AEP Texas Inc.	Electric Utility	133,616,300	0.85%
Nueces Bay Wyle LP	Electric Manufacturing	120,056,600	0.77%
Valero Marketing & Supply	Refinery	98,572,880	0.63%
Corpus Christi Retail Venture LP	Shopping Mall	94,576,372	0.60%
HEB Butt Grocery Company	Grocery Retail	71,855,282	0.46%
Bay Area Healthcare Group LTD	Healthcare	69,925,603	0.45%
Total (13.55% of 2017 Net Taxable Assessed Valuation)		\$2,123,448,477	13.55%

Note: The above information was taken from the Nueces and San Patricio County Appraisal Districts.

⁽¹⁾ Chapter 313, Texas Tax Code Value Limitation Agreement

The District's Maintenance and Operations Taxable value was decreased by a Chapter 313, Texas Tax Code Value Limitation Agreements (the "Value Limitation Agreements") entered into with voestalpine Texas LLC and Corpus Christi Liquefaction LLC (the "Chapter 313 Participants"). The current tax roll levy reflects the District's taxable value which was decreased by the Value Limitation Agreements. These limitations apply only to the Maintenance and Operations taxable property value. The taxable value for Interest and Sinking purposes is not subject to the limitations. Commencing with the 2017 tax year, the taxable value for Maintenance and Operations tax purposes for the voestalpine Texas LLC Chapter 313 Participant was decreased to \$30,000,000 through the 2024 tax year after which there is no limitation on tax value for this purpose. Commencing the 2018 tax year, the taxable value for Maintenance and Operations tax purposes for the Corpus Christi Liquefaction LLC Chapter 313 Participant was decreased to \$30,000,000 through the 2025 tax year after which there is no limitation on tax value for this purpose. The Chapter 313 Participants will compensate the District to offset any loss to Maintenance and Operations revenue over the term of the Value Limitation Agreement. The payments made by Chapter 313 Participants pursuant to the Value Limitation Agreement contribute to the District's general fund above and beyond what is generated through the school finance system.

(The remainder of this page intentionally left blank.)

CLASSIFICATION OF ASSESSED VALUATION

TABLE 5

	2017	% of Total	2016	% of Total	2015	% of Total
Real, Residential, Single-Family	\$9,375,628,790	51.23%	\$9,118,361,786	50.36%	\$8,421,556,777	50.59%
Real, Residential, Multi-Family	1,393,224,330	7.61%	1,301,051,105	7.19%	1,092,646,604	6.56%
Vacant Lots/Tracts & Colonia Lots/Tracts	310,635,069	1.70%	303,957,121	1.68%	313,021,923	1.88%
Qualified Open-Space Land	121,154,994	0.66%	123,534,235	0.68%	119,131,620	0.72%
Farm and Ranch Improvements	26,086	0.00%	40,280	0.00%	4,405	0.00%
Rural Land (Non Qualified)/Residential Improvements	34,737,424	0.19%	36,220,077	0.20%	23,440,399	0.14%
Commercial Real Property	2,781,661,794	15.20%	2,686,555,936	14.84%	2,476,548,324	14.88%
Industrial and Manufacturing Real Property	2,112,215,550	11.54%	2,301,612,085	12.71%	2,033,703,601	12.22%
Real, Minerals, Oil and Gas	4,723,936	0.03%	11,923,820	0.07%	26,984,160	0.16%
Real & Tangible, Personal Utilities	265,226,132	1.45%	238,103,304	1.32%	212,141,274	1.27%
Tangible Personal, Commercial	1,274,925,972	6.97%	1,313,248,055	7.25%	1,184,111,413	7.11%
Tangible Personal, Industrial and Manufacturing	498,969,059	2.73%	547,519,556	3.02%	626,380,771	3.76%
Tangible Personal, Mobile Homes	17,730,171	0.10%	17,188,719	0.09%	14,767,938	0.09%
Residential Inventory	26,624,833	0.15%	16,099,367	0.09%	9,340,281	0.06%
Special Inventory	83,251,728	0.45%	91,160,387	0.50%	91,555,762	0.55%
Total Appraised Value	\$18,300,735,868	100.00%	\$18,106,575,833	100.00%	\$16,645,335,252	100.00%
Less:						
Homestead Exemption Loss	\$1,120,011,731		\$1,118,441,648		\$1,103,965,739	
Local - Over 65/Surviving Spouse Homestead Exemption	667,589,609		150,390,083		145,736,821	
State - Over 65/Surviving Spouse Homestead Exemption	154,740,196		627,379,712		582,762,661	
Disabled/Surviving Spouse	154,059,204		153,352,565		146,617,646	
Disabled Veterans/Surviving Spouse Exemption	24,489,354		23,523,415		22,627,846	
Disabled Veterans/Surviving Spouse Homestead Exemption	114,485,136		97,597,419		78,210,021	
Pollution Control Exemption Loss	60,237,403		56,380,109		67,391,835	
Productivity and Market Value Difference	120,367,870		122,728,052		118,326,620	
Solar Wind	138,188		0		0	
Value Lost to Texas Economic Development	1,320,260		404,000		0	
10% Residential Cap	208,337,513		325,438,953		297,539,100	
M&O Net Taxable Assessed Valuation*	\$15,674,959,404		\$15,430,939,877		\$13,480,462,056	
Value Lost to Texas Economic Development	1,320,260		404,000		0	
I&S Net Taxable Assessed Valuation	\$15,676,279,664		\$15,431,343,877		\$13,480,462,056	

Note: The above figures were taken from the Nueces and San Patricio County Appraisal Districts which are compiled during the initial phase of the tax year and is subject to change.
 *The District's M&O Taxable Value is decreased by the voestalpine Texas LLC and the Corpus Christi Liquefaction LLC Chapter 313 Value Limitation Agreements.

TAX DATA

TABLE 6

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 a maximum of 15% of 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	\$12,672,561,618	1.2374	\$152,658,164	97.10	98.84	8/31/2014
2014	13,872,163,201	1.2374	166,367,621	97.34	99.14	8/31/2015
2015	14,361,894,401	1.2374	166,057,031	93.91	92.19	8/31/2016
2016	15,434,108,451	1.2374	181,511,533	96.15	97.62	8/31/2017
2017	15,676,279,664	1.2374	187,609,037	95.70*	97.02*	8/31/2018

Note: The above figures were taken from the Municipal Advisory Council of Texas, Texas Municipal Reports, the Issuer's 2017 Annual Financial Report, the Nueces and San Patricio Appraisal Districts and information provided by the Issuer.
 *Unaudited, as of April 30, 2018.

TAX RATE DISTRIBUTION

TABLE 7

Tax Year	2017	2016	2015	2014	2013
General Fund	\$1.0601	\$1.0601	\$1.0601	\$1.0601	\$1.0601
I & S Fund	0.1773	0.1773	0.1773	0.1773	0.1773
Total Tax Rate	\$1.2374	\$1.2374	\$1.2374	\$1.2374	\$1.2374

Note: The above figures were taken from the Nueces and San Patricio County Appraisal Districts.

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

TABLE 8

	Fiscal Year Ended				
	8/31/2017	8/31/2016	8/31/2015	8/31/2014	8/31/2013
Revenues:					
Total Local and Intermediate Sources	\$161,019,152	\$148,383,927	\$147,817,731	\$135,047,366	\$124,556,625
State Program Revenues	145,340,006	157,605,752	154,441,523	158,539,335	146,646,365
Federal Program Revenues	6,201,725	6,183,063	5,792,625	5,145,916	5,328,806
Total Revenues	\$312,560,883	\$312,172,742	\$308,051,879	\$298,732,617	\$276,531,796
Expenditures:					
Instruction	\$175,493,380	\$167,498,808	\$165,814,367	\$160,634,797	\$151,375,176
Instruction Resources & Media Services	5,022,113	4,969,278	5,298,479	4,483,317	4,692,220
Curriculum & Instructional Staff Development	1,370,214	966,058	1,423,509	801,187	810,760
Instructional Leadership	5,432,977	5,593,867	6,312,558	5,596,230	5,609,688
School Leadership	20,616,344	20,544,020	19,516,871	18,797,239	17,358,867
Guidance, Counseling & Evaluation Services	11,254,529	11,086,658	11,242,201	10,719,924	10,177,996
Social Work Services	1,234,454	1,212,478	1,309,554	1,162,812	1,502,155
Health Services	3,609,824	3,581,433	3,438,791	3,219,263	2,504,866
Student (Pupil) Transportation	7,911,917	4,966,889	8,046,459	5,409,797	7,297,814
Extracurricular Activities	11,070,718	10,041,594	9,116,015	8,075,251	7,842,921
General Administration	7,547,455	7,957,252	8,676,614	8,104,748	7,805,423
Facilities Maintenance and Operations	43,158,829	42,758,721	41,677,880	42,806,491	41,226,643
Security & Monitoring Service	3,786,319	3,388,087	3,035,454	3,019,057	2,569,086
Data Processing Services	8,980,656	7,001,988	7,350,366	7,019,716	4,909,100
Community Services	960,971	948,617	1,228,661	1,340,618	1,446,584
Debt Service-Principal on Long Term Debt	185,997	0	0	0	0
Facilities Acquisition and Construction	277,230	382,520	505,303	433,841	327,942
Payments to Fiscal Agent/Member Districts of SSA	545,014	621,159	494,161	514,738	408,033
Payments to Juvenile Justice Alternative Ed. Prg.	274,139	266,829	224,307	277,212	274,427
Other Intergovernmental Charges	2,182,454	1,879,631	1,811,245	1,787,174	1,778,353
Total Expenditures	\$310,915,534	\$295,665,887	\$296,522,795	\$284,203,412	\$269,918,054
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$1,645,349	\$16,506,855	\$11,529,084	\$14,529,205	\$6,613,742
Other Financing Sources (Uses):					
Sale of Personal Property	\$79,708	\$74,246	\$54,167	\$180,540	\$102,056
Capital Leases	0	0	0	0	0
Transfer In	0	0	0	0	0
Transfers Out (Note IV. E)	(8,135,271)	(100,000)	(100,000)	(9,200,000)	(18,000,000)
Total Other Financing Sources and (Uses):	(\$8,055,563)	(\$25,754)	(\$45,833)	(\$9,019,460)	(\$17,897,944)
Special Item - Lawsuit Settlement	\$0	\$0	(\$5,804,187)		
Net Change in Fund Balance	(\$6,410,214)	\$16,481,101	\$5,679,064	\$5,509,745	(\$11,284,202)
Fund Balance - September 1 (Beginning)	105,460,134	88,979,033	83,299,972	77,790,227	89,074,429
Fund Balance - August 31 (Ending)	\$99,049,920	\$105,460,134	\$88,979,036	\$83,299,972	\$77,790,227

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

*The District transferred \$8,135,271 from the General Fund to the Capital Projects Fund to cover expenditures in excess of bond proceeds.

OVERLAPPING DEBT DATA AND INFORMATION

(As of June 8, 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
Corpus Christi, City of	\$480,245,000	68.44%	\$328,679,678
Del Mar College District	134,695,000	65.33%	87,996,244
Nueces County	120,196,324	52.88%	63,559,816
San Patricio County	46,996,352	0.41%	192,685
Total Gross Overlapping Debt			\$480,428,423
Corpus Christi ISD	\$559,165,000 *	100.00%	559,165,000 *
Total Direct and Overlapping Debt			\$1,039,593,423 *
Ratio of Direct and Overlapping Debt to the 2017 Assessed Valuation			6.63% *
Per Capita Direct and Overlapping Debt			\$6,218,036 *

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

*Includes the Bonds; preliminary, subject to change.

ASSESSED VALUATION AND TAX RATE OF OVERLAPPING ISSUERS

Governmental Subdivision	2017 Assessed Valuation	2017 Tax Rate
Corpus Christi, City of	\$20,381,544,587	\$0.6063
Del Mar College District	26,199,483,252	0.2592
Nueces County	28,356,449,485	0.3041
San Patricio County	6,828,166,245	0.4685

Source: The Nueces and San Patricio County Appraisal Districts.

OVERLAPPING GOVERNMENTAL SUBDIVISIONS

Issuer	Date of Authorization	Purpose	Amount		
			Authorized	Issued To-Date	Unissued
Del Mar College District	11/04/14	College Facilities	\$157,000,000	83,108,206	\$73,891,794
	11/08/16	College Facilities	139,000,000	9,813,813	129,186,187
Nueces County	None				
San Patricio County	None				
Corpus Christi ISD	11/08/16	School Building	194,565,000	194,565,000 *	0 *

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

*Includes the Bonds and Series 2018 School Building Bonds. Preliminary, subject to change.

Plan Description:

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

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

Pension Plan Fiduciary Net Position:

Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at 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.

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, where 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 postemployment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description above.

Contributions:

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

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

Contribution Rates

	<u>2017</u>
Member (Employees)	7.7%
Employer (District)	6.8%
Non-Employer Contributing Entity (State of Texas)	6.8%

Contributions

District Employees	\$15,239,742
District	\$6,540,865
NECE on-behalf (State of Texas)	\$13,172,544

(To be continued on next page.)

EMPLOYEE BENEFIT PLANS - DEFINED BENEFIT 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 contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

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

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

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

When any part or all of an employee's salary is paid by federal funding sources or a privately sponsored source.

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

When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

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

Actuarial Assumptions:

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

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

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

(To be continued on next page.)

EMPLOYEE BENEFIT PLANS - DEFINED BENEFIT PENSION PLAN (continuation from previous page)

Discount Rate:

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems' target asset allocation as of August 31, 2016 are summarized below:

Asset Class	Target Allocation	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return*
Global Equity			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
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%
Hedge Funds (Stable Value)	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity			
Risk Parity	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.

Discount Rate Sensitivity Analysis:

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

	<u>1% Decrease in Discount Rate (7.0%)</u>	<u>Discount Rate (8.0%)</u>	<u>1% Increase Discount Rate (9.0%)</u>
District's proportionate share of the net pension liability:	\$120,392,791	\$77,790,049	\$41,654,311

(To be continued on next page.)

EMPLOYEE BENEFIT PLANS - DEFINED BENEFIT 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, Corpus Christi Independent School District reported a liability of \$77,790,049 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	\$77,790,049
State's proportionate share of the net pension liability associated with the District	126,932,282
Total	\$204,722,331

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

At August 31, 2016 the employer's proportion of the collective net pension liability was 0.205856337% which was a decrease of 0.008223063% from its proportion measured as of August 31, 2015.

The general fund will be used to liquidate pension liabilities.

Changes Since the Prior Actuarial Valuation - There were no changes to the actuarial assumptions or other inputs that affected the 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 \$13,172,544 and revenue of \$13,172,544 for support provided by the State in the Government Wide Statement of Activities.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$1,219,733	\$2,322,766
Changes in actuarial assumptions	2,370,901	2,156,237
Difference between projected and actual investment earnings	6,587,101	\$0
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	13,019,176	6,800
Contributions paid to TRS subsequent to the measurement date	7,196,604	0
Total	\$30,393,515	\$4,485,803

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$7,196,604 will be recognized as a reduction of the net pension liability for the measurement year ending August 31, 2017 (i.e. recognized in the district's financial statements August 31, 2018). Other amounts reported as 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	\$3,258,795
2019	3,258,795
2020	7,460,369
2021	2,935,979
2022	1,684,251
Thereafter	112,919
Total	\$18,711,108

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

HEALTH CARE COVERAGE**TABLE 10**

The District has a self-insurance health plan that is authorized by Section 21.922, Texas Education Code, Article 3.51-2, Texas Insurance Code and is documented by contractual agreement. The District's contribution averages \$517 per employee per month. This plan is reported as an Internal Service Fund.

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

OTHER POST EMPLOYMENT BENEFITS**TABLE 11****Retiree Health Care Coverage****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-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 Website at <http://www.trs.state.tx.us/>, by writing to the Communication Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling 1-800-223-8778.

Funding Policy:

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, sections 1575.202, 203 and 204 establish state, active employee, and public school contributions, respectively. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For staff members funded by federal programs, the federal programs are required to contribute 1%. Contribution rates and amounts are shown in the table below for fiscal years ending August 31, 2015-2017.

Year	Active Member		State on Behalf		School District	
	Rate	Amount	Rate	Amount	Rate	Amount
2017	0.65%	\$1,444,431	1.0%	\$2,011,838	0.55%	\$1,216,676
2016	0.65%	\$1,375,792	1.0%	\$1,935,295	0.55%	\$1,164,130
2015	0.65%	\$1,352,484	1.0%	\$1,906,992	0.55%	\$1,144,423

The State's contributions of fringe benefits to the TRS-Care plan on behalf of the District's employees were recognized as revenues and expenditures during the period. The State on behalf payment percentage of the required contributions that were actually contributed for 2017, 2016 and 2015 was 91%, 91% and 92%, respectively. The balance was paid by the District that related to salaries that were excluded from the on behalf calculation.

In addition to the pension plan and TRS-Care on behalf, the district is allocated a portion of the Medicare Part D retiree drug subsidy that the TRS-Care receives. The amounts allocated on behalf for the years ended August 31, 2015-2017 were \$621,818, \$634,118 and \$688,438, respectively.

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

APPENDIX B

General Information Regarding the District, the City of Corpus Christi, Texas
and Nueces and San Patricio Counties, Texas

[This page is intentionally left blank.]

**GENERAL INFORMATION REGARDING
THE DISTRICT, THE CITY OF CORPUS CHRISTI, AND THE COUNTIES OF NUECES AND SAN PATRICIO, TEXAS**

The District:

The Corpus Christi Independent School District (the "District") includes a major portion of the City of Corpus Christi (the "City"), the county seat of Nueces County, a trade center and shipping point located on the Gulf Coast. Corpus Christi is Texas' 8th largest city. The City's location is one of the most strategic in the Southwest with deep water transportation to the Gulf of Mexico and barge traffic by the Intracoastal Waterway. The Port of Corpus Christi is the seventh largest in the nation. The chemical industry employs over 50,000 people. Manufacturers employing over 250 persons each produce such goods as liquefied petroleum gasses, steel pressure pipe, a newspaper, breads, motion and electric sensors, processed meats, and jet fuel. Manufacturers producing jet and auto fuel employ over 500 people each.

The Schools:

Historical Enrollment for the District

School Year	Enrollment
2013-14	39,414
2014-15	38,490
2015-16	38,521
2016-17	37,897
2017-18	37,720

Enrollment and School Facilities

School	Number of Schools
Elementary	37
Middle or Junior High	12
High School	8
Specialty Campuses	2

Educational status of the teachers is as follows:

Doctorates' degree	20
Masters' degree	755
Bachelor's degree	1,527
Average years of classroom experience per teacher	12.894

Personnel distribution is as follows:

District Level Administrators	49
Building Level Administrators	158
Instructional Staff	2,283
Professional Support Staff (Counselors, Librarians, Nurses, Social Workers, etc.)	404
General Personnel (Secretaries, Aides, Clerks, Bus Drivers, Food Service, Maintenance, etc.)	<u>1,950</u>
TOTAL	4,844

Teacher salaries are competitive with surrounding districts. Teacher salaries range from \$48,503 for beginning teachers to a maximum of \$65,307.

THE CITY OF CORPUS CHRISTI, AND THE COUNTIES OF NUECES AND SAN PATRICIO, TEXAS

The City of Corpus Christi, Texas

The City of Corpus Christi, Texas (the "City") is the county seat of Nueces County, Texas and a trade center and shipping point located on the Gulf Coast. The City's location is one of the most strategic in the Southwest, with deep water transportation to the Gulf of Mexico and barge traffic by the Intra-coastal Waterway. Other manufacturers produce oil rigs, frozen fish, bottled water and pressure valves. The National Seashore Recreational Area on Padre Island has an 88 mile shoreline which attracts many tourists each season. The City's 2018 estimated population is approximately 325,733.

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

San Patricio County, Texas

San Patricio County was created in 1836 and reorganized in 1847. The Naval Station of Ingleside officially shut down on April 30, 2010. The Navy returned ownership of the main base property to the Port of Corpus Christi. The County's estimated 2018 estimated population is 66,915.

County seat: Sinton.

Economic Base: Mineral: Oil, gravel, gas and caliche.
 Industry: Tourism, petrochemicals, oil, manufacturing and agribusiness.
 Agricultural: Grain sorghum, cotton, corn and beef cattle.

Oil & Gas 2017: The oil production for this county accounts for 0.03% of the total state production. The county ranks 125 out of all the counties in Texas for oil production. The gas production for this county accounts for 0.12% of the total state production. The county ranks 86 out of all the counties in Texas for gas production.

Oil Production: (Texas Railroad Commission)	<u>Year</u>	<u>Description</u>	<u>Volume</u>	<u>% Change from Previous Year</u>
	2016	Oil	292,725 BBL	-15.44
	2017	Oil	270,331 BBL	-7.65

Casinghead: (Texas Railroad Commission)	<u>Year</u>	<u>Description</u>	<u>Volume</u>	<u>% Change from Previous Year</u>
	2016	Casinghead	685,964 MCF	15.72
	2017	Casinghead	489,994 MCF	-28.57

Gas Well Production: (Texas Railroad Commission)	<u>Year</u>	<u>Description</u>	<u>Volume</u>	<u>% Change from Previous Year</u>
	2016	GW Gas	8,454,439 MCF	-14.29
	2017	GW Gas	5,270,567 MCF	-37.66

Condensate: (Texas Railroad Commission)	<u>Year</u>	<u>Description</u>	<u>Volume</u>	<u>% Change from Previous Year</u>
	2016	Condensate	233,635 BBL	-21.65
	2017	Condensate	166,236 BBL	-28.85

Retail Sales & Effective Buying Income:	Year	<u>2017</u>	<u>2016</u>	<u>2015</u>
	Retail Sales	\$748.7M	\$979.3M	\$975.8M
	Effective Buying Income (EBI)	\$1.5B	\$1.3B	\$1.4B
	County Median Household Income	\$50,154	\$44,768	\$48,050
	State Median Household Income	\$57,227	\$55,352	\$53,037
	% of Households with EBI below \$25K	21.5%	11.0%	11.8%
	% of Households with EBI above \$25K	68.7%	66.9%	69.2%

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:	19,490	\$236.0M	18,738	\$204.8M	18,711	\$208.8M
2nd Quarter:	19,149	\$222.1M	18,628	\$200.9M	18,572	\$201.1M
3rd Quarter:	18,847	\$217.7M	19,409	\$232.9M	18,739	\$210.3M
4th Quarter:	N/A	N/A	19,916	\$237.0M	19,143	\$219.4M

Source: Texas Municipal Reports published by the Municipal Advisory Council of Texas.
 *DemographicsUSA 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*	March 2018	February 2018	March 2017	Monthly Change	Year Ago Change
% Unemployment (U.S.)	4.1	4.1	4.5	0.0	-0.4
% Unemployment (Texas)	4.0	4.0	4.6	0.0	-0.6
% Unemployment (Nueces)	5.1	5.1	5.5	0.0	-0.4

*Amended format: Texas Labor Market Review.

Labor Force Statistics for Nueces County

Labor Force Statistics	2017	2016	2015	2014	2013
% 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

	2017*	2016	2015	2014	2013
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.

(Remainder of this page intentionally left blank.)

Labor Force Statistics for San Patricio County

Labor Force Statistics*	<u>March 2018</u>	<u>February 2018</u>	<u>March 2017</u>	<u>Monthly Change</u>	<u>Year Ago Change</u>
% Unemployment (U.S.)	4.1	4.1	4.5	0.0	-0.4
% Unemployment (Texas)	4.0	4.0	4.6	0.0	-0.6
% Unemployment (San Patricio)	7.0	7.4	7.8	-0.4	-0.8

*Amended format: Texas Labor Market Review.

Labor Force Statistics for San Patricio 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 (San Patricio County)	7.1	7.9	6.6	6.3	7.0

Source: Texas Labor Market Review.

Employment and Wages by Industry for San Patricio County

	<u>2017*</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Natural Resources and Mining	702	787	1,063	1,372	1,258
Construction	5,113	4,973	3,034	3,286	3,626
Manufacturing	893	952	1,368	1,435	1,787
Trade, Transportation & Utilities	3,172	3,429	3,272	3,099	2,824
Information	163	156	328	157	171
Financial Activities	474	470	484	491	445
Professional & Business Services	928	1,121	1,413	1,303	1,122
Education & Health Services	1,335	1,317	1,611	1,480	1,424
Leisure & Hospitality	2,242	2,217	2,166	2,098	2,100
Other Services	325	329	376	384	282
Unclassified	10	10	5	1	4
Federal Government	91	93	93	93	88
State Government	152	152	146	158	157
Local Government	<u>3,876</u>	<u>3,937</u>	<u>3,813</u>	<u>3,738</u>	<u>3,730</u>
Total Employment	19,478	19,943	19,171	19,094	19,019
Total Wages	\$233,342,413	\$239,148,882	\$219,696,405	\$216,835,350	\$207,839,208

Source: Texas Quarterly Census of Employment & Wages.

*First Quarter only.

(Remainder of this page intentionally left blank.)

[This page is intentionally left blank.]

APPENDIX C

Form of Opinion of Bond Counsel

[This page is intentionally left blank.]

BRACEWELL

[Closing Date]

\$ _____
CORPUS CHRISTI INDEPENDENT SCHOOL DISTRICT
VARIABLE RATE UNLIMITED TAX SCHOOL BUILDING BONDS,
SERIES 2018A

WE HAVE represented Corpus Christi Independent School District (the “District”) as its bond counsel in connection with an issue of bonds described as follows:

CORPUS CHRISTI INDEPENDENT SCHOOL DISTRICT VARIABLE RATE UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018A, dated August 15, 2018 in the principal amount of \$ _____ (the “Bonds”).

The Bonds mature, bear interest, are subject to redemption prior to maturity, and may be transferred and exchanged as set out in the Bonds and in the order adopted by the Board of Trustees of the District authorizing their issuance (the “Bond Order”) and a pricing certificate executed pursuant to the authority delegated in the Bond Order (the “Pricing Certificate,” and, together with the Bond Order, the “Order”).

WE HAVE represented the District as bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the excludability of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the District or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the District’s Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein. Capitalized terms used herein, unless otherwise defined, have the meanings set forth in the Order.

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds, which contains certified copies of certain proceedings of the District; customary certificates of officers, agents and representatives of the District and other public officials; and other certified showings relating to the authorization and issuance of the Bonds. We have also examined such applicable provisions of the Internal Revenue Code of 1986, as amended (the “Code”), court decisions, Treasury Regulations and published rulings of the Internal Revenue Service (the “Service”) as we have deemed relevant. We have also examined executed Bond No. T-1 of this issue.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION that:

BRACEWELL

[Closing Date]

Page 2

(1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective and, therefore, the Bonds constitute valid and legally binding obligations of the District; and

(2) A continuing ad valorem tax, without limit as to rate or amount, has been levied on all taxable property of the District and pledged irrevocably to the payment of the principal of and interest on the Bonds, and the total indebtedness of the District, including the Bonds, does not exceed any constitutional, statutory or other limitations.

THE RIGHTS OF THE OWNERS of the Bonds are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

IT IS OUR FURTHER OPINION THAT, under existing law:

(3) Interest on the Bonds is excludable from gross income for federal income tax purposes; and

(4) The Bonds are not “private activity bonds” within the meaning of the Code, and, as such, interest on the Bonds is not subject to the alternative minimum tax on individuals.

In providing such opinions, we have relied on representations of the District, the District’s financial advisor and the underwriters of the Bonds with respect to matters solely within the knowledge of the District, the District’s financial advisor and the underwriter of the Bonds, respectively, which we have not independently verified. In addition, we have assumed for purposes of this opinion continuing compliance with the covenants in the Order pertaining to those sections of the Code that affect the excludability from gross income of interest on the Bonds for federal income tax purposes. In the event that such representations are determined to be inaccurate or incomplete or the District fails to comply with the foregoing covenants of the Order, interest on the Bonds could become includable in gross income from the date of the original delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs.

Certain actions may be taken or omitted subject to the terms and conditions set forth in the Order upon the advice or with the approving opinion of bond counsel. We express no opinion with respect to the bond counsel’s future ability to render an opinion that such actions, if taken or omitted, will not adversely affect the excludability of interest on the Bonds from gross income for federal income tax purposes.

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

Owners of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income

BRACEWELL

[Closing Date]

Page 3

taxpayers otherwise qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States may be subject to the “branch profits tax” on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Bonds).

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

Very truly yours,

[This page is intentionally left blank.]

APPENDIX D

Excerpts (Table of Contents, Independent Auditor's Report, General Financial Statements and Notes to the Financial Statements), from the Corpus Christi 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.

[This page is intentionally left blank.]

CORPUS CHRISTI INDEPENDENT SCHOOL DISTRICT

801 Leopard Street • Corpus Christi, Texas 78401

COMPREHENSIVE ANNUAL FINANCIAL REPORT

**for the year ended
August 31, 2017**

Comprehensive Annual Financial Report
of the
Corpus Christi Independent School District

**801 Leopard
Corpus Christi, Texas 78401**

Year Ended August 31, 2017

**Prepared By:
The Office of Finance**

Donna Hohn, Comptroller
Roxanne I. Douglas, CPA, Associate Director for Finance
Myra Guzman, Senior Accountant
Julie Gonzalez, Accountant
Fatima Zamarron, Accountant
Lydia Silva, Accountant
Gary Lynch, Accountant
Minerva Flores, Accountant

**Corpus Christi Independent School District
Comprehensive Annual Financial Report
For the Fiscal Year Ended August 31, 2017**

TABLE OF CONTENTS

	Page	Exhibit
INTRODUCTORY SECTION		
Letter of Transmittal	5	
Certificate of Board.....	14	
GFOA Certificate of Achievement	15	
Organizational Chart.....	16	
Elected and Appointed Officials	17	
Consultants and Advisors.....	18	
FINANCIAL SECTION		
Independent Auditor’s Report-Unmodified Opinion on Basic Financial Statements, Management’s Discussion and Analysis, Required Supplementary Information, Supplementary Financial Information and Schedule of Expenditure of Federal Awards	19	
Management’s Discussion and Analysis.....	23	
Basic Financial Statements:		
Government-Wide Financial Statements:		
Statement of Net Position	35	A-1
Statement of Activities	36	B-1
Fund Financial Statements:		
Balance Sheet-Governmental Funds.....	37	C-1
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	38	C-2
Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds	39	C-3
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes In Fund Balances to the Statement of Activities.....	40	C-4
Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual-General Fund	41	D-1
Statement of Net Position-Proprietary Funds	42	E-1
Statement of Revenues, Expenses, and Changes in Net Position-Proprietary Funds	43	E-2
Statement of Cash Flows-Proprietary Funds	44	E-3
Statement of Fiduciary Net Position-Fiduciary Fund	45	F-1
Notes to the Financial Statements:		
Summary of Significant Accounting Policies.....	46	
Reporting Entity	46	
Government-Wide and Fund Financial Statements	46	
Measurement Focus, Basis of Accounting, Financial Statement Presentation ..	47	
Fund Accounting	48	
Other Accounting Policies.....	48	

Reconciliation of Government-Wide and Fund Financial Statements.....	50	
Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Position	50	
Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities.....	51	
Stewardship, Compliance, and Accountability.....	51	
Budgetary Data	51	
Excess of Expenditures over Appropriations.....	52	
Detailed Notes on All Funds	52	
Deposits and Investments	52	
Property Taxes.....	53	
Delinquent Taxes Receivable	54	
Due from Other Governments	54	
Interfund Receivables, Payables and Transfers	54	
Capital Asset Activity.....	55	
Unearned Revenue.....	56	
Changes in Long-Term Liabilities.....	56	
Bonds Payable	56	
Capital Lease	58	
Accumulated Unpaid Vacation, Compensatory Time and Sick Leave Benefits.....	58	
Claims Liability	58	
Employee Benefit Plans.....	59	
Litigation	63	
Commitments and Contingent Liabilities	63	
General Fund Federal Source Revenues.....	64	
Joint Venture-Shared Service Arrangements.....	64	
Revenue from Local and Intermediate Sources	65	
Chapter 313 Agreements	65	
Future Accounting Pronouncements.....	66	
Required Supplemental Information:		
Schedule of District's Proportionate Share of the Net Pension Liability	68	G-1
Schedule of District Contributions	69	G-2
Supplemental Information:		
Nonmajor Governmental Funds:		
Combining Balance Sheet-Nonmajor Governmental Funds.....	72	H-1
Combining Statement of Revenues, Expenditures and Changes in Fund Balances-Nonmajor Governmental Funds	76	H-2
Budgetary Comparison Schedule National Breakfast and Lunch Program	80	H-3
Budgetary Comparison Schedule-Debt Service Fund	81	H-4
Internal Service Funds:		
Combining Statement of Net Position-Internal Service Funds.....	84	H-5
Combining Statement of Revenues, Expenses and Changes in Net Position-Internal Service Funds	85	H-6
Combining Statement of Cash Flows-Internal Service Funds.....	86	H-7
Agency Fund:		
Combining Statement of Changes in Assets and Liabilities-Agency Fund	88	H-8
Capital Assets Used in the Operation of Governmental Funds:		
Comparative Schedules by Source	90	I-1
Schedule by Function and Activity	91	I-2
Schedule of Changes by Function and Activity.....	92	I-3
Supplemental Schedules:		
Schedule of Delinquent Taxes Receivable	94	J-1

STATISTICAL SECTION (UNAUDITED)

General Governmental Net Position By Component.....99
 General Governmental Changes in Net Position100
 Fund Balances of Governmental Funds.....103
 General Fund Balance104
 General Fund Balance Unassigned.....105
 Changes in Fund Balances of Governmental Funds106
 Fund Balance and Cash Flow Calculation Worksheet for the General Fund108
 Assessed Value and Estimated Actual Value of Taxable Property109
 Property Tax Rates-Direct and Overlapping Governments
 (Per \$100 of Assessed Value).....110
 Principal Property Taxpayers111
 Property Tax Levies and Collections.....112
 Ratios of Outstanding Debt By Type113
 Ratios of General Bonded Debt Outstanding114
 Direct and Overlapping Governmental Activities Debt115
 Legal Debt Margin Information116
 Demographic and Economic Statistics117
 Average Daily Attendance and Enrollment.....118
 Principal Employers119
 Full-Time Equivalent Employees by Function.....120
 Teacher Data121
 Campus Information.....122
 Miscellaneous Statistics123

SINGLE AUDIT SECTION

Independent Auditor’s Report on Internal Control Over Financial Reporting and on
 Compliance and Other Matters Based on an Audit of Financial Statements
 Performed in Accordance with *Government Auditing Standards*.....125
 Independent Auditor’s Report on Compliance for Each Major Program and
 Internal Control over Compliance in Accordance with OMB Circular A-133127
 Schedule of Findings and Questioned Costs129
 Schedule of Expenditure of Federal Awards131
 Notes on Accounting Policies for Federal Awards.....132

K-1



INTRODUCTORY SECTION



BUSINESS SERVICES
Office of Finance

CORPUS CHRISTI INDEPENDENT SCHOOL DISTRICT

P.O. Box 110 Corpus Christi, Texas 78403-0110 • 801 Leopard Street
Office: 361/695-7331 Fax: 361/886-9888
Website: www.ccisd.us

December 4, 2017

Board of Trustees
Corpus Christi Independent School District
801 Leopard Street
Corpus Christi, Texas 78401

Dear Board Members:

We are pleased to present the Corpus Christi Independent School District's (the District) Comprehensive Annual Financial Report (CAFR) for the year ending August 31, 2017. The Texas Education Code requires that all school districts file a complete set of financial statements with the Texas Education Agency (TEA) within 150 days of the close of the fiscal year. This report is published to fulfill that requirement for the fiscal year ended August 31, 2017.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The district's internal control structure includes budgetary and accounting controls. Budgetary controls ensure that legally adopted budgets, General Fund, Debt Service and the National Breakfast and Lunch Program are not exceeded at the function level. The District utilizes an encumbrance accounting system to facilitate budgetary control. The accounting controls ensure compliance with applicable laws and regulations and are reviewed periodically by management. Also, the accounting system ensures that each fund is a distinct, self-balancing accounting entity.

Collier, Johnson & Woods, P.C., a firm of licensed certified public accountants have issued an unmodified ("clean") opinion on the District's financial statements for the year ended August 31, 2017. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

Profile of the District

Corpus Christi Independent School District is a political subdivision and is an independent reporting entity as defined by the Governmental Accounting Standards. The policy-making functions of the District lie with a seven-member Board of Trustees (the Board). Four of the members are elected from single-member districts, while the remaining three are elected at-large. Each member is elected for four-year staggered terms. The District is not included in any other reporting entity. This report contains all funds pertaining to the District.

Corpus Christi Independent School District is located in Nueces County, Texas and serves a population of approximately 325,733. The District provides services to a large portion of the City of Corpus Christi, the county seat. The District was created by an act of the 31st Legislature in March 1909.

The District is comprised of 68 square miles and is the 33rd largest school district in the state of Texas, with a refined average daily attendance (RADA) of 35,353 students during the year ended August 31, 2017. The District was at a RADA of 35,493 students during the year ended August 31, 2008. The District's RADA has decreased less than 1% since 2008.

Schools

Number of Schools:	FY16	FY17	FY18
Elementary Schools:			
Pre-K3 to 5 th grades	1	1	1
Pre-K4 to 5 th grades	27	27	26
Kinder to 5 th grades	7	7	7
Kinder to 6 th grades	1	1	1
1 st to 5 th grades	1	1	1
Middle Schools (Grades 6-8)	12	12	12
Magnet School (Grades 7-12)	1	1	1
High Schools (Grades 9-12)	7	7	7
Special Campuses	<u>2</u>	<u>2</u>	<u>2</u>
TOTAL	59	59	58

Student Enrollment:	FY17	FY18
	(actual)	(projected)
Elementary Schools	18,699	18,502
Middle Schools	8,452	8,254
High Schools	<u>11,063</u>	<u>11,061</u>
TOTAL	38,214	37,817

The District offers general education, special education, career and technology, gifted and talented, compensatory education and bilingual education programs.

Mission

The mission of the Corpus Christi Independent School District is to develop the hearts and minds of all students, preparing them to be lifelong learners who continue their education, enter the world of work, and become productive citizens.

Vision

Our vision is to be a world-class school system where every student is a learner, every learner is a graduate, and every graduate is a success.

Goals

The goals of the Corpus Christi Independent School District are as follows: (1) percentage of students in Grades K, 1 and 2 who are deemed proficient readers according to district-approved assessment tools will increase from 59% to 80% by the end of school year 2022, (2) percentage of students in grade 3 who achieve “meets grade level” on the STAAR spring assessment in reading will increase from 69% to 80% by the end of school year 2022, and (3) percentage of all tested students in STAAR reading and math who meet the postsecondary readiness standard will increase from 41% - 49% (reading) and 38% - 46% (math) by the end of school year 2022.

Budgeting

The District, on an annual basis, presents to the Board of Trustees the proposed budgets for the General Operating Fund, the Debt Service Fund, and the National Breakfast and Lunch Program Fund for approval as required by Texas Education Code and as described in the Texas Education Agency’s Financial Accountability Systems Resource Guide. The proposed budget is presented to the Board summarized at the function level for each of the funds above. After adoption of the budget, the appropriation amounts are entered into the District’s accounting and encumbrance system and monitoring of the expenditures and encumbrances in relation to the approved budget begins.

Budget managers have the authority to approve budget transfers of discretionary appropriations anytime during the year. A budget transfer is the movement of appropriations between budget line items within the same function code. Any request to move appropriations between budget line items with different function codes is considered a budget amendment. Any budget amendment requested by budget managers requires Board approval. Expenditure requests will not be processed unless appropriations are available in the line item.

The District feels that the budgetary controls currently in place are appropriate to ensure that expenditures remain within the approved budget and that the District complies with regulations established by the Texas Education Code and the Financial Accountability Systems Resource Guide.

Local Economy

The information presented in the financial statements is perhaps best understood when it is considered within the broader perspective of the specific environment in which the District operates. The condition of the local and regional economy will have great influence on the requirements and resources under which the District will operate.

The City of Corpus Christi is the eighth largest city in the State of Texas and the largest city on the Texas gulf coast with a population of 325,733 according to the US Census for 2016. The Corpus Christi Metropolitan Statistical Area (MSA) population is 454,726 in 2016. Corpus Christi's location on the Gulf of Mexico and the Intercoastal Waterway provides the city with a strategic location and assets that are critical to the economic development of the area.

Corpus Christi MSA is growing and developing in all areas of town to allow for a steady hold in employment with a total of 195,200 in August 2017 compared to 189,300 in August 2016. Unemployment has dropped from 6.3% in 2016 to 5.8% in 2017. The overall employment count has increased approximately 4,900 jobs between 2016 and 2017.

Global crude oil prices have risen just slightly from \$45.88 a barrel in September 2016 to \$51.85 in September 2017. The active Eagle Ford Shale oil rig counts have increased from 36 in September 2016 up to 68 rigs in September 2017. While the decline in oil prices has been regarded by many national economists as a positive for the country, it is also net-negative for Texas, which is heavily exposed to the energy market pricing. The Corpus Christi MSA has been somewhat insulated from this downturn by the large amount of industrial and chemical sector development announced over the last couple of years.

The Corpus Christi MSA has witnessed unprecedented private investment within the last five years. Approximately \$45 billion in new industrial investment has been announced within the region. This has been spread over multiple school district areas, not just CCISD. The industrial growth has been focused in the energy sector, and primarily within the midstream operations related to crude oil operations, and also those industries utilizing natural gas, as either a power source or as a feedstock in their manufacturing process.

The focus on midstream oil-related process manufacturing, and also natural gas-related manufacturing, as a chemical-producing sector, has thus far insulated Corpus Christi from much of the downturn in the oil-recovery sector.

Because of this raw material coming into Corpus Christi the economic boom will continue for Corpus Christi long after the wells have all been drilled. There are four very significant industrial projects that are under construction that will have a region-wide impact on the economy. TPCO America has completed their phase 1 project which is the pipe finishing plant. Phase 2 is under construction and should be completed in December 2017. It will contain 1.3 million square feet of manufacturing space. Upon completion, TPCO anticipates creating up to 600 new jobs in the region and have a total investment of \$1.3 billion. Cheniere is developing a \$14.5 billion export facility, creating 250 jobs. Additional phases of the project could add another \$5+ billion in investment making this one of the largest new industrial projects in the USA. Austria's voestalpine company has developed a \$700+ million facility creating 150+ new jobs with annual wages of \$7,645,000. It is in operations and has 179 new employees. Gulf Coast Growth Ventures, a joint effort with ExxonMobil and Saudi Arabian Basic Industries Corporation (SABIC) announced the site selection of San Patricio County. They will construct a \$9.4 billion polyethylene plant to manufacture plastics. They expect to create over 600 jobs with an average salary near \$90,000 per year.

Several of Corpus Christi's traditional economic foundation companies, including Flint Hills, Valero, and CITGO have announced major manufacturing projects, reinvesting and modernizing facilities. These projects represent over \$3 billion in investment and more than 2,000 new jobs. The Chemours Company plans to spend \$230M, within the next 3 years to expand its Ingleside facility. Trafigura, Plains Marketing, and Martin Midstream are adding significant investment in storage tanks for product flowing out of the Eagle Ford Shale. These investments represent over \$1 billion in new investments within our region. Plains Terminals has begun construction on their \$200 million condensate storage and dock facility.

The Upper Padre Partners has completed construction of the \$60 million Schlitterbahn Water Park that will include lodging, golfing, and a restaurant.

Replacement of the Harbor Bridge will be a \$1 billion investment with a proposed height of 205 feet. Contracts were awarded to Flatiron/Dragados, LLC and will provide access to larger ships in and out of the port. This project has begun to install pilings for the bridge support. The bridge is projected to have as many as 1,500 workers on site, and the construction is expected to take five years to complete.

Military

The military installations located in and around the Corpus Christi area continue to have a significant influence on the economic performance of the city. There are two major military facilities located in the area, NAS Corpus Christi and NAS Kingsville. These bases provide over 10,000 jobs. Over 1,200 pilots undergo training at Naval Air Stations Corpus Christi and Kingsville each year.

The Corpus Christi Army Depot (CCAD), located onboard Naval Air Station Corpus Christi, is the largest industrial employer in South Texas, employing over 3,500 civilian employees. They have started phase II of replacing their 1 million square foot building. CCAD, the world's largest helicopter repair facility, has the following mission:

- Overhaul, repair, modify, retrofit, test and modernize helicopters, engines and components for all services and foreign military customers.
- Serve as the depot training base for active duty Army, National Guard, Reserve and foreign military personnel.
- Provide worldwide on-site maintenance services, aircraft crash analysis, lubricating oil analysis, and chemical, metallurgical and training support.

Together the Corpus Christi military facilities represent a large and key foundation of the regional economy. It is critical that any reductions and military spending be monitored for the impact on employment and reinvestment in the military operations and facilities.

Petrochemical Industry

The Coastal Bend's petrochemical industry is a major contributor to the economy of the City of Corpus Christi. It is estimated that this industry has invested approximately \$10 billion in the construction, maintenance and expansion of their local facilities. In addition to this major capital investment, the petrochemical industry also makes more than \$1.5 billion in annual purchases of local goods and services and is directly and indirectly responsible for providing an estimated

50,000 jobs. More than 90 percent of the tonnage that moves through the Port of Corpus Christi is a result of this industry.

Companies that are directly or indirectly involved in this industry include Air Liquide, Bay Limited, Celanese-Bishop Plant, CITGO Refining and Chemicals, Chemours, Flint Hills Refining Company, Gulf Marine Fabricators, H&S Constructors, Kiewit Offshore Services, LyondellBassell Industries, Magellan Midstream Partners, MarkWest Javelina, OxyChem, Repcon, Gravity Midstream and Valero Refining Company. These companies alone provide almost 10,000 full-time permanent jobs to the local economy.

Port Corpus Christi

The Port of Corpus Christi (the Port) ranks sixth in the United States and 44th in the world in terms of tonnage. The Port began serving the Coastal Bend area in 1926 with a 25-foot channel and has become, at 45 feet, the deepest port in Texas and along the Gulf of Mexico. The Port is classified as Foreign Trade Zone (FTZ) No. 122, one of the largest in the United States encompassing 24,990 acres.

The Port owns and operates public wharves, transit sheds, open storage facilities, freight handling facilities and equipment, warehouses, a bulk material handling terminal, and a multi-purpose conference center and also owns, but leases out, a grain elevator. The direct, induced and indirect jobs generated by the public and private marine terminals total over 40,000 with over \$2 billion in income for families throughout the Coastal Bend.

The Port remains an economic force via its ability to provide the commercial shippers with first class channels, docks and facilities for handling their cargo, and by providing public facilities designed to attract more tourist dollars to the area while maintaining financial stability. The import/export markets of Latin America, Mexico, the United States, Europe, Africa and Russia are targeted.

The Port and port industries continue their partnership with CCISD to improve student achievement and attendance, to recognize and support teachers and to strengthen community and educational efforts through funding and employee volunteer participation.

Medical

As the major medical center of South Texas, healthcare continues to be one of the largest industries in Corpus Christi. The Corpus Christi Medical Center, Driscoll Children's Hospital, Kindred Hospital, and CHRISTUS Spohn Health System anchor our healthcare industry. They employ a combined 9,000 health care professionals. CHRISTUS Spohn continues to receive national recognition for their Cardiac Rehab Program. They are replacing Memorial Hospital Trauma Center and building it next to Spohn Shoreline Hospital and will open a clinic on the current Memorial Hospital site. In addition, CCMC opened a 15 bed inpatient rehab center, reducing out of town travel for local patients. Driscoll Children's Hospital is one of the top pediatric hospitals in the United States. They recently unveiled the newly renovated 13,700 square foot C. Ivan Wilson Patient Support Center. A multimillion dollar redesign and expansion of the Emergency Department is currently being planned.

Higher Education

Texas A&M - Corpus Christi has grown to an enrollment of approximately 12,000 students with a student teacher ratio of 20:1, and has approximately 1,400 employees. The University was selected a one of six Federal Aviation Administration (FAA) facilities around the nation that will conduct testing to help the FAA incorporate unmanned aircraft systems (UAS) into the national airspace. The University continues adding more student housing at their off campus site to accommodate the increased enrollment. The University opened an engineering program in 2010. They had estimated that they would have 450 students by now. In the Fall 2017 semester, there are 700 students in their engineering programs.

The Coastal Bend Business Innovation Center has over 28 client companies and continues to provide business services to technology companies. The incubator is expanding and nurturing new companies with great ideas that need some added support to grow. These companies will result in more jobs in the Coastal Bend region. The Innovation Center will also be the center for the UAS project.

Texas A&M - Kingsville consistently ranks as one of the top universities serving Hispanics. The University has begun to offer a bachelor of science in natural gas engineering. They had offered this degree in the past but discontinued it due to low interest.

Del Mar College had a fall semester credit enrollment of 11,900 students in 2017. They have added a Process Automation pilot plan for students that will enable Del Mar to graduate needed process technicians. They have refurbished a hangar at the international airport where they have now doubled their enrollment in aviation related studies.

It is predicted that the Coastal Bend will create 15,000 craft jobs in the next 10 years. Another asset that is helping to educate our workforce is the Craft Training Center. Craft recently doubled their size to accommodate more students. Their student population is comprised of adults that are learning a new trade and adults that are getting a certification such as rolling welding. Industry partners send their employees there to keep up their qualifications, and independent school districts send their students there to be qualified upon graduation. This is in response to the needs of local industries but also is in line with House Bill 5 (HB5).

Long-Term Financial Planning and Policies

- On November 4, 2014, voters approved a \$100 million bond for the construction of two replacement elementary schools and consolidation of two elementary schools to one new one. Additionally, one elementary school will have eight classroom additions and all middle schools will have a 4-lane track. This will result in a zero tax increase. All projects are substantially completed except the replacement of one of the elementary schools.

- On November 8, 2016, taxpayers approved \$194.6 million for acquiring, renovating and equipping school buildings and consolidation of four middle schools to two new ones. This will result in a zero tax increase for two years.
- Fund Balance: The District's policy is to consider TEA recommendations, District bond rating, liquidity, interest earnings and infrastructure needs prior to utilizing any undesignated general fund balance.
- Student Population: The District student population is anticipated to increase slightly over the next 10 years.
- Property Values: It is anticipated that property values will continue to increase over time.

Major Initiatives

The major financial goals and objectives which guide the budget development process are:

- Maintain a fiscally responsible tax rate while providing the resources necessary to meet the District's objectives.
- Maintain adequate and appropriate fund balance levels in accordance with policy.
- Fund a compensation package that will help attract and retain qualified personnel. Also, provide some compensation increase while considering future's year's impact and unknown State future revenue reductions.
- Sustain the commitment towards the enhancement of academic achievement and provide a safe environment.

Facilities

The district has 71 campuses and support facilities totaling approximately 6 million square feet on 924 acres. A \$100 million bond was approved by voters November 4, 2014. This included consolidating Calk and Wilson Elementary Schools and building new Los Encinos and Windsor Park Schools. The District currently has 142 portable classroom buildings. More portable classroom buildings will be removed as the new facilities open.

The Office of Facilities and Operations is organized into three divisions: Maintenance, Custodial and Site Maintenance/Grounds with a total of 482 employees. The annual budget this year is approximately \$18.2 million. All three services are assigned to five primary geographic areas with equitable square footage and acreage. The average age of CCISD facilities is approximately 40 years.

Typically, the Board of Trustees allocates about \$4.0 million for completion of Major Maintenance projects during the school year. The adopted budget does not include this amount. The Major Maintenance projects individually exceed \$10,000, which generally requires coordination. The list of major maintenance projects is compiled by the Office of Facilities and Operations with input from campus principals, directors and other staff. This list is an ongoing document that is continuously monitored and expanded in accordance with identified needs. Projects for specific campuses include annual HVAC cycle replacements, plumbing and electrical projects, athletics requests, energy efficiency projects, flooring, roof cycle replacements and portable building relocations.

The Office of Facilities & Operations web page is updated weekly. The web page includes the current weekly mowing and trimming schedules, summer project schedules, monthly

maintenance sweep crew schedules, air filter changing schedules, irrigation schedules, and the Major Maintenance project list.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to the Corpus Christi Independent School District for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended August 31, 2016. This was the 17th consecutive year that the District has received this prestigious award. In order to be awarded a Certificate of Achievement, the District had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe the District's current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting the report to the GFOA to determine its eligibility for another certificate.

In addition, the District received the GFOA's Distinguished Budget Presentation Award dated March 1, 2017 for its annual budget document beginning September 1, 2016. This is the 13th consecutive year the District has received this award. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document had to be judged proficient as a policy document, a financial plan, an operations guide, and a communications device.

Preparation of the Comprehensive Annual Financial Report and the Annual Budget Document takes dedication and commitment by staff members district wide. A sincere thanks goes to the following personnel for the time and effort given to the preparation of this report:

- | | |
|---|---------------------------------|
| Ms. Roxanne I. Douglas, CPA, Associate Director for Finance | |
| Ms. Myra Guzman, Senior Accountant | Ms. Lydia Silva, Accountant |
| Ms. Minerva Flores, Accountant | Ms. Julie Gonzalez, Accountant |
| Mr. Gary Lynch, Accountant | Ms. Fatima Zamarron, Accountant |

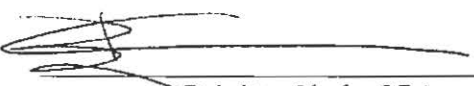
Outside Assistance

Collier, Johnson & Woods, P.C. Certified Public Accountants

We would especially like to give our sincere thanks to the District's Board of Trustees for their time, dedication and support to the District and its personnel.



Donna Hohn
Comptroller



Brigitte Clark, CPA
Chief Administrative Officer


CERTIFICATE OF BOARD

Corpus Christi Independent School District
Name of School District

Nueces
County

178-904
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 11th 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)



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Corpus Christi Independent School
District, Texas**

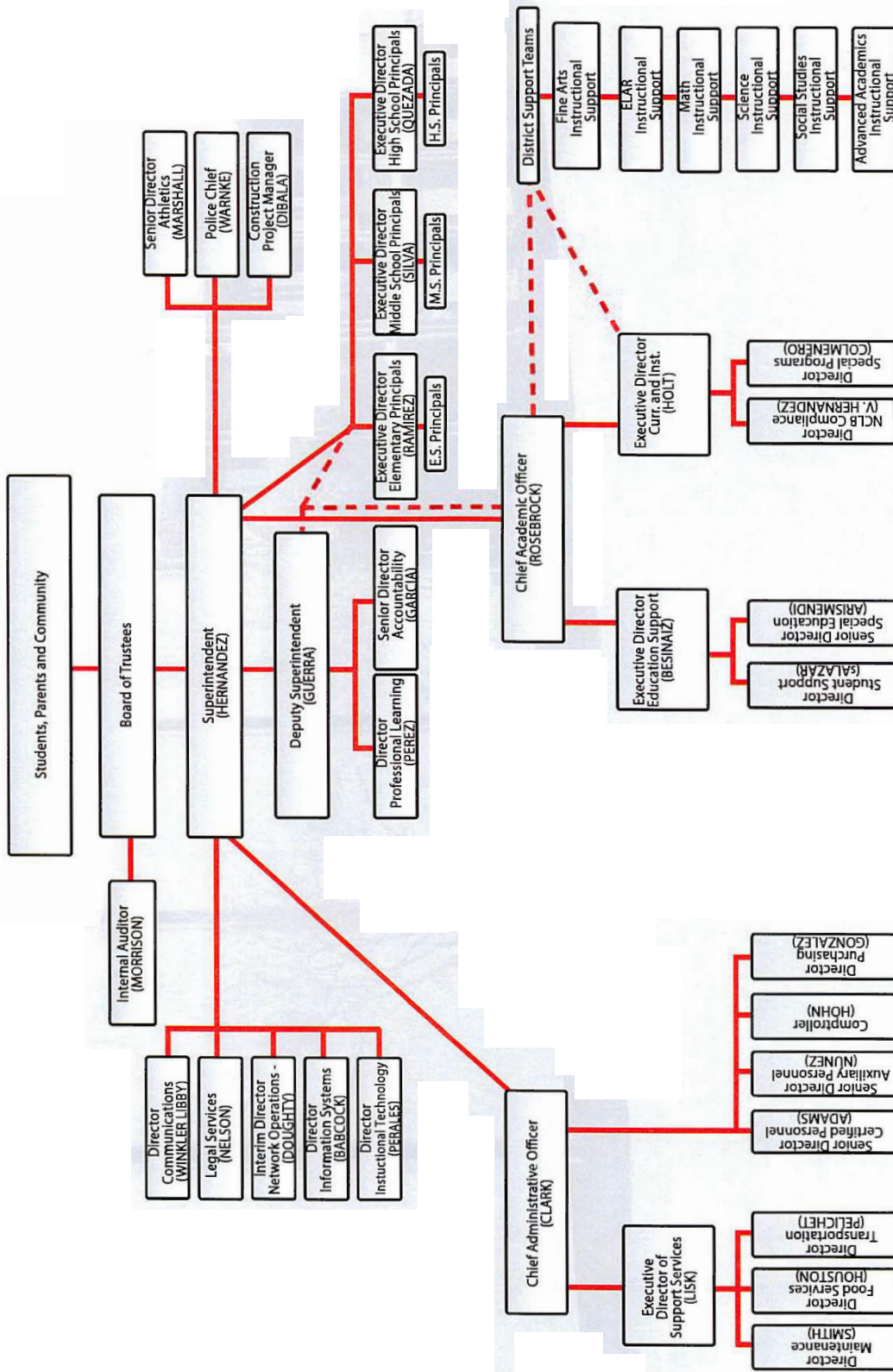
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

August 31, 2016

Christopher P. Morill

Executive Director/CEO

CCISD Organizational Chart



CORPUS CHRISTI INDEPENDENT SCHOOL DISTRICT

Elected and Appointed Officials

Year Ended August 31, 2017

Elected Officials – Board of Trustees

Ms. Jane D. Bell – President
Mr. Tony Elizondo – Vice President
Mrs. Catherine G. Susser – Secretary
Ms. Alice Upshaw Hawkins – Assistant Secretary
Dr. Tony C. Diaz – Trustee
Mr. Marty Bell – Trustee
Mr. John Longoria - Trustee

Appointed Officials

Roland Hernandez, Ph.D., Superintendent of Schools
Maria Luisa Guerra, Ed.D., Deputy Superintendent
Brigitte Clark, Chief Administrative Officer
James Rosebrock, Ed.D., Chief Academic Officer
Susan Holt, Ph.D., Executive Director of Curriculum and Instruction
Ada Besinaiz, Ed.D., Executive Director of Educational Support
Scott Lisk, Executive Director of Support Services
Donna Hohn, Comptroller

CORPUS CHRISTI INDEPENDENT SCHOOL DISTRICT
Consultants and Advisors
Year Ended August 31, 2017

Auditors

Collier, Johnson & Woods, P.C.
555 N. Carancahua Suite 1000
Corpus Christi, Texas 78401-0839

Financial Advisor

Frost Bank – Capital Markets
100 W. Houston St., Suite 110
San Antonio, Texas 78205

Depository Bank

Frost Bank
PO Box 749
Corpus Christi, TX 78403-0749

School District Attorney

Thompson & Horton LLP
711 Louisiana Street, Suite 2100
Houston, TX 77002

FINANCIAL

SECTION

INDEPENDENT AUDITOR'S REPORT

December 4, 2017

Board of Trustees
Corpus Christi Independent School District
Corpus Christi, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Corpus Christi 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the other required supplementary information on pages 23 through 33, 68 and 69 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 Corpus Christi Independent School District's basic financial statements. The introductory section, supplemental information within the financial section and the statistical section as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards, Exhibit K-1, is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) 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 supplemental 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 supplemental information and the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Collins Johnson & Woods





Corpus Christi Independent School District Management's Discussion and Analysis

It is a privilege to present to you the financial picture of Corpus Christi Independent School District. The discussion and analysis of Corpus Christi Independent School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended August 31, 2017. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the transmittal letter, notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Government-Wide Financial Statements

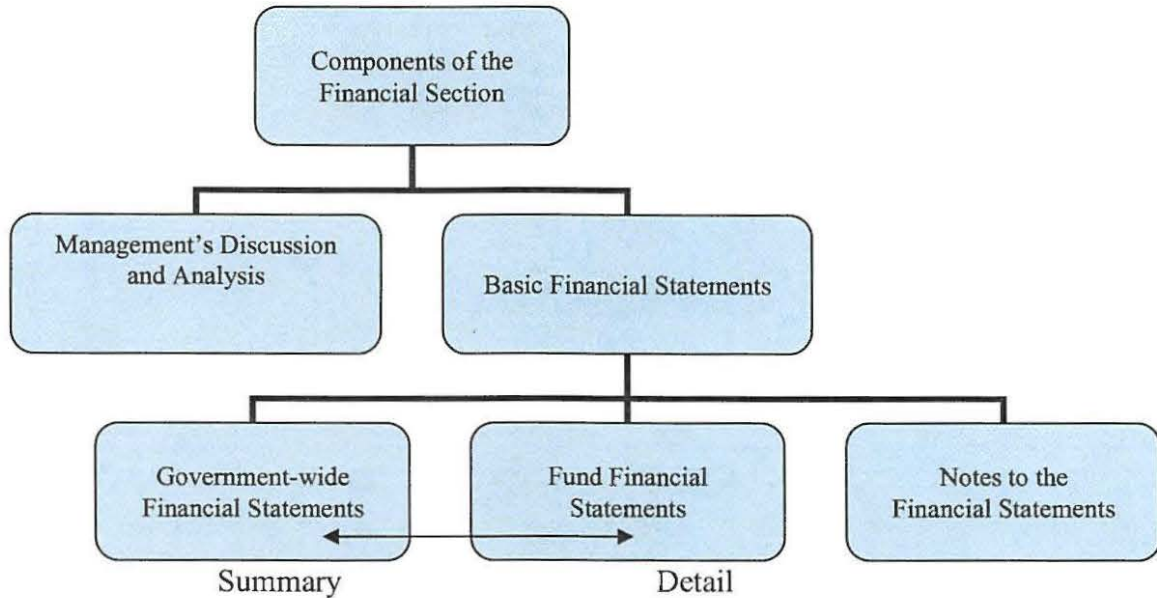
- Total net position decreased \$35.7 million as a result of this year's operations which represents a 22.6% decrease over 2016.
- The District had \$432.9 million in expenses related to governmental activities; \$69.6 million of these expenses was offset by program specific charges for services and grants or contributions resulting in net expenses of \$363.3 million. General revenues (primarily taxes and state aid) of \$327.6 million were less than net government activities by \$35.7 million.

Fund Financial Statements

- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$281.6 million. Approximately 27.3% of this total amount, \$76.8 million, is unassigned fund balance and is available for spending at the government's discretion. Additionally, assigned fund balance of \$13.7 million is for insurance deductible, property tax disputes and repayment of energy performance loan.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$76.8 million, or 24.7% of next fiscal year's total general fund expenditures budget.
- Expenditures increased \$52.7 million. \$15.2 million of the increase was in the General Fund, \$35.6 million of the increase was in Capital Projects fund and \$1.9 million increase in Other Funds.

Using this Comprehensive Annual Financial Report (CAFR)

This annual report consists of two distinct series of financial statements: government-wide and fund. This Comprehensive Annual Financial Report (CAFR) consists of four sections: introductory, financial, statistical, and single audit. As illustrated in the following chart, the financial section of this report has two components: *management's discussion and analysis* (this section) and the *basic financial statements*.



The government-wide statements include the Statement of Net Position and Statement of Activities and are designed to show the District as a sum of its significant fund activities. These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

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

The notes to the financial statements provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for nonmajor funds contain even more information about the District's individual funds. These are not required by TEA. The three TEA required supplemental schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole (government-wide financial statements)

Statement of Net Position and the Statement of Activities

The government wide financial statements begin on page 35 and provide an analysis of the District's overall financial condition and operations. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets and deferred outflows and liabilities and deferred inflows at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

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

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

In the Statement of Net Position and the Statement of Activities, the District has only one type of governmental activity. The District's basic services are reported here, including the instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services, and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these activities.

Reporting the District's Most Significant Funds

The fund financial statements begin on page 37 and provide detailed information about the major significant funds and the combined aggregate of the non-major funds. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes. The District's three kinds of funds, governmental, proprietary and fiduciary; use different accounting approaches.

- **Governmental funds**—Most of the District's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and

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

- **Proprietary funds**—The District reports the activities for which it charges users in proprietary funds using the same accounting methods employed in the Statement of Net Position and the Statement of Activities. The internal service funds report activities that provide supplies and services for the District's other programs and activities—such as the District's workers' compensation and health insurance self-insurance programs and the print shop.
- **Fiduciary funds**—The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position on page 45. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Government-wide Financial Analysis

Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental activities. The 2016 net position balances have been reclassified to be comparable to the current year.

Table I
The District's Net Position

	<u>2017</u>	<u>2016</u>	<u>Variance</u>
Current and other assets	\$345,378,869	\$263,516,957	\$ 81,861,912
Capital assets	409,927,458	385,850,186	24,077,272
Total Assets	<u>755,306,327</u>	<u>649,367,143</u>	105,939,184
Deferred Loss on Refunding	8,959,308	9,489,626	(530,318)
Deferred Outflow Related to TRS	30,393,515	34,292,763	(3,899,248)
Total Deferred Outflows of Resources	<u>39,352,823</u>	<u>43,782,389</u>	<u>(4,429,566)</u>
Long-term liabilities outstanding	625,071,363	491,876,708	133,194,655
Other Liabilities	42,894,091	37,715,777	5,178,314
Total Liabilities	<u>667,965,454</u>	<u>529,592,485</u>	<u>138,372,969</u>
Deferred Inflow Related to TRS	4,485,803	5,631,881	(1,146,078)
Total Deferred Outflows of Resources	<u>4,485,803</u>	<u>5,631,881</u>	<u>(1,146,078)</u>

(continued)

Net position:			
Net Invested in capital assets	39,629,538	66,050,882	(26,421,344)
Restricted for Debt Service	8,687,676	1,665,000	7,022,676
Restricted for Federal and State Funds	8,307,406	9,346,859	(1,039,453)
Unrestricted	<u>65,583,273</u>	<u>80,862,425</u>	<u>(15,279,152)</u>
Total Net Position	<u>122,207,893</u>	<u>\$157,925,166</u>	<u>\$(35,717,273)</u>

Net position of the District's governmental activities decreased from \$157.9 million to \$122.2 million which represents a 22.6% decrease in net position. The net invested in capital assets decreased \$26.4 million, restricted for debt service increased \$7.0 million, restricted for federal and state funds decreased \$1.0 million and the unrestricted net position decreased by \$15.3 million.

The decrease of \$26.4 million in net invested in capital assets was a result of the combination of the following:

- Depreciation of long-term capital assets of \$18.2 million.
- Reduction of \$12.0 million on long-term debt issued to finance capital asset acquisition (representing a net increase).
- Expenses of \$26.1 million of bond proceeds on repairs and assets with an initial individual cost of less than \$5,000 (representing a decrease).
- \$5.9 million of vehicles and equipment purchased with unrestricted net position (representing an increase).

Unrestricted net position is used to finance day-to-day operations without constraints established by legal requirements such as enabling legislation or debt covenants. The net \$15.3 million decrease in unrestricted net position was primarily the result of the net increase in financial position of \$35.7 million less the decrease in the net invested in capital assets and increase of restricted for debt service.

Table II
Changes in the District's Net Position

	<u>2017</u>	<u>2016</u>	<u>Variance</u>
Revenues			
Program revenues:			
Charges for services	\$ 5,366,468	\$ 9,335,264	\$ (3,968,796)
Operating grants & contributions	64,224,870	68,254,086	(4,029,216)
Total Program Revenue	<u>69,591,338</u>	<u>77,589,350</u>	<u>(7,998,012)</u>
General Revenues:			
Property taxes	181,212,350	165,505,308	15,707,042
State aid formula grants	117,968,308	137,964,752	(19,996,444)
Other	28,441,931	19,941,711	8,500,220
Total General Revenue	<u>327,622,589</u>	<u>323,411,771</u>	<u>4,210,818</u>
Total Revenues	<u>397,213,927</u>	<u>401,001,121</u>	<u>(3,787,194)</u>

(continued)

	<u>2017</u>	<u>2016</u>	<u>Variance</u>
Expenses			
Program:			
Instruction	212,630,161	207,685,682	4,944,479
Instructional resources & media services	5,752,927	5,547,776	205,151
Curriculum & staff development	8,259,919	7,142,364	1,117,555
Instructional leadership	7,278,380	7,319,985	(41,605)
School leadership	22,521,721	22,507,524	14,197
Guidance, counseling, evaluation services	13,290,702	13,317,551	(26,849)
Social work services	2,334,930	2,250,692	84,238
Health services	4,136,135	4,274,650	(138,515)
Student (pupil) transportation	6,699,131	6,487,624	211,507
Food services	19,333,475	17,662,705	1,670,770
Co-curricular/extracurricular activities	11,618,633	10,483,040	1,135,593
General administration	9,977,032	10,046,916	(69,884)
Plant maintenance & operations	75,153,114	55,256,537	19,896,577
Security & monitoring services	4,871,591	3,691,368	1,180,223
Data processing services	9,419,114	8,764,891	654,223
Community services	1,464,504	1,360,152	104,352
Debt Service-interest on long-term debt	16,821,431	18,614,896	(1,793,465)
Debt Service-bond issuance cost & fees	1,368,300	850,660	517,640
	<hr/>	<hr/>	<hr/>
Total Expenses	432,931,200	403,265,013	29,666,187
Excess Before Special Items	(35,717,273)	(2,263,892)	(33,453,381)
Special Items	-	(1,355,247)	1,355,247
	<hr/>	<hr/>	<hr/>
Change in Net Position	(35,717,273)	(3,619,139)	(32,098,134)
Beginning Net Position	157,925,166	161,544,305	(3,619,139)
Ending Net Position	<u>122,207,893</u>	<u>157,925,166</u>	<u>\$ (35,717,273)</u>

The District's overall total revenues decreased \$3.8 million.

Program revenues decreased 10.3% (\$8.0 million). In particular, grant spending changed and the increase in On-Behalf payments from the State related to pension expenses.

- Charges for services decreased due to a one-time reimbursement in the prior year for construction repair costs of \$3.6 million.
- The District's proportionate share of the State's proportionate share of the Plan's total pension expense resulted in \$4.2 million decrease to program revenue in the current fiscal year.

- The State Instructional Materials grant decreased \$5.8 million since expenditures are lower during the second year.
- Funding for grants for Title IV, B Community Learning, Other State and Local Special Revenue Funds was an increase of \$2.5 million.
- Title I-SIP Academy paid two years of incentive awards resulting a \$1.4 increase this year.
- National Breakfast and Lunch Program commodity increase \$.5 million due to the increase in free and reduced students.
- ESEA II, A Training and Recruiting increased \$.7 million due substitute teachers, extra duty pay, supplies and contracted services associated with additional professional development.
- IDEA-Part B formula increased \$.6 million due to salary and benefit increase.

General revenues increased by 1.3% (\$4.2 million). In particular:

- Property tax revenue increased by 9.5% (\$15.7 million). Property values increased 9.3% and the collection rate was slightly higher than the previous year.
- State funding decreased 14.5% (\$20.0 million).
 - As the District's property tax values increase, the State decreases its share of Tier I funds by increasing the local fund assignment. This was \$8.0 million.
 - The District is paid based on ADA (average daily attendance). This decreased by 356 students equating to a decrease in state funds of \$2.1.
 - Prior years protested District property values resulted in \$8.7 million additional state funds in the prior year. This was mainly due to a lawsuit settlement which covered two years of protested values which increases state aid.
 - The number of instructional days decreased by 4 which equated to \$1.5 million decrease in state revenue accrued.
- Other revenue increased 42.6% (8.5 million). \$7.5 million was mainly due to the Available School Funding formula which increased from \$176 per prior year ADA to \$338.

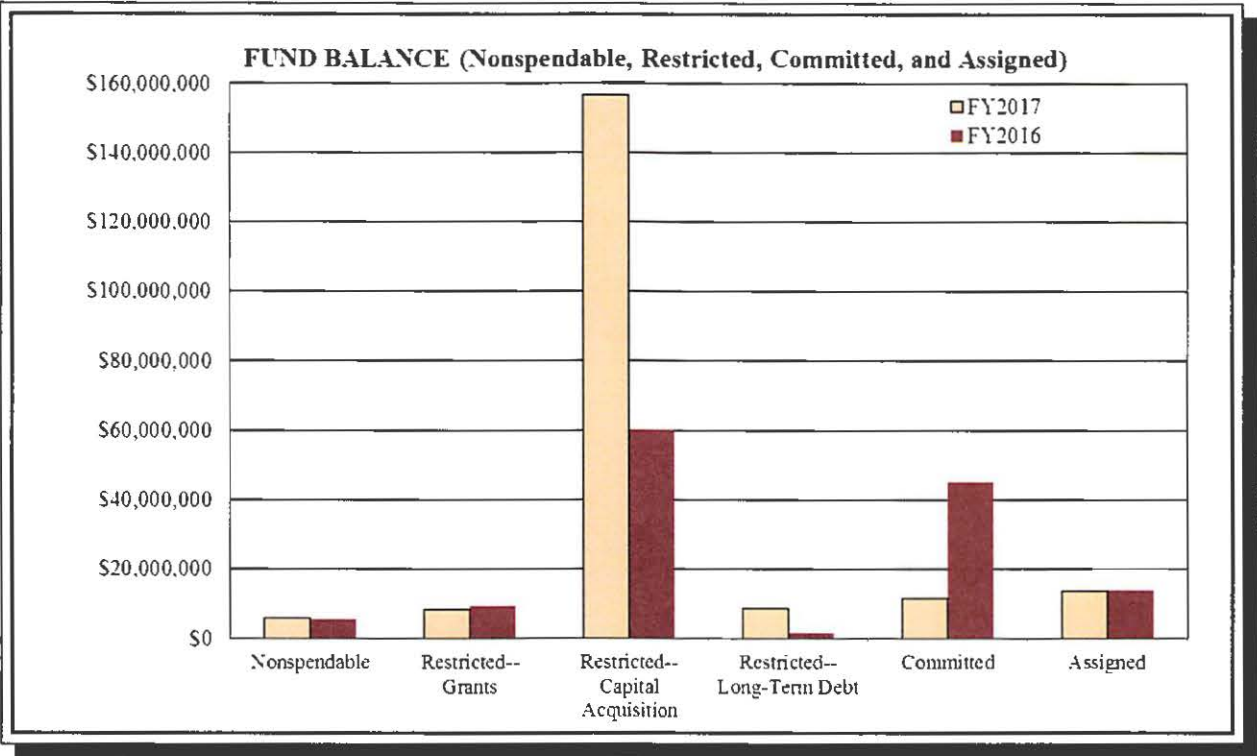
Total expenses increased 7.4% (\$29.7 million). The major changes are as follows:

- Instructional costs increased by \$4.9 million.
 - Teacher and classroom aides' salary and benefits increased \$5.4 million due to a 2.5% permanent salary increase and enhanced stipends.
 - Instructional supplies for regular education as well as for accelerated education increased by \$2.5 million in order to provide additional resources to students.
 - An increase of \$1.2 million from Title I-SIP Academy because two years of incentive pay were paid in this fiscal year.
 - IDEA-Part B Formula increased spending of \$.7 million due to salaries and benefit increase.
 - The State Instruction Materials grant decreased expenditures by \$5.6 million since it was in the second of two years of the allotment.

- Title IV, B Community Learning was a new grant for \$.8 million.
 - An increase of \$.7 for instructional supplies from capital projects funds for two new campuses which opened this year.
 - The change in the Internal Service funds' net position increased \$1.7 million.
 - \$3.3 million decrease relates to the District reporting the pension liability.
- Curriculum and Staff Development increased \$1.1 million attributed to additional consultants providing teacher training (\$.6 million) and supplies for training (\$.1 million). Also, extra duty pay for staff (\$.2 million) and raises (\$.1 million).
 - Food Services increased \$1.7 million. This was due to higher than usual repairs on equipment and increased supplies for two new campuses. Also, there was an increase in commodity usage and price increase of \$.5 million and repair of fire protection and ventilation system at the central kitchen for \$.8 million.
 - Extracurricular Activities increased \$1.1 million due to salary increase and enhanced stipends.
 - Plant maintenance and operations increased by \$19.9 million. Repair and renovation from capital projects was \$19.6 million, \$10.2 from a new bond issue. Additionally, major maintenance on facilities increased \$2.0 million while supplies decreased \$.7 million. Decrease in telephone bills due to an increase of E-rate funding of \$1.0 million.
 - Security and Monitoring Services increased by \$1.2 million. Security upgrades were made at five high schools (\$1.0 million) and 3 positions for two campuses we filled all year (\$.1 million).
 - Debt Service-Interest on Long Term Debt decreased \$1.8 million due to less interest payments and amortized premium and deferred losses relating to new bonds issued.

Financial Analysis of the District's Funds

As the District completed the year, the District's governmental funds reported combined ending fund balances of \$281.6 million, an increase of \$76.2 million. Approximately 27.3% of this total amount (\$76.2 million) constitutes unassigned fund balance in the General Fund. The remainder of fund balance is nonspendable, restricted, committed or assigned to indicate that it is not available for new spending. This is shown in the following chart.



The general fund is the primary operating fund of the District. The unassigned fund balance of \$76.8 million for Corpus Christi Independent School District represents approximately 24.7% of next fiscal year's total general fund expenditures budget.

The fund balance of the District's general fund decreased \$6.4 million during the current fiscal year compared to the final budgeted decrease of \$17.8. Key factors related to this variance of \$11.4 million are as follows:

- Committed contracts of \$1.5 million were anticipated during the year but were not finalized prior to the end of the fiscal year. There were \$.4 million for departmental vehicles, \$.8 million for maintenance and operations projects not finalized and \$.3 million for data processing center upgrades. These and others totaled \$1.5 million and will be added to the FY2018 budget. The committed contracts added during the FY2017 totaled \$2.3 million in which the majority was for transportation buses, maintenance and operations projects and data processing campus upgrades
- Instruction variance is \$2.2 million with \$.4 million from unused funds for substitutes, \$.7 million in salaries and \$.9 in benefits. The variance is 1.3%.
- School Leadership was \$.8 million, Guidance, Counseling and Evaluation Services was \$1.1 million and Extracurricular Activities was \$1.0 million. All for unused funds for substitutes and salaries and benefit savings for vacancies and conservative budgeting for increased stipends.
- Facilities Maintenance and Operations was \$2.0 million. Salary savings due to vacancies totaled \$.5 million, utilities was .4 million and supplies and equipment not purchased.

- Several other departments have salary and benefits remaining of \$1.4 million. This is a 2.7% variance to the budget and is related to salaries and benefit savings for vacancies and conservative budgeting for increased stipends.

General Fund Budgeting Highlights

The District prepares and presents an annual budget to the Board of Trustees for the General Fund, Food Service Fund, and Debt Service Fund in accordance with state statute. Once approved, the budget can only be amended at the fund and function level by a majority vote of the Board of Trustees. Over the course of the year, the District recommended and the Board approved several revisions to budgeted revenue and appropriations. Some of the more significant budget amendments that affected the District’s general fund balance for the year were:

- Revenue budget increased \$1.2 million. State revenue decreased \$1.0 million due to anticipated lower enrollment. SHARS revenue was anticipated to increase by \$1.7 million due to a prior year settle up of claims and property taxes increased \$.5 million due to a slightly higher collection rate.
- The budget for encumbrances that are carried forward to the next year is submitted as a budget amendment after the original budget is adopted. The amount of the expenditures was \$6.4 million.
- \$10.4 million of one-time infrastructure projects were added after the budget adoption.
- \$5.9 million was redirected. This was from \$1.6 million from salary savings of vacant employee positions and associated benefits and \$1.9 million was from sick leave payoffs for retirees. Also, \$1.9 million in instructional supplies were redirected.
- An \$8.1 transfer out was added to help fund the energy performance contract.

Budget amendments resulting in a net difference of \$17.8 million to the fund balance were presented to the Board of Trustees for approval. Refer to Note III. A on page 51 of this report for details.

Capital Asset and Debt Administration

Capital assets: The District’s investment in capital assets for its governmental activities as of August 31, 2017, amounts to \$409.9 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, furniture and equipment, vehicles, and capital leases. The amounts in the table represent a net increase of \$24 million, or 5.9%, above last year.

District’s Capital Assets (net of depreciation)

	<u>2017</u>	<u>2016</u>	<u>Variance</u>
Land	\$ 26,491,841	\$ 26,491,841	\$ -
Buildings and improvements	360,243,458	326,716,246	33,527,212
Furniture and equipment	7,830,993	7,585,022	245,971
Vehicles	9,345,480	7,602,865	1,742,615
Construction in progress	6,015,686	17,454,212	(11,438,526)
Net Capital Assets	<u>\$409,927,458</u>	<u>\$385,850,186</u>	<u>\$ 24,077,272</u>

This year's major additions included:

- New items added to construction in progress:
 - Winsor Park ES – Progress on new elementary school being built
- Items removed from construction in progress:
 - Wilson ES- completed new elementary school
 - Los Encinos ES- completed new elementary school

More detailed information about the District's capital assets is presented in Note IV. F on page 55 of this report for details.

Long-term debt. At the end of August 31, 2017, the District had total general long-term debt outstanding of \$535.9 million, a net increase of \$129.2 million from the prior year. More detailed information about the District's long-term debt is presented in Note IV. H on page 56 of this report for details.

Other long-term liabilities. Other obligations include accrued interest payable, unpaid compensated absences, pension liability and claims liability. More detailed information about the District's other long-term liabilities is presented in Note IV. H on page 56 of this report for details.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the city is 5.8% while the state and national rates are 4.2% and 4.4% respectively as of August 2017.
- The District's student attendance rate was 94.7%.
- For the 2017-2018 year, the District budgeted general fund revenues of \$309.8 million, expenditures of \$310.8 million, and other sources of \$1.1 million and other uses of \$50 thousand for a balanced budget with no change of general fund balance. The expenditures and other uses decreased by \$1.2 million.
 - Increases were for all employees to receive at least a 1% salary adjustment and equity adjustments for some teachers, or \$8.8 million. Additional increases were for extra staff for \$1.7 million.
 - Increases for instructional supplies totaled \$5.1 million.
 - Decreases were to reductions in sick leave payout, health insurance and electricity budgets due to analysis of actual usage for \$5.1 million.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances as well as demonstrate accountability for funds the District receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Corpus Christi Independent School District, c/o of the Office of Finance, P.O. Box 110, Corpus Christi, Texas, 78403-0110.



CCISD

Developing Hearts and Minds

CORPUS CHRISTI INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2017

EXHIBIT A-1

Data Control Codes	Primary Government
	Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents (Note IV. A)	\$ 319,226,026
1220 Delinquent Property Taxes Receivable (Note IV. C)	8,859,131
1230 Allowance for Uncollectible Taxes (Note IV. C)	(2,400,722)
1240 Due from Other Governments (Note IV. D)	11,654,017
1290 Other Receivables, net	1,565,746
1300 Inventories	2,803,362
1410 Prepayments	3,661,142
1490 Other Current Assets	10,167
Capital Assets:	
1510 Land (Note IV. F)	26,491,841
1520 Buildings, Net (Note IV. F)	360,243,458
1530 Furniture and Equipment, Net (Note IV. F)	7,830,993
1540 Vehicles, Net (Note IV. F)	9,345,480
1580 Construction in Progress (Note IV. F)	6,015,686
1000 Total Assets	755,306,327
DEFERRED OUTFLOWS OF RESOURCES	
1702 Deferred Loss on Refunding	8,959,308
1705 Deferred Outflow Related to TRS (Note IV. M)	30,393,515
1700 Total Deferred Outflows of Resources	39,352,823
LIABILITIES	
2110 Accounts Payable	12,906,357
2150 Payroll Deductions & Withholdings	4,254,918
2160 Accrued Wages Payable	15,985,975
2180 Due to Other Governments	8,434,525
2200 Accrued Expenses	379,330
2300 Unearned Revenue	932,986
Noncurrent Liabilities	
2501 Due Within One Year (Note IV. H)	21,193,907
2502 Due in More Than One Year (Note IV. H)	526,087,407
2540 District's Net Pension Liability (Note IV. M)	77,790,049
2000 Total Liabilities	667,965,454
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflow Related to TRS (Note IV.M)	4,485,803
2600 Total Deferred Inflows of Resources	4,485,803
NET POSITION	
3200 Net Investment in Capital Assets	39,629,538
3850 Restricted for Debt Service	8,687,676
3851 Restricted for Federal or State Funds	8,307,406
3900 Unrestricted	65,583,273
3000 Total Net Position	\$ 122,207,893

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

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

EXHIBIT B-1

Data Control Codes	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	1	3	4	6
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 212,630,161	\$ 2,197,956	\$ 29,900,510	\$ (180,531,695)
12 Instructional Resources and Media Services	5,752,927	-	409,244	(5,343,684)
13 Curriculum and Staff Development	8,259,919	3,498	6,740,025	(1,516,396)
21 Instructional Leadership	7,278,380	24,485	1,918,816	(5,335,080)
23 School Leadership	22,521,721	1,000	1,631,913	(20,888,808)
31 Guidance, Counseling and Evaluation Services	13,290,702	-	1,900,898	(11,389,804)
32 Social Work Services	2,334,930	6,996	1,034,957	(1,292,977)
33 Health Services	4,136,135	-	475,720	(3,660,415)
34 Student (Pupil) Transportation	6,699,131	-	296,098	(6,403,034)
35 Food Services	19,333,475	2,053,104	16,427,237	(853,134)
36 Extracurricular Activities	11,618,633	789,111	203,950	(10,625,572)
41 General Administration	9,977,032	87,445	349,496	(9,540,092)
51 Facilities Maintenance and Operations	75,153,114	143,410	2,125,310	(72,884,394)
52 Security and Monitoring Services	4,871,591	59,463	197,442	(4,614,686)
53 Data Processing Services	9,419,114	-	294,763	(9,124,352)
61 Community Services	1,464,504	-	318,493	(1,146,011)
72 Debt Service - Interest on Long Term Debt	16,821,431	-	-	(16,821,431)
73 Debt Service - Bond Issuance Cost and Fees	1,368,300	-	-	(1,368,300)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 432,931,200	\$ 5,366,468	\$ 64,224,870	(363,339,862)

Data Control Codes	General Revenues:	
	Taxes:	
MT	Property Taxes, Levied for General Purposes	155,255,367
DT	Property Taxes, Levied for Debt Service	25,956,983
SF	State Aid - Formula Grants	117,968,308
GC	Grants and Contributions not Restricted	24,386,716
IE	Investment Earnings	2,249,928
MI	Miscellaneous Local and Intermediate Revenue	1,805,287
TR	Total General Revenues	327,622,589
CN	Change in Net Position	(35,717,273)
NB	Net Position - Beginning	157,925,166
NE	Net Position--Ending	\$ 122,207,893

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

CORPUS CHRISTI INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2017

Data Control Codes	10 General Fund	60 Capital Projects	Other Funds	Total Governmental Funds	
ASSETS					
1110	Cash and Cash Equivalents (Note IV. A)	\$ 128,583,341	\$ 166,727,813	\$ 23,864,872	\$ 319,176,026
1220	Property Taxes - Delinquent (Note IV. C)	7,642,204	-	1,216,927	8,859,131
1230	Allowance for Uncollectible Taxes (Note IV. C)	(2,202,604)	-	(198,118)	(2,400,722)
1240	Due from Other Governments (Note IV. D)	6,052,986	-	5,601,031	11,654,017
1260	Due from Other Funds (Note IV. E)	10,793,049	5,374,556	339,776	16,507,381
1290	Other Receivables	1,458,519	50,996	17,987	1,527,502
1300	Inventories	930,297	-	1,858,692	2,788,989
1410	Prepaid Assets	3,646,430	-	14,712	3,661,142
1490	Other Current Assets	10,167	-	-	10,167
1000	Total Assets	\$ 156,914,389	\$ 172,153,365	\$ 32,715,879	\$ 361,783,633
LIABILITIES					
2110	Accounts Payable	\$ 3,114,170	\$ 8,921,595	\$ 520,411	\$ 12,556,176
2150	Payroll Deductions and Withholdings Payable	4,254,918	-	-	4,254,918
2160	Accrued Wages Payable	15,984,498	-	1,477	15,985,975
2170	Due to Other Funds (Note IV. E)	20,243,631	-	10,793,049	31,036,680
2180	Due to Other Governments	8,334,531	-	99,994	8,434,525
2200	Accrued Expenditures	379,330	-	-	379,330
2300	Unearned Revenues (Note IV. G)	5,553,391	-	1,959,834	7,513,225
2000	Total Liabilities	57,864,469	8,921,595	13,374,765	80,160,829
FUND BALANCES					
Nonspendable Fund Balance:					
3410	Inventories	930,298	-	1,311,083	2,241,381
3430	Prepaid Items	3,646,431	-	14,712	3,661,143
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	2,481,131	-	5,826,275	8,307,406
3470	Capital Acquisition and Contractual Obligation	-	156,635,461	-	156,635,461
3480	Retirement of Long-Term Debt	-	-	8,687,676	8,687,676
Committed Fund Balance:					
3510	Construction	-	6,596,309	-	6,596,309
3545	Subsequent Year's Expenditures	1,503,063	-	162,655	1,665,718
3545	Debt Service	-	-	3,338,713	3,338,713
Assigned Fund Balance:					
3570	Insurance Deductible	4,000,000	-	-	4,000,000
3590	Counties Property Tax Dispute	1,529,975	-	-	1,529,975
3590	Repayment of Energy Performance Loan	8,121,818	-	-	8,121,818
3600	Unassigned Fund Balance	76,837,204	-	-	76,837,204
3000	Total Fund Balances	99,049,920	163,231,770	19,341,114	281,622,804
4000	Total Liabilities and Fund Balances	\$ 156,914,389	\$ 172,153,365	\$ 32,715,879	\$ 361,783,633

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

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

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$	281,622,804
Capital assets used in government activities are not financial resources and, therefore, are not reported in governmental funds. The cost of these assets (excluding internal service funds of \$69,945) is \$654,884,821 and the accumulated depreciation (excluding internal service funds of \$69,945) is \$244,957,363. The net effect is an increase to net position. (Note IV. F)		409,927,458
Long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore, are not reported in the funds (Note II. A).		(543,240,479)
Deferred loss on refunding.		8,959,308
Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68 in the amount of \$77,790,049, a Deferred Resource Inflow related to TRS in the amount of \$4,485,803, and a Deferred Resource Outflow related to TRS in the amount of \$30,393,515 (Note IV. M).		(51,882,337)
Property tax revenue is recognized in the period for which levied rather than when "available". A portion of the deferred property tax revenue is not available (Note IV. G).		6,458,409
The District uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other funds. The assets and liabilities on the internal service funds are included in the governmental activities in the statement of net position. The net effect of this consolidation is to increase net position.		10,240,900
Deferred vending machine/concession revenue is not available to pay for current period expenditures and, therefore, are deferred in the funds (Note IV. G).		121,830
Net Position of Governmental Activities	\$	<u>122,207,893</u>

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

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

EXHIBIT C-3

Data Control Codes	10 General Fund	60 Capital Projects	Other Funds	Total Governmental Funds
REVENUES:				
5700 Total Local and Intermediate Sources (Note IV. R)	\$ 161,019,152	\$ 672,138	\$ 30,298,698	\$ 191,989,988
5800 State Program Revenues	145,340,006	-	3,194,543	148,534,549
5900 Federal Program Revenues (Note IV. P)	6,201,725	-	47,428,869	53,630,594
5020 Total Revenues	<u>312,560,883</u>	<u>672,138</u>	<u>80,922,110</u>	<u>394,155,131</u>
EXPENDITURES:				
Current:				
0011 Instruction	175,493,380	983,325	19,348,854	195,825,559
0012 Instructional Resources and Media Services	5,022,113	162,850	105,137	5,290,100
0013 Curriculum and Instructional Staff Development	1,370,214	-	6,709,489	8,079,703
0021 Instructional Leadership	5,432,977	-	1,586,675	7,019,652
0023 School Leadership	20,616,344	18,412	295,342	20,930,098
0031 Guidance, Counseling and Evaluation Services	11,254,529	12,648	1,164,660	12,431,837
0032 Social Work Services	1,234,454	-	978,889	2,213,343
0033 Health Services	3,609,824	3,949	258,253	3,872,026
0034 Student (Pupil) Transportation	7,911,917	-	-	7,911,917
0035 Food Services	-	-	18,912,603	18,912,603
0036 Extracurricular Activities	11,070,718	19,299	30,538	11,120,555
0041 General Administration	7,547,455	-	-	7,547,455
0051 Facilities Maintenance and Operations	43,158,829	29,338,619	1,014,212	73,511,660
0052 Security and Monitoring Services	3,786,319	1,038,120	-	4,824,439
0053 Data Processing Services	8,980,656	875,352	-	9,856,008
0061 Community Services	960,971	-	271,770	1,232,741
Debt Service:				
0071 Principal on Long Term Debt	-	-	10,625,000	10,625,000
0072 Interest on Long Term Debt	185,997	-	17,792,421	17,978,418
0073 Bond Issuance Cost and Fees	-	1,215,243	153,057	1,368,300
Capital Outlay:				
0081 Facilities Acquisition and Construction	277,230	35,984,056	-	36,261,286
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	545,014	-	-	545,014
0095 Payments to Juvenile Justice Alternative Ed. Prg.	274,139	-	-	274,139
0099 Other Intergovernmental Charges	2,182,454	-	-	2,182,454
6030 Total Expenditures	<u>310,915,534</u>	<u>69,651,873</u>	<u>79,246,900</u>	<u>459,814,307</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,645,349</u>	<u>(68,979,735)</u>	<u>1,675,210</u>	<u>(65,659,176)</u>
OTHER FINANCING SOURCES (USES):				
7901 Refunding Bonds Issued	-	-	9,480,000	9,480,000
7911 Capital Related Debt Issued (Regular Bonds)	-	134,575,000	-	134,575,000
7912 Sale of Real and Personal Property	79,708	-	1,200	80,908
7915 Transfers In (Note IV. E)	-	8,135,271	-	8,135,271
7916 Premium or Discount on Issuance of Bonds	-	7,006,709	731,979	7,738,688
8911 Transfers Out (Note IV. E)	(8,135,271)	-	-	(8,135,271)
8949 Payment to Bond Refunding Agent	-	-	(10,064,901)	(10,064,901)
7080 Total Other Financing Sources (Uses)	<u>(8,055,563)</u>	<u>149,716,980</u>	<u>148,278</u>	<u>141,809,695</u>
1200 Net Change in Fund Balances	<u>(6,410,214)</u>	<u>80,737,245</u>	<u>1,823,488</u>	<u>76,150,519</u>
0100 Fund Balance - September 1 (Beginning)	<u>105,460,134</u>	<u>82,494,525</u>	<u>17,517,626</u>	<u>205,472,285</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 99,049,920</u>	<u>\$ 163,231,770</u>	<u>\$ 19,341,114</u>	<u>\$ 281,622,804</u>

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

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

Total Net Change in Fund Balances - Governmental Funds	\$	76,150,519
Governmental funds report capital outlay of \$42,240,767 (excluding internal service fund if applicable) as expenditures. However, in the statement of net position, the costs of those assets is allocated over the estimated useful lives and reported as depreciation expense of \$18,158,210 (excluding internal service funds of \$0). This is the amount by which capital outlays and transfers exceeds depreciation in the current period, excluding internal service funds.		24,082,557
The net effect of sale and retirement transactions involving capital assets is to decrease net position.		(5,285)
Delinquent property taxes receivable net of allowance are not reported as revenue in the governmental funds. Delinquent tax receivable net of allowance for uncollectibles decreased this year.		251,644
Proceeds from long-term debt, \$153,664,482, provides current financial resources to governmental funds, but has no effect on the statement of activities. Repayment of bond principal, \$20,160,000, is an expenditure in the governmental funds but, the repayment reduces long-term liabilities in the statement of net position and does not result in an expense in the statement of activities.		(133,504,482)
The District recorded their proportionate share of pension expenses during the measurement period as change in the net pension liability and related inflows and outflows.		(4,869,001)
Net activity of additions and amortization of deferred loss on refunding.		(530,318)
The internal service funds used by management to charge the costs of self-insurance and printing to the appropriate functions are not reported in the statement of activities. Governmental fund expenditures and the related internal service funds revenue are eliminated. The net of revenue and the related internal service funds is allocated among the governmental activities.		(1,483,423)
Vending machine/concession revenue in the statement of activities that do not provide current financial resources is not reported in the funds.		26,034
Some expenses reported in the statement of activities do not require the use of current financial resources, and, therefore, are not reported as expenditures in governmental funds (Note II. B)		4,164,482
Change in Net Position of Governmental Activities	\$	(35,717,273)

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

CORPUS CHRISTI INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2017

EXHIBIT D-1

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
		Original	Final		
REVENUES:					
5700	Total Local and Intermediate Sources (Note IV. R)	\$ 160,394,781	\$ 160,857,190	\$ 161,019,152	\$ 161,962
5800	State Program Revenues	147,195,219	146,229,041	145,340,006	(889,035)
5900	Federal Program Revenues (Note IV. P)	4,410,000	6,082,905	6,201,725	118,820
5020	Total Revenues	312,000,000	313,169,136	312,560,883	(608,253)
EXPENDITURES:					
Current:					
0011	Instruction	183,050,293	177,833,589	175,493,380	2,340,209
0012	Instructional Resources and Media Services	5,426,173	5,431,374	5,022,113	409,261
0013	Curriculum and Instructional Staff Development	1,136,075	1,675,957	1,370,214	305,743
0021	Instructional Leadership	5,481,782	5,594,416	5,432,977	161,439
0023	School Leadership	21,859,317	21,432,119	20,616,344	815,775
0031	Guidance, Counseling and Evaluation Services	12,234,555	12,315,760	11,254,529	1,061,231
0032	Social Work Services	1,378,942	1,378,942	1,234,454	144,488
0033	Health Services	3,791,155	3,796,164	3,609,824	186,340
0034	Student (Pupil) Transportation	5,187,097	8,487,412	7,911,917	575,495
0036	Extracurricular Activities	9,685,225	12,085,496	11,070,718	1,014,778
0041	General Administration	8,221,665	8,404,095	7,547,455	856,640
0051	Facilities Maintenance and Operations	40,844,991	46,102,992	43,158,829	2,944,163
0052	Security and Monitoring Services	3,581,253	4,193,591	3,786,319	407,272
0053	Data Processing Services	5,620,465	9,546,520	8,980,656	565,864
0061	Community Services	1,119,855	1,119,855	960,971	158,884
Debt Service:					
0071	Principal on Long Term Debt	185,997	-	-	-
0072	Interest on Long Term Debt	-	185,997	185,997	-
Capital Outlay:					
0081	Facilities Acquisition and Construction	-	282,279	277,230	5,049
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	720,000	550,000	545,014	4,986
0095	Payments to Juvenile Justice Alternative Ed. Prg.	305,160	305,160	274,139	31,021
0099	Other Intergovernmental Charges	2,170,000	2,190,000	2,182,454	7,546
6030	Total Expenditures	312,000,000	322,911,718	310,915,534	11,996,184
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(9,742,582)	1,645,349	11,387,931
OTHER FINANCING SOURCES (USES):					
7912	Sale of Real and Personal Property	50,000	28,000	79,708	51,708
8911	Transfers Out (Note IV. E)	(50,000)	(8,135,271)	(8,135,271)	-
7080	Total Other Financing Sources (Uses)	-	(8,107,271)	(8,055,563)	51,708
1200	Net Change in Fund Balances	-	(17,849,853)	(6,410,214)	11,439,639
0100	Fund Balance - September 1 (Beginning)	105,460,134	105,460,134	105,460,134	-
3000	Fund Balance - August 31 (Ending)	\$ 105,460,134	\$ 87,610,281	\$ 99,049,920	\$ 11,439,639

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

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

EXHIBIT E-1

	Governmental Activities -
	Total Internal Service Funds
ASSETS	
Current Assets:	
Cash and Cash Equivalents (Note IV. A)	\$ 50,000
Due from Other Funds (Note IV. E)	14,529,299
Inventories	14,373
Prepaid Items	38,244
Total Current Assets	14,631,916
Noncurrent Assets:	
Capital Assets:	
Furniture and Equipment	69,945
Depreciation on Furniture and Equipment	(69,945)
Total Noncurrent Assets	-
Total Assets	14,631,916
LIABILITIES	
Current Liabilities:	
Accounts Payable	350,181
Current Portion of Claims Liabilities (Note IV. L)	3,628,020
Total Current Liabilities	3,978,201
Noncurrent Liabilities:	
Noncurrent Claims Liabilities (Note IV. L)	412,815
Total Noncurrent Liabilities	412,815
Total Liabilities	4,391,016
NET POSITION	
Unrestricted Net Position	10,240,900
Total Net Position	\$ 10,240,900

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

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

EXHIBIT E-2

	Governmental Activities -
	Total Internal Service Funds
OPERATING REVENUES:	
Charges for Services	\$ 32,552,353
Total Operating Revenues	32,552,353
OPERATING EXPENSES:	
Payroll Costs	277,005
Professional and Contracted Services	575,093
Supplies and Materials	54,739
Other Operating Costs	33,128,939
Total Operating Expenses	34,035,776
Operating Income (Loss)	(1,483,423)
Total Net Position - September 1 (Beginning)	11,724,323
 Total Net Position - August 31 (Ending)	 \$ 10,240,900

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

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

	Governmental Activities -
	Total Internal Service Funds
<u>Cash Flows from Operating Activities:</u>	
Interfund Services Provided	\$ 32,984,588
Payments to Employees	(276,860)
Payments for Insurance Claims	(31,773,544)
Payments for Suppliers	(934,184)
Net Cash Provided by Operating Activities	-
Net Increase in Cash and Cash Equivalents	-
Cash and Cash Equivalents at Beginning of Year	50,000
Cash and Cash Equivalents at End of Year	\$ 50,000
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>	
<u>Provided by Operating Activities:</u>	
Operating Income (Loss):	\$ (1,483,423)
Effect of Increases and Decreases in Current Assets and Liabilities:	
Due to (from) other funds	432,380
Inventories	(936)
Deferred Expenses	(38,243)
Accounts Payable	(648,602)
Claims Liabilities	1,738,824
Net Cash Provided by Operating Activities	\$ -

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

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

	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents (Note IV. A)	\$ 1,298,120
Total Assets	<u>\$ 1,298,120</u>
LIABILITIES	
Due to Student Groups	\$ 1,298,120
Total Liabilities	<u>\$ 1,298,120</u>

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

CORPUS CHRISTI INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Corpus Christi Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven-member Board of Trustees ("Board") elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles (GAAP) promulgated by the Governmental Accounting Standards Board ("GASB") and other authoritative sources identified in GASB Statement No. 76, and it complies with the requirements of the appropriate version of Texas Education Agency's Financial Accountability System Resource Guide (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

A. REPORTING ENTITY

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

The District receives funding from local, state and federal government sources and must comply with the requirements of these funding entities. There are no component units included within the reporting entity.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the Corpus Christi Independent School District and its nonfiduciary activities with most of the interfund activities removed. Interfund services provided and used are not eliminated in the process of consolidation. Governmental activities include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues.

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

Interfund activities between governmental funds and between governmental funds and proprietary funds appear as due to/due from on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Position and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance and on the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Position. All interfund transactions between governmental funds and between governmental funds and internal service funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due from on the government-wide Statement of Activities.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are non-operating. Operating expenses can be tied specifically to the production of goods and services, such as materials and labor and direct overhead. Other expenses are non-operating.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary fund and fiduciary fund financial statements. However, the agency funds included in the fiduciary fund financial statements do not use the economic resources measurement focus but do apply the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

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

The Proprietary Fund Types are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included on the Statement of Net Position. Fund equity is segregated into invested in capital assets net of related debt, restricted net position, and unrestricted net position.

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

D. FUND ACCOUNTING

The District reports the following major governmental funds:

1. **The General Fund** – The general fund is used to account for financial resources used for general operations. Any fund balances are considered resources available for current operations. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund.
2. **Capital Projects Fund** – The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund.

Additionally, the District reports the following fund types:

Governmental Funds:

3. **Special Revenue Funds** – The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Generally, unused balances are returned to the grantor at the close of specified project periods. Shared service arrangements are also included in this fund type.
4. **The Debt Service Fund** – The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

Proprietary Funds:

5. **Internal Service Funds** – Revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis are accounted for in an internal service fund. These funds facilitate distribution for employee health costs, workers' compensation self-insurance and the print shop to the users of support services. See Note IV. L for additional discussion of the District's self-insurance plan.

Fiduciary Funds:

6. **The Agency Fund** – The District accounts for resources held for others in a custodial capacity in agency funds. These funds are used to account for the activities of student groups. The student activity organizations exist with the explicit approval of, and are subject to revocation by, the Board.

E. OTHER ACCOUNTING POLICIES

1. For purposes of the statement of cash flows for proprietary and similar fund-types, the District considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.
2. The District's policy is to report money market investments, short-term participating interest-earning investment contracts and intergovernmental investment pools at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. 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. Non-negotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.
3. Inventories of supplies in the General Fund are valued using the average cost method, while inventories of supplies in the National Breakfast and Lunch Program are stated at cost using the first-in, first-out method. Food commodities are recorded at the market value supplied by the Texas Department of Human Services. Inventory items are recorded as expenditures when they are consumed. Supplies are used for almost all functions of activity, while food commodities are used only in the National Breakfast

and Lunch Program. Although food commodities are received at no cost, their fair market value is recorded as inventory and deferred revenue when received. When requisitioned, inventory and deferred revenue are relieved, expenditures are charged and revenue is recognized for an equal amount. Inventories also include plant maintenance and operation supplies as well as instructional supplies.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

4. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, or proprietary fund type statement of net position. Bond premiums and discount are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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

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

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

<u>Assets</u>	<u>Years</u>
Buildings	35
Building and Site Improvements	20
Buses	10
Computer Equipment	5
Equipment	5-7
Software	5
Vehicles	5

6. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then.
7. It is the District's policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. Upon retirement or resignation of full-time employees in good standing, the District pays up to 200 days of accrued sick leave. Payment of sick leave benefits is based on a formula, which considers years of service. The District also pays for vacation and compensatory time accrued upon retirement or resignation. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee retirements and resignations. The District will pay a flat daily rate for state leave for employees who have been with the District for at least five years and are retiring with TRS.

8. Since Internal Service Funds support the operations of governmental funds, they are consolidated with the governmental funds in the government-wide financial statements. The expenditures of governmental funds that create the revenues of internal service funds are eliminated to avoid “grossing up” the revenues and expenses of the District as a whole.
9. In the fund financial statements, governmental funds fund balances classified as restricted are balances with constraints placed on the use of resources by creditors, grantors, contributors or laws or regulations of other governments. Fund balances classified as committed can only be used for specific purposes pursuant to constraints imposed by the Board of Trustees through a resolution. Assigned fund balances are constrained by an intent to be used for specific purposes but are neither restricted nor committed. Assignments are made by the Superintendent or Chief Financial Officer based on Trustee direction.

For the classification of governmental fund balances, the District considers an expenditure to be made from the most restrictive first when more than one classification is available.
10. In the government-wide financial statements net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. Net invested in capital assets consists of capital assets net of accumulated depreciation and the outstanding balances of any borrowing spent for the acquisition, construction or improvements of those assets. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.
11. The Data Control Codes refer to the account code structure prescribed by TEA in the Financial Accountability System Resource Guide. Texas Education Agency requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a statewide database for policy development and funding plans.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net position for governmental activities as reported in the government-wide Statement of Net Position. One element of that reconciliation explains that long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The detail of the \$543,240,479 follows:

Long Term Liabilities:	
General Obligation Bonds	\$ 479,780,000
Accumulated Accretion	6,115,177
Premium	41,953,421
Capital Lease	8,044,091
Accrued Interest Payable	520,945
Unpaid Compensated Absences	6,826,845
	<u>\$ 543,240,479</u>

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Exhibit C-4 provides reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net position of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. The detail of the \$4,164,482 follows:

Amortization of Premium	\$ 3,529,027
Accrued Interest	(171,027)
Accretion of Interest	730,000
Unpaid Compensated Absences	76,482
	<u>\$ 4,164,482</u>

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund, Debt Service Fund and the National Breakfast and Lunch Program included in the Special Revenue Funds. The remaining special revenue funds and the Capital Projects Fund adopt project-length budgets, which do not correspond to the District’s fiscal year. Each annual budget is presented on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

The official school budget is prepared for adoption for required Governmental Fund Types prior to August 20 of the preceding fiscal year for the next subsequent fiscal year beginning September 1. The budget is formally adopted by the Board prior to September 1 through passage of a resolution at a public meeting held at least ten days after public notice of the meeting has been given.

Once the budget is approved, it can be amended at the function and fund level, the legal level of control, only by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Such amendments, made before the fact, are reflected in the official minutes of the Board and are not made after fiscal year end as required by law. During the year, several amendments were necessary.

General Fund budget amendments approved during the 2016-2017 school year included the following:

	<u>Positive (Negative)</u>
Adjustments to Revenue:	
Property Taxes and Local Revenue	\$ 462,409
State Revenues	(966,178)
Federal Revenues	1,672,905
Subtotal adjustments to revenue	<u>1,169,136</u>
Adjustments to Expenditures:	
Carry-forward of encumbrances	(6,438,179)
Increase for one-time infrastructure improvements and vehicles	(10,370,000)
Adjustments to salaries and other expenditures to projected actuals	5,896,461
Subtotal adjustments to expenditures	<u>(10,911,718)</u>
Adjustments to Other Sources (Uses):	
Increase to Other Uses for Energy Performance Contract	(8,085,271)
Decrease to Other Sources adjust to actuals	(22,000)
Subtotal adjustments to Other Sources (Uses)	<u>(8,107,271)</u>
Net Change to General Fund Budget	<u>\$ (17,849,853)</u>

Such amendments are recapped and included for Board review when amendments are presented. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year-end. Budget transfers may also be made between major objects within the function by approval of the Budget Administrator and the Comptroller.

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

There was no excess of expenditures over appropriations as of August 31, 2017.

IV. DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

The District's funds are required to be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank deposits, for safekeeping and trust with the District's agent bank, approved pledged securities in amounts sufficient to protect District funds on a day-to-day basis during the period of the contract.

Deposits

At August 31, 2017, the carrying amount of the District's deposits (including agency fund) was \$4,823,923 and the bank balance was \$5,616,875. The District also had \$19,757 of cash on hand.

District Policies and Legal and Contractual Provisions Governing Deposits

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

The District's investment policies and types of investments are governed by the Public Funds Investment Act (PFIA). The District's management believes that it has complied with the requirements of the PFIA and the District's investment policies.

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) banker's acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) commercial paper, (11) and common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The district is in substantial compliance with the requirements of the Act and with local policies.

As of August 31, 2017, the District had \$315,680,466 in investment pools that are included in cash and cash equivalents and are carried at amortized cost.

Interlocal Governmental 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.

All investment pools utilized by the district meet the requirements of the Texas Public Funds Investment Act. Lone Star investment pool has been rated AAA by Standard & Poor's. Texas Term investment pool has been rated AAA by Standard & Poor's.

Additional policies and contractual provisions governing deposits and investments for Corpus Christi Independent School District are specified below:

Credit Risk. To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations, the District's investment policy limits investments to those authorized by the Public Funds Investment Act. The District controls and monitors this risk by purchasing quality rated instruments that have been evaluated by agencies such as Standard and Poor's or Moody's Investor Service. As of August 31, 2016, the district's investments consisted of an investment pool.

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

Concentration of Credit Risk. To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the District requires the investment portfolio to be diversified by type of investments, maturity and issuer of investment.

Interest Rate Risk. To limit the risk that changes in interest rates will adversely affect the fair value of investments the District limits the maximum maturity of investments to 1 year from date of purchase unless specifically authorized by the Board. The District has no investments with maturities greater than 1 year.

B. PROPERTY TAXES

Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year. The District levies its taxes by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid before February 1 of the year following the October 1 levy date. Taxes are delinquent if not paid by January 31. Delinquent taxes are subject to both penalty and interest charges as well as attorney costs. The assessed value of the roll on January 1, 2016, upon which the levy for the 2017 fiscal year was based, was \$15,434,108,451.

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 \$1.06005 and \$.1773 per \$100 valuation, respectively, for a total of \$1.23735 per \$100 valuation.

Current tax collections for the year ended August 31, 2017, were 98.2% of the year-end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General and Debt Services Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

C. DELINQUENT TAXES RECEIVABLE

The following table shows a schedule of delinquent taxes receivable and the allowance for uncollectible taxes for the District. The allowance for uncollectible taxes is recorded on the governmental balance sheet.

	Balance 08/31/16	Current Year Levy	Total Collections	Yearly Adjustments	Balance 08/31/17
Delinquent Taxes Receivable:					
District	\$ 8,523,607	\$185,294,982	\$(180,885,001)	\$ (4,074,457)	\$ 8,859,131
Allowance for Uncollectible Taxes	(2,316,842)	-	-	(83,880)	(2,400,722)
Net Delinquent Taxes Receivable	<u>\$ 6,206,765</u>	<u>\$185,294,982</u>	<u>\$(180,885,001)</u>	<u>\$ (4,158,337)</u>	<u>\$ 6,458,409</u>

D. DUE FROM OTHER GOVERNMENTS

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2017, are as follows.

Fund	State Entitlements	Federal Grants	Total
General	\$ 2,952,762	\$ 3,100,224	\$ 6,052,986
Non-Major Governmental Funds	303,563	5,297,468	5,601,031
Total	<u>\$ 3,256,325</u>	<u>\$ 8,397,692</u>	<u>\$11,654,017</u>

E. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

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

	Due From Other Funds	Due To Other Funds
General Fund:		
Capital Projects	\$ -	\$ 5,374,556
Non-Major Governmental Funds	10,793,049	339,776
Internal Service Funds	-	14,529,299
Total General Fund	<u>\$ 10,793,049</u>	<u>\$ 20,243,631</u>
Capital Projects:		
General Fund	<u>\$ 5,374,556</u>	<u>\$ -</u>
Non-Major Governmental Funds:		
General Fund	<u>\$ 339,776</u>	<u>\$ 10,793,049</u>
Internal Service Funds:		
General Fund	<u>\$ 14,529,299</u>	<u>\$ -</u>
Totals	<u>\$ 31,036,680</u>	<u>\$ 31,036,680</u>

The District uses a centralized cash method. Internal Service Funds and Non-Major Governmental Funds except for National Breakfast and Lunch Program and Debt Service Fund do not have cash accounts. The General Fund pays the bills for the National Breakfast and Lunch Program, Debt Service Fund, Capital Projects Fund and Internal Service Funds and is subsequently reimbursed. The balances are the cash balances for those funds without cash accounts and \$14,712 for National Breakfast and Lunch Program owed to the General fund. It is expected that the interfund balances will be repaid within one year.

The General Fund transferred \$8,135,271 to the Capital Projects Fund to cover expenditures in excess of bonds proceeds.

F. CAPITAL ASSET ACTIVITY

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

	Beginning Balance	Additions and Transfers	Retirements	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated				
Land	\$ 26,491,841	\$ -	\$ -	\$ 26,491,841
Construction in progress	17,454,212	(11,438,526)	-	6,015,686
Total capital assets, not being depreciated	<u>43,946,053</u>	<u>(11,438,526)</u>	-	<u>32,507,527</u>
Capital assets, being depreciated:				
Buildings and Improvements	524,737,694	47,621,680	-	572,359,374
Furniture and Equipment	28,967,454	2,806,405	(2,499,935)	29,273,924
Vehicles	18,886,934	3,251,208	(1,324,201)	20,813,941
Total capital assets, being depreciated	<u>572,592,082</u>	<u>53,679,293</u>	<u>(3,824,136)</u>	<u>622,447,239</u>
Less accumulated depreciation for:				
Buildings and Improvements	(198,021,447)	(14,094,469)	-	(212,115,916)
Furniture and Equipment	(21,382,433)	(2,555,148)	2,494,650	(21,442,931)
Vehicles	(11,284,069)	(1,508,593)	1,324,201	(11,468,461)
Total accumulated depreciation	<u>(230,687,949)</u>	<u>(18,158,210)</u>	<u>3,818,851</u>	<u>(245,027,308)</u>
Total capital assets, being depreciated, Net	<u>341,904,133</u>	<u>35,521,083</u>	<u>(5,285)</u>	<u>377,419,931</u>
Governmental activities capital assets, Net	<u>\$ 385,850,186</u>	<u>\$ 24,082,557</u>	<u>\$ (5,285)</u>	<u>\$ 409,927,458</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 10,650,744
Instructional Resources and Media Services	302,871
Curriculum and Staff Development	2,104
Instructional Leadership	86,818
School Leadership	966,939
Guidance, Counseling and Evaluation Services	510,192
Social Work Services	52,367
Health Services	185,413
Student (Pupil) Transportation	1,466,229
Food Services	439,355
Co-curricular/Extracurricular Activities	426,317
General Administration	29,303
Plant Maintenance and Operations	1,333,157
Security and Monitoring Service	178,374
Data Processing Services	1,283,475
Community Services	244,552
Total Depreciation Expense	<u>\$ 18,158,210</u>

G. UNEARNED REVENUE

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

	General Fund	Non-Major Governmental Funds	Total
Net Tax Revenue	\$ 5,439,600	\$ 1,018,809	\$ 6,458,409
Vending/Concession	113,791	8,040	121,831
National Breakfast & Lunch	-	547,608	547,608
Other Federal Special Revenue	-	67,079	67,079
State Textbook Fund	-	18,533	18,533
Other State Special Revenue	-	48,339	48,339
Regional Deaf	-	133,930	133,930
Other Local Special Revenue	-	117,496	117,496
Total Deferred Revenue	<u>\$ 5,553,391</u>	<u>\$ 1,959,834</u>	<u>\$ 7,513,225</u>

H. CHANGES IN LONG-TERM LIABILITIES

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Debt:					
General Obligation Bonds	\$ 355,885,000	\$ 144,055,000	\$ (20,160,000)	\$ 479,780,000	\$ 10,160,000
Original Issue Discount	4,974,383	1,870,794	(730,000)	6,115,177	860,000
Premium	37,743,760	7,738,688	(3,529,027)	41,953,421	-
Capital Lease	8,044,091	-	-	8,044,091	319,488
Total Debt	<u>\$ 406,647,234</u>	<u>\$ 153,664,482</u>	<u>\$ (24,419,027)</u>	<u>\$ 535,892,689</u>	<u>\$ 11,339,488</u>
Other Liabilities:					
Accrued Interest Payable	\$ 349,918	\$ 171,027	\$ -	\$ 520,945	\$ 520,945
Unpaid Compensated Absences	6,903,327	5,462,794	(5,539,276)	6,826,845	5,705,454
Claims Liability	2,302,011	33,512,368	(31,773,544)	4,040,835	3,628,020
Net Pension Liability	75,674,218	8,886,025	(6,770,194)	77,790,049	-
Total Other Liabilities	<u>\$ 85,229,474</u>	<u>\$ 48,032,214</u>	<u>\$ (44,083,014)</u>	<u>\$ 89,178,674</u>	<u>\$ 9,854,419</u>
Total Governmental Activities Long-term Liabilities	<u>\$ 491,876,708</u>	<u>\$ 201,696,696</u>	<u>\$ (68,502,041)</u>	<u>\$ 625,071,363</u>	<u>\$ 21,193,907</u>

I. BONDS PAYABLE

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

Bonded indebtedness of the District is reflected on the Government-Wide Statement of Net Position and current requirements for principal and interest expenditures are accounted for in the Debt Service Fund reported in the Non-Major Governmental Funds exhibits.

The summary of general obligation bonds and contractual obligations as of August 31, 2017 is as follows:

DESCRIPTION	Interest Rate Payable	Amounts Original Issue	Outstanding 8/31/17
Unlimited tax school building bonds – Series 2009	4.00%-5.50%	\$ 167,474,920	\$ 18,360,000
Unlimited tax refunding bonds – Series 2009A	2.50%-5.00%	22,999,999	2,850,000
Unlimited tax school building bonds –Series 2010A	28.81%-29.71%	1,500,000	1,160,000
Unlimited tax refunding bonds – Series 2010B	5.42%-6.124%	98,500,000	98,500,000
Unlimited tax school building bonds – Series 2011	3.82%-5.35%	25,000,000	25,000,000
Unlimited tax school building bonds – Series 2015	3.00%-5.00%	94,560,000	94,560,000
Unlimited tax refunding bonds – Series 2016	2.00%-5.00%	96,335,000	95,295,000
Unlimited tax school building bonds – Series 2017A	2.00%	59,755,000	59,755,000
Unlimited tax school building bonds – Series 2017	2.00%-4.00%	74,820,000	74,820,000
Unlimited tax refunding bonds – Series 2017	2.00%-4.00%	9,480,000	9,480,000
Total General Obligation Bonds			\$ 479,780,000
Accumulated accretion of original issue discount (original issue discount of \$27,755,000 Less \$21,639,823 unaccreted discount)			<u>6,115,177</u>
Total General Obligation Bonds and Accumulated Accretion			<u>\$ 485,895,177</u>

Debt service requirements are as follows:

<u>Year Ended August 31,</u>	<u>Principal</u>	<u>Sinking Fund</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 10,160,000	\$ 1,665,000	\$ 21,440,446	\$ 33,265,446
2019	12,270,000	1,665,000	20,919,233	34,854,233
2020	14,420,000	1,665,000	21,543,133	37,628,133
2021	11,575,000	1,665,000	24,794,433	38,034,433
2022	12,300,000	1,665,000	24,421,933	38,386,933
2023-2027	84,735,000	8,325,000	104,374,301	197,434,301
2028-2032	151,970,000	(19,980,000)	61,776,802	193,766,802
2033-2037	62,270,000	-	32,314,550	94,584,550
2038-2042	61,550,000	-	19,673,800	81,223,800
2043-2047	58,530,000	-	6,249,600	64,779,600
	<u>\$ 479,780,000</u>	<u>(\$ 3,330,000)</u>	<u>\$ 337,508,231</u>	<u>\$ 813,958,231</u>

The District has obligated itself under the Series 2011 Bond documents to make mandatory deposits into a cumulative sinking fund account, which is a subaccount of the Bond fund, with the paying agent/registrar of the bonds on August 15 in each of the years as shown above. The first payment made to this cumulative sinking fund was on August 15, 2016.

Legislation enacted in 1999 provided partial state funding for eligible bonded debt under Chapter 34 of the Education Code, Existing Debt Allotment. Although several bond issuances are eligible for funding, the District no longer qualifies due to increased property values. Funding for the bonds is based on a formula, which considers property value and District tax collections for the Interest and Sinking fund.

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

On August 1, 2017, the District issued \$59,755,000 Variable Rate Unlimited Tax Refunding Bonds, Series 2017A. The proceeds are being used for the construction, renovation, acquisition and equipping of school buildings in the District, the purchase of necessary sites for school buildings, and to pay the cost of issuing the Bonds.

On August 17, 2017, the District issued \$74,820,000 Unlimited Tax School Building Bonds, Series 2017 and \$9,480,000 Unlimited Tax Refunding Bonds, Series 2017. The proceeds of the school building bonds are being used for the construction, renovation, acquisition and equipping of school buildings in the District, the purchase of necessary sites for school buildings, and to pay the cost of issuing the Bonds. The proceeds from the refunding bonds are being used to partially refund bond series 2009A and pay for the costs of issuance of the Bonds. The refunding met the requirements of an in-substance defeasance and the partially refunded bonds were removed from the District's government-wide financial statements. As a result of the advance refunding, the cash flows required to service the old debt amounted to \$11,754,250 and the cash flow to service the new debt will amount to \$11,098,111. The refunding resulted in a savings of \$656,139 and a net present value savings of \$611,514.

J. CAPITAL LEASE

The District entered into a Tax-Exempt Lease Purchase Agreement dated July 8, 2016 that will be paid off by fiscal year 2032. The lease proceeds were deposited into an escrow account to partially finance the energy savings performance contracting project to be engineered, designed, constructed and commissioned by Johnson Controls, Inc. All proceeds in this escrow account must be fully expended by January 2018. The fixed interest rate is 2.29%. The future minimum lease payment requirements are as follows:

<u>Year Ended August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 319,488	\$ 183,108	\$ 502,596
2019	310,331	175,815	486,146
2020	333,215	168,550	501,765
2021	377,677	160,635	538,312
2022	424,847	151,683	576,530
2023-2027	2,681,022	591,866	3,272,888
2028-2032	3,597,511	236,484	3,833,995
	<u>\$ 8,044,091</u>	<u>\$ 1,668,141</u>	<u>\$ 9,712,232</u>

K. ACCUMULATED UNPAID VACATION, COMPENSATORY AND SICK LEAVE TIME BENEFITS

Upon retirement or resignation, the District pays for vacation and compensatory time accrued and, for those in good standing, any accrued local sick leave in a lump cash payment to such employee or his/her estate. Below is a summary of changes in the accumulated vacation, compensatory time and sick leave liability:

	<u>Vacation Leave</u>	<u>Compensatory Time</u>	<u>Sick Leave</u>	<u>Total</u>
Balance September 1, 2016	\$ 269,883	\$ 156,579	\$ 6,476,865	\$ 6,903,327
Additions – New Entrants and Salary Increments	274,618	613,686	4,574,490	5,462,794
Deductions – Payments to Participants	(273,347)	(633,108)	(4,632,821)	(5,539,276)
Balance August 31, 2017	<u>\$ 271,154</u>	<u>\$ 137,157</u>	<u>\$ 6,418,534</u>	<u>\$ 6,826,845</u>

Compensated absence liabilities are normally paid from the funds reporting payroll and related expenditures including the general fund and special revenue funds.

L. CLAIMS LIABILITY

The District has two self-insurance programs, the workers' compensation insurance program, effective September 1, 1986, and the health insurance program on January 1, 2011. The District is self-insured for individual claims up to \$450,000 per occurrence for the workers' compensation program and \$300,000 for the health program. Stop loss coverage has been purchased to cover excess claims. No claims have exceeded the stop loss coverage in the past eight years for the workers' compensation while five claims have exceeded the stop loss coverage for the health program during the year. The District uses two different third party administrators to handle all claims and provide risk analysis and estimates of future liabilities. All incurred and anticipated claims are accrued in the internal service fund and management believes that adequate accruals have been made.

This liability is the District’s best estimate based on available information. Changes in the Fund’s claims liability amount for fiscal 2016 and 2017 were:

	Beginning Balance	Claims and Estimates	Claim Payments	Ending Balance	Due Within One Year
2015-2016	\$ 1,971,566	\$ 29,716,600	\$ (29,386,155)	\$ 2,302,011	\$ 1,891,406
2016-2017	\$ 2,302,011	\$ 33,512,368	\$ (31,773,544)	\$ 4,040,835	\$ 3,628,020

M. EMPLOYEE BENEFIT PLANS

Defined Benefit Pension Plan:

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

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

Pension Plan Fiduciary Net Position. Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at 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.

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

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

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

Contribution Rates	<u>2017</u>
Members (Employees)	7.7%
Employer (District)	6.8%
Non-Employer Contributing Entity (State of Texas)	6.8%
Contributions	
District Employees	\$ 15,239,742
District	\$ 6,540,865
NECE on-behalf (State of Texas)	\$ 13,172,544

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

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

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

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

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

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

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

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

Discount Rate. The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2016 are summarized below:

Asset Class	Target Allocation	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return*
Global Equity			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Hedge Funds (Stable Value)	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity			
Risk Parity	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.

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

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
District's proportionate share of the net pension liability:	\$ 120,392,791	\$ 77,790,049	\$ 41,654,311

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2017, Corpus Christi Independent School District reported a liability of \$77,790,049 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	\$ 77,790,049
State's proportionate share that is associated with the District	<u>126,932,282</u>
Total	<u>\$204,722,331</u>

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

At August 31, 2016 the employer's proportion of the collective net pension liability was 0.205856337% which was a decrease of 0.008223063% from its proportion measured as of August 31, 2015.

The general fund will be used to liquidate pension liabilities.

Changes Since the Prior Actuarial Valuation - There were no changes to the actuarial assumptions or other inputs that affected the 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 \$13,172,544 and revenue of \$13,172,544 for support provided by the State in the Government Wide Statement of Activities.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 1,219,733	\$ 2,322,766
Changes in actuarial assumptions	2,370,901	2,156,237
Difference between projected and actual investment earnings	6,587,101	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	13,019,176	6,800
Contributions paid to TRS subsequent to the measurement date	7,196,604	-
Total	<u>\$ 30,393,515</u>	<u>\$ 4,485,803</u>

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$7,196,604 will be recognized as a reduction of the net pension liability for the measurement year ending August 31, 2017 (i.e. recognized in the district's financial statements August 31, 2018). Other amounts reported as 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	\$ 3,258,795
2019	3,258,795
2020	7,460,369
2021	2,935,979
2022	1,684,251
Thereafter	112,919
Total	<u>\$ 18,711,108</u>

Retiree Health Care Coverage:

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-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 <http://www.trs.state.tx.us/>, by writing to the Communication Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling 1-800-223-8778.

Funding Policy – Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, sections 1575.202, 203 and 204 establish state, active employee, and public school contributions, respectively. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For staff members funded by federal programs, the federal programs are required to contribute 1%. Contribution rates and amounts are shown in the table below for fiscal years ending August 31, 2015-2017.

Year	Active Member		State on Behalf		School District	
	Rate	Amount	Rate	Amount	Rate	Amount
2017	.65%	\$1,444,431	1.0%	\$ 2,011,838	.55%	\$1,216,676
2016	.65%	\$1,375,792	1.0%	\$ 1,935,295	.55%	\$1,164,130
2015	.65%	\$1,352,484	1.0%	\$ 1,906,992	.55%	\$1,144,423

The State’s contributions of fringe benefits to the TRS-Care plan on behalf of the District’s employees were recognized as revenues and expenditures during the period. The State on behalf payment percentage of the required contributions that were actually contributed for 2017, 2016 and 2015 was 91%, 91% and 92%, respectively. The balance was paid by the District that related to salaries that were excluded from the on behalf calculation.

In addition to the pension plan and TRS-Care on behalf, the district is allocated a portion of the Medicare Part D retiree drug subsidy that the TRS-Care receives. The amounts allocated on behalf for the years ended August 31, 2015-2017 were \$621,818, \$634,118 and \$688,438, respectively.

Active Employee Health Care Coverage:

The District has a self-insurance health plan that is authorized by Section 21.922, Texas Education Code, Article 3.51-2, Texas Insurance Code and is documented by contractual agreement. The District’s contribution averages \$517 per month. This plan is reported as an Internal Service Fund.

N. LITIGATION

The District is involved in various legal proceedings arising from its operations. The District believes that the outcome of these proceedings, individually and in the aggregate, will have no material effect on the District's financial position.

O. COMMITMENTS AND CONTINGENT LIABILITIES

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2017, the District purchased commercial insurance to cover auto and professional liabilities with no significant reductions in insurance coverage from the prior year. There have been no claim settlements in excess of insurance coverage in the last four years.

The District has commitments under operating (noncapitalized) lease agreements for various types of equipment, which are cancelable and extended on a monthly basis. Minimum operating lease commitments for the next five years for the District are immaterial.

The District has entered into contracts for projects in the Capital Projects fund as follows:

	Outstanding Contracts	Expenditures Through 8/31/2017	Funds Committed
Construction of new schools	\$ 59,039,122	\$ 32,726,401	\$ 26,312,721
District-wide renovations	40,332,539	26,487,815	13,844,724
Total	<u>\$ 99,371,661</u>	<u>\$ 59,214,216</u>	<u>\$ 40,157,445</u>

Additionally, the District has outstanding contracts for the General fund and other funds totaling \$1,529,975.

P. GENERAL FUND FEDERAL SOURCE REVENUES

Federally financed programs are generally accounted for in the Special Revenue Funds of the District, except for indirect costs charged to federal programs which are accounted for in the General Fund as prescribed by the TEA. The District recognized in the General Fund such revenues for the year ended August 31, 2017, from various federal sources as follows:

<u>CFDA Program or Source</u>	<u>Number</u>	<u>Amount</u>	<u>Total Grant Entitlement</u>
N.J.R.O.T.C.	12.000	\$ 311,662	\$ 311,662
Impact Aid	84.041	26,558	26,558
Medicaid SHARS	93.778	5,140,142	5,140,142
Medicaid MAC	93.778	99,500	99,500
Indirect Cost Revenues:			
ESEA Title I, Part A Improving Basic Programs	84.010A	246,563	246,563
Title I, Part D	84.010A	2,765	2,765
ESEA Title I, 1003 (A) Priority/Focus School Grant	84.010A	21,190	21,190
ESEA Title I, Part C Migrant	84.011A	4,966	4,966
IDEA-Part B, Formula	84.027	168,082	168,082
IDEA-Part B, Preschool	84.173	3,446	3,446
Career and Technical-Basic Grant	84.048	11,565	11,565
ESEA Title II, Part A-Training & Recruiting	84.367A	55,423	55,423
Title III- A English Lang. Acquisition	84.365A	5,353	5,353
ESEA Title X, Pt. C Homeless	84.196	3,029	3,029
Texas Title I, Priority Schools, Cycle 3	84.377A	99,693	99,693
SSA-IDEA, Part B, Discretionary Deaf	84.027	1,788	1,788
		<u>\$ 6,201,725</u>	<u>\$ 6,201,725</u>

Q. JOINT VENTURE-SHARED SERVICE ARRANGEMENTS

The District is the fiscal agent for a shared service arrangement ("SSA"), which provides services to hearing impaired students from 17 Districts. The fiscal agent provides all services. Funds are provided by the State of Texas and supplemented by member Districts based on the number of students enrolled in the program. The District has accounted for the activities of the SSA in Special Revenue Fund No. 435, Shared Services Arrangements - Regional Day School for the Deaf using Model 2 in the SSA section of TEA's Resource Guide. Total expenditures were

entitled to the recapture of all ad valorem tax revenue lost as a result of this Agreement together with the payment of penalty and interest, on that recaptured ad valorem tax revenue. Penalties on said amounts shall be calculated in accordance with the methodology set forth in the Texas Tax Code Section 33.01(a), or its successor statute. Interest on said amounts shall be calculated in accordance with the methodology set forth in Texas Tax Code Section 33.01(c), or its successor statute. The agreement provides an administrative procedure to determine any company liability. Ultimately, enforcement of any payment obligation is through the local state district court.

Due to the value limitation not being in effect on either agreement, there were no benefits to the companies for M&O purposes or revenue loss or supplemental payments owed to the District.

T. FUTURE ACCOUNTING PRONOUNCEMENTS

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement will improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). The requirements of this statement are effective for the District's financial statements for period ending August 31, 2018. The District is evaluating the impact upon its financial position, results of operations, or cash flows upon adoption.



[This page is intentionally left blank.]

Financial Advisory Services provided by:



Toll Free: (800) 438-4891 ext. 55718