

Addendum I – July 30, 2018

\$5,245,000
ITASCA INDEPENDENT SCHOOL DISTRICT
(Hill County, Texas)

July 18, 2018
UNLIMITED TAX SCHOOL BUILDING & REFUNDING BONDS, SERIES 2018

PLEASE BE ADVISED the above-referenced Official Statement has been supplemented to replace the following information: Page 38, under sub-caption Annual Reports.

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.



LEON JOHNSON
214-365-8205

Ratings: S&P "AAA" (Underlying A+)
(See "Rating" and "The Permanent School
Fund Guarantee Program" herein)

OFFICIAL STATEMENT

Dated July 18, 2018

NEW ISSUE: BOOK-ENTRY-ONLY

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

\$5,245,000
ITASCA INDEPENDENT SCHOOL DISTRICT
(Hill County, Texas)
UNLIMITED TAX SCHOOL BUILDING & REFUNDING BONDS, SERIES 2018

(The District designated the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions)

Dated Date: July 15, 2018

Due: August 15, as shown on page i

The \$5,245,000 Itasca Independent School District Unlimited Tax School Building and Refunding Bonds, Series 2018, (the "Bonds"), are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, Chapter 1207, Texas Government Code, as amended, an election held in the District on May 5, 2018 (the "Election"), and an order authorizing the Bonds adopted by the Board of Trustees of the District (the "Order"). The Bonds are payable as to principal and interest from the proceeds of an annual ad valorem tax levied, without legal limitation as to rate or amount, against all taxable property located within the Itasca Independent School District (the "District" or "Issuer"). The Bonds will be additionally secured by the corpus of the Permanent School Fund of the State of Texas. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

Interest on the Bonds will accrue from the dated date set forth above and be payable February 15 and August 15 of each year, commencing February 15, 2019 until maturity or prior redemption. The Bonds will be issued in fully registered form in principal denominations of \$5,000 or any integral multiple thereof within a stated maturity. Principal amount of the Bonds will be payable by the Paying Agent/Registrar (the "Paying Agent/Registrar") which initially is UMB Bank, Dallas, Texas, upon presentation and surrender of the Bonds for payment. Interest on the Bonds is payable by check or draft dated as of the interest payment date and mailed by the Paying Agent/Registrar to the registered owners as shown on the records of the Paying Agent/Registrar on the close of business as of the last business day of the month next preceding each interest payment date (the "Record Date"), or by such other customary banking arrangement, acceptable to the Paying Agent/Registrar, requested by and at the risk and expense of the registered owner.

The District intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"). Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer. (See "BOOK-ENTRY-ONLY SYSTEM" herein).

Proceeds from the Bonds will be used to pay for (1) acquiring, renovating, constructing and equipping of school facilities within the district, (2) the purchase of school buses, and (3) refunding certain maturities of the District's Unlimited Tax School Building Bonds, Series 1998, (4) refund certain maturities of the District's Unlimited Tax School Building Bonds, Series 1999 and (5) to pay the costs of issuance of the Bonds.

The Bonds maturing on or after August 15, 2027 are callable, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2026 or any date thereafter at a price of par, plus accrued interest to the date of redemption. Additionally, the Term Bonds set forth on the inside cover are subject to mandatory sinking fund redemption as further described herein. (See "THE BONDS – Redemption Provisions").

The Bonds are offered when, as and if issued, and accepted by the Underwriter, subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by Kelly Hart & Hallman LLP, Fort Worth, Texas, as counsel to the Underwriter. The Bonds are expected to be available for delivery on or about August 14, 2018.

RBC CAPITAL MARKETS

MATURITY SCHEDULE

CUSIP Base Number: 465542

\$5,245,000 Current Interest Bonds

	Maturity Date 8/15	Principal Amount	Interest Rate%	Initial Yield%		CUSIP Suffix ⁽¹⁾
	2019	\$225,000	2.000	1.600		GG7
	2020	250,000	3.000	1.800		GH5
	2021	335,000	3.000	1.950		GJ1
	2022	345,000	3.000	2.100		GK8
	2023	160,000	3.000	2.250		GL6
	2024	165,000	4.000	2.350		GM4
	2025	175,000	4.000	2.500		GN2
	2026	180,000	4.000	2.550		GP7
	2027	190,000	4.000	2.600	(2)	GQ5
	2028	195,000	4.000	2.650	(2)	GR3
	2029	205,000	4.000	2.700	(2)	GS1
Term Bond 2031	2030	210,000	3.000	3.100	(2)	GU6
(\$430,000)	2031	220,000	3.000	3.100	(2)	GU6
Term Bond 2033	2032	225,000	4.000	2.900	(2)	GW2
(\$460,000)	2033	235,000	4.000	2.900	(2)	GW2
	2034	245,000	4.000	2.950	(2)	GX0
	2035	255,000	4.000	3.000	(2)	GY8
	2036	265,000	4.000	3.050	(2)	GZ5
	2037	275,000	4.000	3.100	(2)	HA9
	2038	285,000	4.000	3.150	(2)	HB7
	2039	295,000	4.250	3.200	(2)	HC5
	2040	310,000	4.250	3.250	(2)	HD3

(Interest to accrue from the Dated Date)

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

(2) Yield shown is yield to first call date August 15, 2026.

ITASCA INDEPENDENT SCHOOL DISTRICT
P.O. Box 459
303 E. 5th Street
Itasca, Texas 75125

ELECTED OFFICIALS

BOARD OF TRUSTEES

<u>Name</u>	<u>Date Elected</u>	<u>Term Expires</u>	<u>Occupation</u>
Brian Bassett, President	2008	2020	Finance Analyst
Kevin Cordell, Vice President	2009	2018	Police Officer
Kendra Markwardt, Secretary	2013	2019	Marketing Director
Mark Fehnel, Member	2011	2020	Office Manager
Susan Bason, Member	2006	2018	Pre-School Teacher
Elizabeth Cervantes, Member	2014	2019	Inside Sales Manager
Cassandra May, Member	2016	2019	Freight Broker

CERTAIN APPOINTED OFFICIALS

Name	Position	Years of Service
Mark Parsons	Superintendent	3.5
Kim Eaddy	Business Manager	10
Norma Merkel	Superintendent's Secretary	21
Allison Middleton	High School Principal	1
Kristi Sargent	Middle School Principal	14
Amy Reyna	Elementary Principal	10

CONSULTANTS AND ADVISORS

Bond Counsel.....McCall, Parkhurst & Horton L.L.P., Dallas, Texas
 Financial Advisor.....George K. Baum & Company, Dallas, Texas

FOR ADDITIONAL INFORMATION PLEASE CONTACT

Leon Johnson
 Sr. Vice President
 George K. Baum & Company
 8115 Preston Rd., Suite 650
 Dallas, Texas 75225
 (214) 365-8205

USE OF INFORMATION IN OFFICIAL STATEMENT

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

This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any state 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.

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

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

This official statement 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.

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

This Official Statement includes descriptions and summaries of certain events, matters and documents. Such descriptions and summaries do not purport to be complete and all such descriptions, summaries and references thereto are qualified in their entirety by reference to this Official Statement in its entirety and to each such document, copies of which may be obtained from the District. Any statements made in this Official Statement or the appendices hereto involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of such opinions or estimates will be realized.

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

TABLE OF CONTENTS

USE OF INFORMATION IN OFFICIAL STATEMENT	III		
SELECTED DATA FROM THE OFFICIAL STATEMENT	1	DISTRICT AND TAXPAYER REMEDIES.....	10
INTRODUCTORY STATEMENT	2	PUBLIC HEARING AND ROLLBACK TAX RATE	10
THE BONDS	2	LEVY AND COLLECTION OF TAXES	10
AUTHORIZATION AND PURPOSE	2	DISTRICT'S RIGHTS IN THE EVENT OF TAX DELINQUENCIES	11
GENERAL DESCRIPTION	2	THE PROPERTY TAX CODE AS APPLIED TO THE ITASCA INDEPENDENT	
REDEMPTION PROVISIONS.....	2	SCHOOL DISTRICT	11
SECURITY.....	3	STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS	11
PERMANENT SCHOOL FUND GUARANTEE.....	3	PUBLIC SCHOOL FINANCE SYSTEM	12
LEGALITY.....	3	TAX RATE LIMITATIONS	15
PAYMENT RECORD.....	3	DEBT LIMITATIONS	16
REFUNDED BONDS	3	EMPLOYEES RETIREMENT PLAN	16
SOURCES AND USES OF FUNDS	4	RATINGS	17
AMENDMENTS	4	LEGAL MATTERS	17
DEFEASANCE OF BONDS	4	TAX MATTERS	18
REGISTERED OWNERS' REMEDIES	5	OPINION	18
BOOK-ENTRY-ONLY SYSTEM	5	FEDERAL INCOME TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT ..	18
EFFECT OF TERMINATION OF BOOK-ENTRY-ONLY SYSTEM.....	7	COLLATERAL FEDERAL INCOME TAX CONSEQUENCES	19
USE OF CERTAIN TERMS IN OTHER SECTIONS OF THIS OFFICIAL STATEMENT	7	STATE, LOCAL AND FOREIGN TAXES	19
REGISTRATION, TRANSFER AND EXCHANGE	7	FUTURE AND PROPOSED LEGISLATION	19
PAYING AGENT/REGISTRAR.....	7	INFORMATION REPORTING AND BACKUP WITHHOLDING	19
SUCCESSOR PAYING AGENT/REGISTRAR.....	7	REGISTRATION AND QUALIFICATION OF BONDS FOR SALE	20
FUTURE REGISTRATION	7	LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN	
REPLACEMENT BONDS.....	7	TEXAS	20
AD VALOREM TAX PROCEDURES	8	INVESTMENT AUTHORITY AND PRACTICES OF THE DISTRICT	21
PROPERTY TAX CODE AND COUNTY-WIDE APPRAISAL DISTRICT.....	8	THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM	22
PROPERTY SUBJECT TO TAXATION BY THE DISTRICT.....	8	FINANCIAL ADVISOR	37
VALUATION OF PROPERTY FOR TAXATION.....	9	AUTHENTICITY OF FINANCIAL INFORMATION	38
RESIDENTIAL HOMESTEAD EXEMPTION	9	USE OF AUDITED FINANCIAL STATEMENTS	38
		LITIGATION	38
		CONTINUING DISCLOSURE OF INFORMATION	38
		UNDERWRITING	39
		FORWARD LOOKING STATEMENTS	40
		CONCLUDING STATEMENT	40
Schedules of Bonds to be Refunded.....			Schedule IA-IB
Financial Information of the District Subject to Continuing Disclosure.....			Appendix A
Additional Information Regarding Itasca Independent School District and Hill County, Texas			Appendix B
Form of Legal Opinion of Bond Counsel.....			Appendix C
District Annual Financial Report for the Year Ended August 31, 2017			Appendix D

The cover page hereof, the section entitled "Selected Data from the Official Statement," this Table of Contents, Schedule I and the Appendices attached hereto are part of this Official Statement.

SELECTED DATA FROM THE OFFICIAL STATEMENT

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

The Issuer	Itasca Independent School District (the "District") is a political subdivision located in Hill County, Texas. The District is governed by a seven-member Board of Trustees (the "Board"). Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors.
The Bonds	The Bonds are being issued in the principal amount of \$5,245,000 pursuant to the Constitution and general laws of the State of Texas particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, Chapter 1207, Texas Government Code, as amended, an election held in the District on May 5, 2018 (the "Election"), and an order authorizing the sale and issuance of the Bonds adopted by the Board of Trustees of the District (the "Order"). Proceeds from the Bonds will be used to pay for (1) acquiring, renovating, constructing and equipping of school facilities within the district, (2) the purchase of school buses, (3) refunding certain maturities of the District's Unlimited Tax School Building Bonds, Series 1998, (4) refund certain maturities of the District's Unlimited Tax School Building Bonds, Series 1999 and (5) to pay the costs of issuance of the Bonds.
Paying Agent/Registrar	The initial Paying Agent/Registrar is UMB Bank, Dallas, Texas. The District intends to use the Book-Entry-Only System of The Depository Trust Company.
Security	The Bonds will constitute direct obligations of the District, payable as to the principal and interest from ad valorem taxes levied annually against all taxable property located within the District, without legal limitation as to rate or amount. (See "THE BONDS - Security"). The Bonds will be additionally secured by the corpus of the Permanent School Fund of the State of Texas. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM")
Redemption Provisions	<p>The Bonds maturing on or after August 15, 2027 are callable, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2026 or any date thereafter at a price of par, plus accrued interest to the date of redemption. (see "THE BONDS – Redemption Provisions – <i>Optional Redemption</i>").</p> <p>The Bonds schedule to mature on August 15 in each of the years 2031 and 2033 (the "Term Bonds") are subject to scheduled mandatory sinking fund redemption at a price equal to the principal amount thereof, plus accrued interest to the redemption date, out of moneys available for such purpose under the terms of the Order, on the dates and in the respective principal amounts as described herein (see "THE BONDS – Redemption Provisions – <i>Mandatory Redemption</i>").</p>
Tax Exemption	In the opinion of Bond Counsel for the District, interest on the Bonds is excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein.
Payment Record	The District has never defaulted on the payment of its bonded indebtedness.
Legal Opinion	Delivery of the Bonds is subject to approval by the Attorney General of the State of Texas and the rendering of an opinion on certain legal matters by McCall Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel.
Delivery	When issued on or about August 14, 2018.

INTRODUCTORY STATEMENT

This Official Statement, including Schedule I and, Appendices A, B and D, has been prepared by the Itasca Independent School District, in Hill County, Texas (the "District"), in connection with the offering by the District of its Unlimited Tax School Building and Refunding Bonds, Series 2018 (the "Bonds") identified on the cover page hereof.

All financial and other information presented in this Official Statement has been provided by the District from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from taxes and other sources, is intended to show recent historic information, and is not intended to indicate future or continuing trends in the financial position or other affairs of the District. No representation is made that past experience, as is shown by that financial and other information, will necessarily continue or be repeated in the future.

THE BONDS

Authorization And Purpose

The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, Chapter 1207, Texas Government Code, as amended, an election held in the District on May 5, 2018 (the "Election"), and an order authorizing the Bonds adopted by the Board of Trustees of the District (the "Order"). Proceeds from the Bonds will be used to pay for (1) acquiring, renovating, constructing and equipping of school facilities within the district, (2) the purchase of school buses, and (3) refunding certain maturities of the District's Unlimited Tax School Building Bonds, Series 1998, (4) refund certain maturities of the District's Unlimited Tax School Building Bonds, Series 1999 and (5) to pay the costs of issuance of the Bonds. The specific maturities of the District's outstanding bonds to be refunded are set forth in "Schedule IA" and "Schedule IB" (collectively, the "Refunded Bonds").

General Description

The Bonds will be dated July 15, 2018 (the "Dated Date"). The Bonds will bear interest from the Dated Date. The Bonds will mature on the dates and in the principal amounts set forth on the page i of this Official Statement. Interest on the Bonds is payable each February 15 and August 15, commencing February 15, 2019, until maturity or prior redemption.

The Bonds will be issued only as fully registered bonds. The Bonds will be issued in principal denominations of \$5,000 or any integral multiple thereof within a maturity. The Bonds shall be transferable only on the bond register kept by the Paying Agent/Registrar upon surrender and reissuance. The Bonds are exchangeable for an equal principal amount in any authorized denomination upon surrender of the Bonds to be exchanged at the designated corporate trust office of the Paying Agent/Registrar.

Redemption Provisions

Optional Redemption: The Bonds maturing on or after August 15, 2027 are callable, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2026 or any date thereafter at a price of par, plus accrued interest to the date of redemption.

Mandatory Redemption: The Bonds maturing on August 15 in 2031 and 2033 (the "Term Bonds") are subject to mandatory sinking fund redemption, by lot, on the August 15 dates and the principal amounts as follows:

<u>2031 Term Bonds</u>		<u>2033 Term Bonds</u>	
<u>Date</u>	<u>Amount</u>	<u>Date</u>	<u>Amount</u>
2030	\$210,000	2032	\$ 225,000
2031	220,000 ⁽¹⁾	2033	235,000 ⁽¹⁾

(1) Stated Maturity

The principal amount of the Term Bonds required to be redeemed pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the option of the District by the principal amount of the Term Bonds of the stated maturity which, at least 50 days prior to a mandatory redemption date, (1) shall have been acquired by the District at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of the purchase thereof, and delivered to the Paying Agent/ Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent Registrar at the request of the District at a price not exceeding the principal amount of such 2017A Term Bonds plus accrued interest to the date of purchase, or (3) shall have been redeemed pursuant to the optional redemption provisions and not therefore credited against a mandatory sinking fund redemption requirement.

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

Security

The Bonds are direct obligations of the District and are payable as to both principal and interest from ad valorem taxes to be levied on all taxable property within the District, without legal limitation as to rate or amount. (See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS"). The Bonds are expected to be additionally secured by the corpus of the Permanent School Fund of the State of Texas. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

Permanent School Fund Guarantee

In connection with the sale of the Bonds, the District applied for and received conditional approval from the Commissioner of Education for guarantee of the Bonds under the Guarantee Program for School District Bonds (Chapter 45, Subchapter C, of the Texas Education Code). As 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 the event of default, registered owners will receive all payments due from the Permanent School Fund.

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 McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel. The legal opinion will be printed on or attached to the Bonds. (See "LEGAL MATTERS"). Certain legal matters will be passed upon for the Underwriter by its counsel Kelly Hart & Hallman LLP, Fort Worth, Texas.

Payment Record

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

Refunded Bonds

The principal and interest due on the Refunded Bonds are to be paid on the redemption date of such Refunded Bonds, from funds to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the District and UMB Bank (the "Escrow Agent"). The Order provides that from the proceeds of the sale of the Bonds received from the Underwriter and other available District funds, if any, the District will deposit with the Escrow Agent the amount necessary, taking into account investment earnings of the Escrow Securities (defined below), to accomplish the discharge and final payment of the Refunded Bonds on the redemption date as set forth in Schedule I – Schedule of Bonds to be Refunded. Such funds will be held by the Escrow Agent in a special account (the "Escrow Fund") and used to purchase direct, noncallable obligations of the United States (the "Escrow Securities"), which will mature in the time and amounts to make payments for the Refunded Bonds as such bonds become due and payable and on their date of redemption. Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds.

George K. Baum & Company (the Financial Advisor to the District) will execute a certificate (the "Sufficiency Certificate") certifying that the amount deposited to the Escrow Fund will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds on the redemption date.

By the deposit of the cash and Escrow Securities with the Escrow Agent pursuant to the Escrow Agreement and the orders that authorized the issuance of the Refunded Bonds, the District will have effected the defeasance of all of the Refunded Bonds in accordance with State law and in reliance upon the Sufficiency Certificate. It is the opinion of Bond Counsel that as a result of such defeasance and in reliance upon the Sufficiency Certificate, the Refunded Bonds will be outstanding only for the purpose of receiving payments from the Escrow Fund and such Refunded Bonds will not be deemed as being outstanding obligations of the District nor for the purpose of applying any limitation on the issuance of debt, and the District will have no further responsibility with respect to amounts available in the Escrow Fund for the payment of the Refunded Bonds from time to time. Upon defeasance of the Refunded Bonds, the payment of the Refunded Bonds will no longer be guaranteed by the Permanent School Fund of Texas.

Sources And Uses Of Funds

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

Sources		
Par Amount	\$	5,245,000.00
Original Issue Premium		305,392.15
Accrued Interest		15,435.45
I&S Funds on Hand		23,067.50
Total Sources of Funds	\$	5,588,895.10
Uses		
Project Fund	\$	4,500,000.00
Cash Deposit to Escrow Fund		23,067.77
SLGS Purchases		932,140.00
Accrued Interest		15,435.45
Underwriter's Discount		38,114.19
Costs of Issuance		75,000.00
Additional Proceeds		5,137.69
Total Uses of Funds	\$	5,588,895.10

Amendments

The District may amend the Order without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency or formal defect or omission therein. In addition, the District may, with the written consent of the registered owners of a majority in aggregate principal amount of the Bonds then outstanding and affected thereby, amend, add to or rescind any of the provisions of the Order; except that, without the consent of the registered owners of all of the Bonds affected, no such amendment, addition or rescission may (1) make any change in the maturity of any of the outstanding Bonds; (2) reduce the rate of interest borne by any of the outstanding Bonds; (3) reduce the amount of the principal of, or redemption premium, if any, payable on any outstanding Bonds; (4) modify the terms of payment of principal of or interest or redemption premium on outstanding Bonds or any of them or impose any condition with respect to such payment; or (5) change the minimum percentage of the principal amount of the Bonds necessary for consent to such amendment.

Defeasance of Bonds

The Order provides that the District may discharge its obligations to the registered owners of any or all of the Bonds in any manner permitted by law. Under current Texas law, such discharge may be accomplished either: (i) by depositing with the Paying Agent/Registrar or other lawfully authorized entity a sum of money equal to the principal and all interest to accrue on the Bonds to maturity or redemption and/or (ii) by depositing with the Paying Agent/Registrar or other lawfully authorized entity amounts sufficient, together with the investments earnings thereon, to provide for the payment and/or redemption of such Bonds; provided that such deposits may be invested and reinvested only in (a) direct non-callable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding obligations, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; and (c) noncallable obligations of a state or an agency or a district, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding obligations to refund the Bonds, as applicable, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; or (iii) any combination of (i) and (ii) above. The foregoing obligations may be in book-entry form, and shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds, as the case may be. If any of the Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for the payment to the registered owners of such Bonds at the date of maturity or prior redemption of the full amount to which such owner would be entitled and for giving notice of redemption as provided in the Order.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of Bonds have been made as described above, all rights of the District to initiate proceedings to call such Bonds for redemption or take any other action amending the terms of such Bonds are extinguished; provided, however, that the right to call such Bonds for redemption is not extinguished if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call such Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of such Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it

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

Upon such deposit, the Permanent School Fund Guarantee will terminate with respect to the Bonds defeased in the manner described above.

REGISTERED OWNERS' REMEDIES

If the District defaults in the payment of the Bonds when due or if the state fails to honor the Permanent School Fund Guarantee as hereinafter discussed, the registered owners may seek a writ of mandamus to compel the District or District officials to carry out the legally imposed duties with respect to the Bonds if there is no other available remedy at law to compel performance of the Bonds or the Order and the District's obligations are not uncertain or disputed, as well as to enforce the rights of payment under the Permanent School Fund Guarantee. The issuance of a writ of mandamus is controlled by equitable principles, and so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. 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. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or 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 U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. 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, by principles of governmental immunity, and by general principles of equity which permit the exercise of judicial discretion.

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

BOOK-ENTRY-ONLY SYSTEM

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

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

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing

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

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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

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

Effect of Termination of Book-Entry-Only System

In the event that the Book-Entry-Only System is discontinued, printed certificates will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Order and summarized under "REGISTRATION, TRANSFER AND EXCHANGE" below.

Use of Certain Terms in Other Sections of this Official Statement

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

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is UMB Bank, Dallas, Texas. The Bonds are being issued in fully registered form in integral multiples of \$5,000 of principal amount within a stated maturity.

Successor Paying Agent/Registrar

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

Future Registration

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

Replacement Bonds

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

Limitation on Transfer of Bonds

The Paying Agent/Registrar shall not be required to make any such transfer, conversion or exchange (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date or (ii) with respect to any Bond or any portion thereof called for redemption prior to stated maturity, within forty-five (45) days prior to its redemption date.

AD VALOREM TAX PROCEDURES

Property Tax Code and County-Wide Appraisal District

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

Property Subject to Taxation by the District

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 District. 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, so-called "freepoint property" including property detained in the district for up to 175 days for purpose of assembly or other processing, certain household goods, family supplies and personal effects; farm products owned by the producers; certain property of a nonprofit corporation used in scientific research and educational activities benefiting a college or university, and designated historic sites. Other principal categories of exempt property include tangible personal property not held or used for production of income; solar and wind-powered energy devices; most individually owned automobiles; \$10,000 exemption to residential homesteads of disabled persons or persons ages 65 or over; up to \$12,000 exemption for real or personal property of disabled veterans or the surviving spouses or children of a deceased veteran who died while on active duty in the armed forces; \$25,000 in market value for all residential homesteads; and certain classes of intangible property. The Tax Code provides that a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. Furthermore, 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 such surviving spouse remarries. In addition, except for increases attributable to certain improvements, the District is prohibited by state law from increasing the total ad valorem tax on the residence homestead of persons 65 years of age or older above the amount of tax imposed in the year such residence qualified for an exemption based on age of the owner. The freeze on ad valorem taxes on the homesteads of person 65 years of age or older is also transferable to a different residence homestead. Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as the property is the homestead of the surviving spouse and the spouse is at least 55 years of age at the time of the death of the individual's spouse. Pursuant to a constitutional amendment approved by the voters on May 12, 2007, legislation was enacted to reduce the school property tax limitation imposed by the freeze on taxes paid on residence homesteads of persons 65 years of age or over or of disabled persons to correspond to reductions in local school district tax rates from the 2005 tax year to the 2006 tax year and from the 2006 tax year to the 2007 tax year (See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - General" herein). The school property tax limitation provided by the constitutional amendment and enabling legislation apply to the 2007 and subsequent tax years.

Owners of agricultural and open space land, under certain circumstances, may request valuation of such land on the basis of productive capacity rather than market value. See "Appendix A - Financial Information of the District Subject to Continuing Disclosure - Assessed Valuation" for a schedule of the exemptions allowed by the District.

The District may elect to participate in a tax increment reinvestment zone if such a zone is created covering an area within the boundaries of the District. Depending on the level of the District's participation in such a zone, if any, the District's ability to retain ad valorem taxes collected on the increased valuation of real property in the tax increment reinvestment zone in excess of the tax increment base value established for the zone would be limited by the provisions of its participation in the zone. The District may also enter into tax abatement agreements to encourage economic development. Under such agreements, a property owner agrees to construct certain improvements on its property. The District in turn agrees not to levy a tax on all or a 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. Credit will not be given by the Commissioner of Education in determining a district's wealth per student for (1) the appraised value, in excess of the "frozen" value, or 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 the levy of ad valorem taxes in the zone and the zone was and had its final project and financing plan approved by the municipality prior to August 31, 1999), or (2) for the loss of value of abated property under any abatement agreement entered into after May 31, 1993. Effective September 1, 2001, school districts may not enter into tax abatement agreements under the general statute that permits municipalities and counties to initiate tax abatement agreements. Notwithstanding the foregoing, in 2001 the Legislature enacted legislation known as the Texas Economic Development Act, which provides incentives for certain school districts to grant tax limitations on certain eligible property to encourage development in their tax base and provides additional State funding for each year of such tax limitations in the amount of the tax credit provided to the taxpayer by the district. During the first two years of a tax limitation agreement, the school district may not adopt a tax rate that exceeds the district's rollback tax rate (see "AD VALOREM TAX PROCEDURES – Public Hearing and Rollback Tax Rate").

Article VIII, Section 1-j of the Texas Constitution provides for an exemption from ad valorem taxation for "freeport property," which is defined as goods detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Taxing units that took action prior to April 1, 1990 may continue to tax freeport property and decisions to continue to tax freeport property may be reversed in the future. However, decisions to exempt freeport property are not subject to reversal. Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit" is defined by a provision of the Tax Code, which is effective for tax years 2008 and thereafter, as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. The Tax Code provision permits local governmental entities, on a local option basis, to tax goods-in-transit if the governmental body of such entity, after conducting a public hearing, takes official action prior to January 1 of the first year in which the governing body proposes to tax goods-in-transit. A taxpayer may receive only one of the freeport exemptions or the goods-in-transit exemptions for items of personal property.

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. In determining the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income of appraisal and market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are based on one hundred percent (100%) of market value, except as described below, and no assessment ratio can be applied. State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount that would not exceed the lesser of (1) the property's market value in the most recent tax year in which the market value was determined by the appraisal district or (2) the sum of (a) 10% of the property's appraised value in the preceding tax year, plus (b) the property's appraised value the preceding tax year, plus (c) the market value of all new improvements to the property.

The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. Landowners wishing to avail themselves of the agricultural use designation must apply for the designation, and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. If a claimant receives the designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes for previous years based on the new value, including three years for agricultural use and five years for agricultural open-space land and timberland prior to the loss of the designation.

The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three years. The District, at its expense, has the right to obtain from the Appraisal District a current estimate of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimate of appraisal values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the Appraisal District chooses to formally include such values on its appraisal roll.

Residential Homestead Exemption

The Texas Constitution permits the exemption of certain percentages of the market value of residential homesteads 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; however, a governing body of a political subdivision is prohibited from repealing or reducing the amount of this optional homestead exemption if it was in place for the 2014 tax year (fiscal year 2015) for a period ending December 31, 2019.

The Constitution and State law also permits the governing body of a political subdivision, at its option, to grant an exemption of not less than \$3,000 of the market value of the residence homestead of person 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 voter 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.

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

District and Taxpayer Remedies

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

Public Hearing and Rollback Tax Rate

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

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

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

Levy and Collection of Taxes

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

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.

THE PROPERTY TAX CODE AS APPLIED TO THE ITASCA INDEPENDENT SCHOOL DISTRICT

The Appraisal District has the responsibility for appraising property in the District as well as other taxing units in Hill County. The Appraisal District is governed by a board of five directors appointed by voters of the governing bodies of various Hill County political subdivisions.

Split payments are not permitted. Discounts are not permitted.

The District has not granted any tax abatements.

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.

<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	27 ^(a)	6	33

^(a) Includes additional penalty of 20% 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.

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

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

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

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

Possible Effects of Litigation and Changes in Law on District Bonds

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

Overview

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

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

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

Local Funding for School Districts

The primary source of local funding for school districts is collections from ad valorem taxes levied against taxable property located in each school district. Prior to reform legislation that became effective during the 2006-2007 fiscal year (the "Reform Legislation"), the maximum M&O tax rate for most school districts was generally limited to \$1.50 per \$100 of taxable value. At the time the Reform Legislation was enacted, the majority of school districts were levying an M&O tax rate of \$1.50 per \$100 of taxable value. The Reform Legislation required each school district to "compress" its tax rate by an amount equal to the "State Compression

Percentage". The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. For the 2018-19 State fiscal biennium, the State Compression Percentage has been set at 66.67%, effectively setting the maximum compressed M&O tax rate for most school districts at \$1.00 per \$100 of taxable value. School districts are permitted, however, to generate additional local funds by raising their M&O tax rate by up to \$0.04 above the compressed tax rate without voter approval (for most districts, up to \$1.04 per \$100 of taxable value). In addition, if the voters approve a tax rate increase through a local referendum, districts may, in general, increase their M&O tax rate up to a maximum M&O tax rate of \$1.17 per \$100 of taxable value and receive State equalization funds for such taxing effort (see "AD VALOREM TAX PROCEDURES – Public Hearing and Rollback Tax Rate" herein). Elections authorizing the levy of M&O taxes held in certain school districts under older laws, however, may subject M&O tax rates in such districts to other limitations (See "TAX RATE LIMITATIONS" herein).

State Funding for School Districts

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

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

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

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

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

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

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

State financial assistance is provided for certain existing eligible debt issued by school districts through the EDA program. The EDA guaranteed yield (the "EDA Yield") was the same as the IFA Guaranteed Yield (\$35 per cent of local tax effort per student in ADA). The 85th Texas Legislature changed the EDA Yield to the lesser of (i) \$40 or a greater amount for any year provided by appropriation; or (ii) the amount that would result in a total additional EDA of \$60 million more than the EDA to which districts would have been entitled to if the EDA Yield were \$35. The yield for the 2017-2018 fiscal year is approximately \$37. The portion of a district's local debt service rate that qualifies for EDA assistance is limited to the first 29 cents of debt service tax (or a greater amount for any year provided by appropriation by the Texas Legislature). In general, a district's bonds are eligible for EDA assistance if (i) the district made payments on the bonds during the final fiscal year of the preceding State fiscal biennium, or (ii) the district levied taxes to pay the principal of and interest on the bonds for that fiscal year. Each biennium, access to EDA funding is determined by the debt service taxes collected in the final year of the preceding biennium. A district may not receive EDA funding for the principal and interest on a series of otherwise eligible bonds for which the district receives IFA funding.

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

2006 Legislation

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

2017 Legislation

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

Wealth Transfer Provisions

Some districts have sufficient property wealth per student in WADA ("wealth per student") to generate their statutory level of funding through collections of local property taxes alone. Districts whose wealth per student generates local property tax collections in excess of their statutory level of funding are referred to as "Chapter 41" districts because they are subject to the wealth equalization

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

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

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

The School Finance System as Applied to the District

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

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

TAX RATE LIMITATIONS

A school district is authorized to levy maintenance and operation ("M&O") taxes subject to approval of a proposition submitted to district voters. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the 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 February 7, 1956 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 \$.10 for each one percent (1%) or major fraction thereof increase in bonded indebtedness beyond seven percent (7%) of assessed valuation of property in the District. This limitation is capped when the District's bonded indebtedness is ten percent (10%), or greater, of the District's assessed valuation which would result in an annual M&O tax rate not to exceed \$1.20. Lastly, the Texas Attorney General in reviewing the District's transcript of proceedings will allow the District to reduce the amount of its outstanding bonded indebtedness by the amount of funds (on a percentage basis) that the District receives in State assistance for the repayment of this bonded indebtedness (for example, if the District anticipates that it will pay 75% of its bonded indebtedness

from State assistance, for the purposes of Article 2784e-1, the Texas Attorney General will assume that only 25% of the District's bonded indebtedness is outstanding and payable from local ad valorem taxes). The bonded indebtedness of the District after the issuance of the Bonds will be approximately 5.63% of the District's current taxable assessed valuation of property. See "APPENDIX A – Financial Information of the District – Assessed Valuation" herein.

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

A school district is also authorized to issue bonds and levy taxes for payment of bonds subject to voter approval of a proposition submitted to the voters under Section 45.003(b)(1), Texas Education Code, as amended, which provides a tax unlimited as to rate or amount for the support school district bonded indebtedness (see "THE BONDS – Authorization and Purpose" and "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 reduce the district's local share of debt service, and may also take into account Tier One funds allotted to the district. The District is required to deposit any State allotments provided solely for payment of debt service into the District's interest and sinking fund upon receipt of such amounts. In addition, the District must, prior to levying an interest and sinking fund tax rate that exceeds \$0.50 per \$100 of assessed valuation, credit to the interest and sinking fund other State assistance, including Tier One funds that may be used for either operating purposes or for payment of debt service, in an amount equal to the amount needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Once the prospective ability to pay such tax has been shown and the bonds are issued, a district may levy an unlimited tax to pay debt service. Taxes levied to pay refunding bonds issued pursuant to Chapter 1207, Texas Government Code, are not subject to the \$0.50 tax rate test; however, taxes levied to pay debt service on such bonds (other than bonds issued to refund exempt bonds) are included in maximum annual debt service for calculation of the \$0.50 threshold tax rate test when applied to subsequent bond issues. The Bonds are issued, in part, 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.

DEBT LIMITATIONS

Under State law, there is no explicit bonded indebtedness limitation, although the tax rate tests described above under "TAX RATE LIMITATIONS" effectively impose a limit on the incurrence of debt. Such tax rate tests require school districts to demonstrate the ability to pay new debt secured by the district's debt service tax from a tax rate of \$0.50, and to pay all debt and operating expenses which must be paid from receipts of the district's maintenance tax from a tax not to exceed the maintenance tax limit described under the caption "TAX RATE LIMITATIONS".

In demonstrating compliance with 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.

EMPLOYEES RETIREMENT PLAN

The District's employees participate in a retirement plan with the State of Texas administered by the Teacher Retirement System of Texas ("TRS"). State contributions are made to cover costs of the TRS retirement plan up to certain statutory limits. The District is obligated for a portion of TRS costs relating to employee salaries that exceed the statutory limit. (For more detailed information concerning the District's funding policy and contributions in connection with the TRS retirement plan, see "APPENDIX D – District Annual Financial Report for the Year Ended August 21, 2017 – Note G). In addition to its participation in the TRS, the District contributes to the Texas Public School Retired Employees Group Insurance Program (the "TRS-Care"), a cost-sharing multiple-employer defined benefit post-employment health care plan. The TRS-Care provides health care coverage for certain persons (and their dependents) who retired under the TRS. Contribution requirements are not actuarially determined but are legally established

each biennium by the Texas Legislature. Upon an employee's retirement, the District is no longer obligated to make contributions to the TRS-Care on behalf of such retired employee. (For more detailed information concerning the District's funding policy and contributions in connection with the TRS retirement plan, see "APPENDIX D – District Annual Financial Report for the Year Ended August 21, 2017 – Note I). As a result of its participation in TRS and TRS-Care and having no other postemployment retirement benefit plans, the District has no obligations for other post-employment benefits within the meaning of Governmental Accounting Standards Board Statement No. 45.

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

RATINGS

S&P Global Ratings, a division of, Standard & Poor's Financial Services LLC ("S&P"), assigned their municipal rating of "AAA" to the Bonds based upon the Permanent School Fund Guarantee. S&P generally rates all bond issues guaranteed by the Permanent School Fund of the State of Texas "AAA". An explanation of the significance of any rating may be obtained from the rating agency. The underlying, unenhanced rating of the Bonds is "A+" by S&P.

The above ratings are not a recommendation to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agency. The ratings above reflect only the views the S&P, and the District makes no representation as to the appropriateness of any such ratings. Any downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

LEGAL MATTERS

The District will furnish to the Underwriter a complete transcript of proceedings had 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 District, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "TAX MATTERS" herein. A form of Bond Counsel's opinion is attached hereto as Appendix C.

The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provisions made for their payment or security, or in any manner questioning the validity of said Bonds will also be furnished. Though it represents the Financial Advisor and the Underwriter from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the District in the issuance of the Bonds. Bond Counsel also advises the TEA in connection with its disclosure obligations under the Federal securities laws, but Bond Counsel has not passed upon any TEA disclosures contained in this Official Statement. Except as noted below, Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under captions or subcaptions "THE BONDS" (except under the subcaptions "Payment Record", "Permanent School Fund Guarantee", and "Sources and Uses of Funds"), "REGISTRATION, TRANSFER AND EXCHANGE", "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" (except under the sub caption "The School Finance System as Applied to the District"), "TAX RATE LIMITATIONS (first paragraph only)", "LEGAL MATTERS" (except for the last sentence of the second paragraph thereof), "TAX MATTERS", "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE," "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS" and "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance with Prior Undertakings") and such firm is of the opinion that the information relating to the Bonds and legal matters contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriter by Kelly Hart & Hallman LLP, Fort Worth, Texas, Counsel for the Underwriter, whose fee is contingent upon the sale and delivery of the Bonds.

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

TAX MATTERS

Opinion

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

In rendering its opinion, Bond Counsel to the District will rely upon (a) the District's federal tax certificate and the certification by George K. Baum & Company verifying the sufficiency of the amounts deposited with the Escrow Agent to redeem the Refunded Bonds, (b) covenants of the District with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Bonds and certain other matters and (c) the certificate with respect to arbitrage by the Commissioner of Education regarding the allocation and investment of certain investments in the Permanent School Fund. Failure of the District to comply with these representations or covenants could cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance of the Bonds.

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

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

A ruling was not sought from the Internal Revenue Service by the Issuer with respect to the Bonds or the Project. Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the representations of the Issuer that it deems relevant to render such opinion and is not a guarantee of a result. No assurances can be given as to whether or not the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an audit is commenced, under current procedures the Internal Revenue Service is likely to treat the Issuer as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment of Original Issue Discount

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

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

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

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

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

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

Collateral Federal Income Tax Consequences

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

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

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

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

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

State, Local and Foreign Taxes

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

Future and Proposed Legislation

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

Information Reporting and Backup Withholding

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

Qualified Tax-Exempt Obligations for Financial Institutions

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-behalf of" and "subordinate" issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by section 265(b) of the Code, section 291 of the Code provides that the allowable deduction to a "bank," as defined in section 585(a) (2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

The District designated the Bonds as "qualified tax-exempt obligations" within the meaning of section 265(b) of the Code. In furtherance of that designation, the District covenants to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Bonds as "qualified tax-exempt obligations." **Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded; however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the \$10,000,000 limitation and the Bonds would not be "qualified tax-exempt."**

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code, as amended) provides that the Bonds are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries and trustees, and for the sinking funds of municipalities and other political subdivisions and public agencies of the State of Texas. In addition, various provisions of the Texas Finance Code provide that, subject to a product investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital and savings and loan associations. In accordance with the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended, the Bonds must be rated at least "A" or its equivalent as to investment quality by a national rating agency in order for most municipalities or other political subdivisions or public agencies of the State of Texas to invest in the Bonds, except for purchases for interest and sinking funds of such entities. (See "RATINGS" herein). Moreover, municipalities or other political subdivisions or public agencies of the State of Texas that have adopted investment policies and guidelines in accordance with the Public Funds Investment Act may have other, more stringent requirements for purchasing securities, including the Bonds. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

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

INVESTMENT AUTHORITY AND PRACTICES OF THE DISTRICT

Available District funds are invested as authorized by State law and in accordance with investment policies approved by the Board of Trustees. Both State law and the District's investment policies are subject to change. Under State law, the District is authorized to invest in: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and

instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (the "FDIC") 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 FDIC or the National Credit Union Share Insurance Fund (the "NCUSIF") or their respective successors; (8) interest-bearing banking deposits, other than those described in clause (7), that (i) are invested through a broker or institution with a main office or branch office in this state and selected by the District in compliance with the PFIA, (ii) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the District's account, (iii) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States, and (iv) the District appoints as its custodian of the banking deposits, in compliance with the PFIA, the institution in clause (8)(i) above, a bank, or a broker-dealer; (9) certificates of deposit and share certificates meeting the requirements of the PFIA (i) that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the FDIC or the NCUSIF, or their respective successors, or are secured as to principal by obligations described in clauses (1) through (8), above, or secured in accordance with Chapter 2257, Texas Government Code, or in any other manner and amount provided by law for District deposits, or (ii) where (a) the funds are invested by the District through a broker or institution that has a main office or branch office in the State and selected by the District in compliance with the PFIA, (b) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the account of the District, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and (d) the District appoints, in compliance with the PFIA, the institution in clause (9)(ii)(a) above, a bank, or broker-dealer as custodian for the District with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described by clause (1) which are pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) certain bankers' acceptances with a stated maturity of 270 days or less, if the short-term obligations of the accepting bank, or of the holding company of which the bank is the largest subsidiary, are rated not less than 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 an equivalent by either (i) two nationally recognized credit rating agencies, or (ii) one nationally recognized credit rating agency if the commercial paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (13) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission and complies with Securities and Exchange Commission Rule 2a-7; (14) no-load money market mutual funds that are registered and regulated by the Securities and Exchange Commission that have a weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations approved in this paragraph, or (ii) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset backed securities; (15) guaranteed investment contracts that have a defined termination date and are secured by obligations described in clause (1), excluding obligations which the District is explicitly prohibited from investing in, and in an amount at least equal to the amount of bond proceeds invested under such contract; and (16) securities lending programs if (i) the securities loaned under the program are 100% collateralized, including accrued income, (ii) a loan made under the program allows for termination at any time, (iii) a loan made under the program is either secured by (a) obligations described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent, or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (12) through (14) above, or an authorized investment pool, (iv) the terms of a loan made under the program require that the securities being held as collateral 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 designated by the District, (v) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State, and (vi) the agreement to lend securities has a term of one year or less.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution. The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

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, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Public Funds Investment Act. As an integral part of its investment policy, the District is required to adopt a separate written investment strategy for each of the funds under its control. 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, the ending market value and the fully accrued interest during the reporting period value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the 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 relatives with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the Board of Trustees; (4) require the qualified representative of firms offering to engage in an investment transaction with the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the District and the business organization that are not authorized by the District's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the District's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the District and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the District's investment policy; (6) provide specific investment training for the Business Manager and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

History and Purpose

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

manage the investments of the capital gains, royalties and other investment income relating to the land endowment. The SLB is a three member board, the membership of which consists of the Commissioner of the Texas General Land Office (the "Land Commissioner") and two citizen members, one appointed by the Governor and one by the Texas Attorney General (the "Attorney General"). As of August 31, 2017, the General Land Office (the "GLO") managed approximately 21% of the PSF, as reflected in the fund balance of the PSF at that date.

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

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

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

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

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

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

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

The Total Return Constitutional Amendment

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

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

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

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

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

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

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

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

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

Management and Administration of the Fund

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

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

Texas law assigns control of the Fund's land and mineral rights to the three-member SLB, which consists of the elected Commissioner of the GLO, an appointee of the Governor, and an appointee of the Attorney General. Administrative duties related to the land and mineral rights reside with the GLO, which is under the guidance of the Commissioner of the GLO. In 2007, the Legislature established the real estate special fund account of the PSF (the "Real Estate Account") consisting of proceeds and revenue from land, mineral or royalty interest, real estate investment, or other interest, including revenue received from those sources, that is set apart to the PSF under the Texas Constitution and laws, together with the mineral estate in riverbeds, channels,

and the tidelands, including islands. The investment of the Real Estate Account is subject to the sole and exclusive management and control of the SLB and the Land Commissioner, who is also the head of the GLO. The 2007 legislation presented constitutional questions regarding the respective roles of the SBOE and the SLB relating to the disposition of proceeds of real estate transactions to the ASF, among other questions. Amounts in the investment portfolio of the PSF are taken into account by the SBOE for purposes of determining the Distribution Rate. An amendment to the Texas Constitution was approved by State voters on November 8, 2011, which permits the SLB to make transfers directly to the ASF, see "2011 Constitutional Amendment" below.

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

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

Capacity Limits for the Guarantee Program

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

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

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

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

to the multiplier made by the Commissioner are to be ratified or rejected by the SBOE at the next meeting following the change. See "Valuation of the PSF and Guaranteed Bonds," below.

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

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, S&P Global Ratings and Fitch Ratings rate bonds guaranteed by the PSF “Aaa,” “AAA” and “AAA,” respectively. Not all districts apply for multiple ratings on their bonds, however. See “Ratings” herein.

Valuation of the PSF and Guaranteed Bonds

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

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

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

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

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

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

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

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: 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.

FINANCIAL ADVISOR

George K. Baum & Company is employed as Financial Advisor (the "Financial Advisor") to the District to assist in the issuance of the Bonds. In this capacity, the Financial Advisor has compiled certain data relating to the Bonds that is contained in this Official Statement. The Financial Advisor has not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the District to determine the accuracy or completeness of this Official Statement. Because of its limited participation, the Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein. The fee of the Financial Advisor for services with respect to the Bonds is contingent upon the issuance and sale of the Bonds. In the normal course of business, the Financial Advisor may also from time to time sell investment securities to the District for the investment of bond proceeds or other funds of the District upon the request of the District.

AUTHENTICITY OF FINANCIAL INFORMATION

The financial data and other information contained herein have been obtained from the District's records, audited financial statements and other sources which are believed to be reliable. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These

summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

USE OF AUDITED FINANCIAL STATEMENTS

Patillo, Brown & Hill, L.L.P., the District's independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. Patillo, Brown & Hill, L.L.P. also has not performed any procedures relating to this Official Statement.

LITIGATION

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

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 an "obligated person" with respect to the Bonds, within the meaning of the Securities and Exchange Commission's Rule 15c2-12 (the "Rule"). Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access ("EMMA") system. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" for a description of the TEA's continuing disclosure undertaking to provide certain updated financial information and operating data annually with respect to the Permanent School Fund and the State, as the case may be, and to provide timely notice of certain specified events related to the guarantee, to the MSRB.

Annual Reports

The District will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement in "APPENDIX A - FINANCIAL INFORMATION REGARDING THE DISTRICT", within 6 months after the end of each fiscal year ending in or after 2018. The District will additionally provide audited financial statements within 12 months after the end of each fiscal year ending in or after 2018. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the District will 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 will provide the updated information to the MSRB.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be incorporated by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by the Rule. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX D or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation. The District's current fiscal year end is June 30. Accordingly, it must provide updated information by the last day of December 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.

Event Notices

The District will also provide timely notice (not in excess of ten (10) business days after the occurrence of the event) 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 right of holder 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 Paying Agent/Registrar or change in the name of the Paying Agent/Registrar, if material. (Neither the Bonds nor the Order make any provision for debt service reserves, liquidity enhancement or credit enhancement other than the Permanent School Fund guarantee described herein). As used above, the phrase "bankruptcy, insolvency, receivership or similar event" means the appointment of a receiver, fiscal agent or similar officer for the District in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court of governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if jurisdiction has been assumed by leaving the Board and officials or officers of the District in possession

but subject to 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. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The District will provide each notice in this paragraph to the MSRB.

Availability of Information

All information and documentation filings required to be made by the District will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings is provided, without charge to the general public, by the MSRB at www.emma.msrb.org.

Limitations and Amendments

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

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

Compliance with Prior Undertakings

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

UNDERWRITING

The Underwriter has agreed, subject to certain customary conditions, to purchase the Bonds at a price equal to the initial offering prices to the public, as shown on the inside cover page, less an Underwriter's Discount of \$38,114.19. The Underwriter's obligation is subject to certain conditions precedent, and the Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriter.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in acceptance 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 Underwriter does not guarantee the accuracy or completeness of such information.

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

FORWARD LOOKING STATEMENTS

The statements contained in this Official Statement, and in any other information provided by the District, that are not purely historical, are forward-looking statements, including statements regarding the District's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward looking statements included in this Official Statement are based on information available to the District on the date hereof, and the District assumes no obligation to update any such forward-looking statements. It is important to note that the District's actual results could differ materially from those in such forward-looking statements.

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

CONCLUDING STATEMENT

The information set forth herein has been obtained from the District's records, audited financial statements and other sources which are considered to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will ever be realized. All of the summaries of the statutes, documents and the Order contained in this Official Statement are made subject to all of the provisions of such statutes, documents and the Order. These summaries do not purport to be complete statements of such provisions and reference is made to such summarized documents for further information. Reference is made to official documents in all respects.

The Order approved the form and content of this Official Statement, and any addenda supplement or amendment hereto, and authorized its use in the reoffering of the Bonds by the Underwriter.

/S/ Brian Bassett

President, Board of Trustees

/S/ Kendra Markwardt

Secretary, Board of Trustees

Schedule IA

ITASCA INDEPENDENT SCHOOL DISTRICT

Schedule of Bonds to be Refunded

<u>Series To Be Refunded</u>	<u>Principal Amount</u>	<u>Maturities Being Refunded</u>	<u>Principal Amount Being Refunded</u>	<u>Principal Amount Remaining After Refunding</u>
1998				
Term Bond 2021	\$ 100,000.00	2019	\$ 100,000.00	\$ -
	\$ 105,000.00	2020	\$ 105,000.00	\$ -
	\$ 110,000.00	2021	\$ 110,000.00	\$ -
		TOTAL	<u>\$ 315,000.00</u>	<u>\$ -</u>

The Refunded Bonds are called for redemption on September 13, 2018

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Schedule IB

ITASCA INDEPENDENT SCHOOL DISTRICT

Schedule of Bonds to be Refunded

<u>Series To Be Refunded</u>	<u>Principal Amount</u>	<u>Maturities Being Refunded</u>	<u>Principal Amount Being Refunded</u>	<u>Principal Amount Remaining After Refunding</u>
1999				
Term Bond 2019	\$ 115,000.00	2019	\$ 115,000.00	\$ -
	\$ 120,000.00	2020	\$ 120,000.00	\$ -
	\$ 130,000.00	2021	\$ 130,000.00	\$ -
Term Bond 2022	\$ 250,000.00	2022	\$ 250,000.00	\$ -
		TOTAL	\$ 615,000.00	\$ -

The Refunded Bonds are called for redemption on September 13, 2018

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APPENDIX A

**FINANCIAL INFORMATION REGARDING
ITASCA INDEPENDENT SCHOOL DISTRICT
SUBJECT TO CONTINUING DISCLOSURE**

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FINANCIAL INFORMATION FOR THE DISTRICT

ASSESSED VALUATION

2017 Actual Total Valuation.....	\$	409,923,699
2017 Net Taxable Valuation.....	\$	191,369,817

* Net of the following deductions provided under Article VII of the State Constitution and Tax Abatement

<u>Exemption/Deduction (Tax Year 2017)</u>		<u>Total</u>
Residential Homestead (\$25,000)	\$	19,176,356
Residential Homestead Over-Age 65/Disabled (\$10,000)		3,232,357
Disabled Vets/Survivors (up to \$3,000)		1,827,188
Agricultural Use/Productivity		184,845,243
Freeport Exemption		0
Pollution Control		42,370
Cap Value Loss		1,466,169
Freeze Value Loss		7,944,199
Total value lost to partial low income housing exemptions		0
Prorations/Solar/Wind		20,000
Value lost to prorations		0
Total exemptions.....	\$	218,553,882

VOTED GENERAL OBLIGATION BOND DEBT

Unlimited Tax Bonds			
Current Interest Bonds Outstanding	\$		6,915,000
Capital Appreciation Bonds			
Value At Maturity.....	\$	-	
Value Not Accreted.....		-	
Accreted Value.....	\$		0
This Issue Dated July 15, 2018			5,245,000
Total Unlimited Tax Bonds Outstanding.....	\$		12,160,000
Less: Bonds to be refunded.....			930,000
Less: Interest & Sinking Fund Balance (as of 08/31/2017).....			451,706
Net General Obligation Debt	\$		10,778,294

Ratio Net G.O. Debt to Net Taxable Valuation - 5.63%

2018 Population Estimate	3,369	Per Capita Net Valuation	\$	56,803
2018 Enrollment	696	Per Capita Actual Valuation	\$	121,675
Area (square miles)	134.26	Per Capita Net G.O. Debt	\$	3,199

PROPERTY TAX RATES AND COLLECTIONS

<u>Tax Year</u>	<u>Net Taxable Valuation</u>	<u>Tax Rate</u>	<u>% Collections</u>		<u>F/Y Ended</u>	<u>Source</u>
			<u>Current⁽¹⁾</u>	<u>Total⁽¹⁾</u>		
2012	\$ 173,525,543	1.4505	95.93	99.55	08/31/13	(2)
2013	163,607,998	1.4563	95.67	99.20	08/31/14	(2)
2014	173,939,706	1.4261	96.79	98.68	08/31/15	(2)
2015	177,370,321	1.4388	95.95	95.95	08/31/16	(2)
2016	182,162,620	1.4605	<u>95.15</u>	<u>98.86</u>	08/31/17	(2)
Five Year Average.....			95.90	98.45		
2017	\$ 191,369,817	\$1.4314	(in process of collection)		08/31/18	(2) (3)

(1) Excludes Penalty and Interest

(2) District Tax Office / State Comptrollers Report / Texas Municipal Report Dated 08/15/2017- Totals include Freeze value loss

(3) State Comptroller report (2-1-18)

TAX RATE DISTRIBUTION

	<u>Tax Year</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Local Maintenance		\$1.1700	\$1.1700	\$1.1700	\$1.1700	\$1.1700
Interest & Sinking		<u>0.2614</u>	<u>0.2905</u>	<u>0.2688</u>	<u>0.2561</u>	<u>0.2863</u>
Total		\$1.4314	\$1.4605	\$1.4388	\$1.4261	\$1.4563

2017

PRINCIPAL TAXPAYERS & THEIR ASSESSED VALUATIONS

<u>Name of Taxpayer</u>	<u>Type of Property</u>	<u>Assessed Valuation</u>	<u>% A.V.</u>
Republic Services Inc.	Waste Disposal & Recycling	\$10,116,060	5.29%
Union Pacific Railroad Co.	Railroad	7,082,230	3.70%
Energy Transfer Fuel LP	Oil & Gas	4,974,080	2.60%
Sunoco Pipeline LP	Pipeline	3,864,840	2.02%
Oncor Electric Delivery Co. LLC	Electric Utility	3,055,270	1.60%
Itasca Co-Op Grain Co.	Agricultural Services	2,480,420	1.30%
Bluestone Natural Resources II	Oil & Gas	2,234,287	1.17%
Kenneth W. Stufflebeme Trust	Trust	2,018,160	1.05%
Hilco Electric Co-Op Inc.	Electric Utility	1,875,640	0.98%
Oneok Arbuckle Pipeline LLC	Oil & Gas	1,628,880	0.85%
Total.....		\$39,329,867	20.55%

2016

PRINCIPAL TAXPAYERS & THEIR ASSESSED VALUATIONS

<u>Name of Taxpayer</u>	<u>Type of Property</u>	<u>Assessed Valuation</u>	<u>% A.V.</u>
Republic Services Inc.	Waste Disposal & Recycling	\$10,650,000	5.85%
Union Pacific Railroad Co.	Railroad	6,656,880	3.65%
Energy Transfer Fuel LP	Oil & Gas	5,875,320	3.23%
Bluestone Natural Resources II	Oil & Gas	4,294,057	2.36%
Oncor Electric Delivery Co. LLC	Electric Utility	3,078,510	1.69%
Sunoco Pipeline LP	Pipeline	2,184,690	1.20%
Itasca Co-Op Grain Co.	Agricultural Services	2,082,120	1.14%
Oneok Arbuckle Pipeline LLC	Oil & Gas	1,687,000	0.93%
Hilco Electric Co-Op Inc.	Electric Utility	1,521,520	0.84%
Brookshire Brothers Inc.	Grocery Store	1,361,060	0.75%
Total.....		\$39,391,157	21.62%

2015

PRINCIPAL TAXPAYERS & THEIR ASSESSED VALUATIONS

<u>Name of Taxpayer</u>	<u>Type of Property</u>	<u>Assessed Valuation</u>	<u>% A.V.</u>
Republic Services Inc.	Waste Disposal & Recycling	\$11,051,170	6.23%
Bluestone Natural Resources II	Oil & Gas	7,455,922	4.20%
Energy Transfer Fuel LP	Oil & Gas	6,867,380	3.87%
Union Pacific Railroad Co.	Railroad	6,254,360	3.53%
Oncor Electric Delivery Co. LLC	Electric Utility	3,275,540	1.85%
Glenco Oilfield Service Co. LLC	Oil & Gas	2,482,900	1.40%
Itasca Co-Op Grain Co.	Agricultural Services	1,719,040	0.97%
Oneok Arbuckle Pipeline LLC	Oil & Gas	1,645,020	0.93%
Hilco Electric Co-Op Inc.	Electric Utility	1,395,680	0.79%
Enlink North Texas Gathering	Oil & Gas	1,380,000	0.78%
Total.....		\$43,527,012	24.54%

**ITASCA INDEPENDENT SCHOOL DISTRICT
COMBINED GENERAL FUND BALANCE SHEET**

	Fiscal Years Ending August 31,				
	2017	2016	2015	2014	2013
ASSETS					
Cash and Cash Equivalents	\$2,552,626	\$2,660,219	\$2,957,759	\$3,228,663	\$3,454,336
Property Taxes - Delinquent	159,792	159,617	130,399	153,784	168,872
Allowance for uncollectible taxes	(19,176)	(39,904)	(32,600)	(38,446)	(42,218)
Due from other governments	363,350	344,486	145,203	122,569	119,048
Due from other funds	219,186	122,674	271,013	120,523	89,986
Other Receivables	49,973	48,648	40,865	1,534	0
Total Assets	<u>\$3,325,751</u>	<u>\$3,295,740</u>	<u>\$3,512,639</u>	<u>\$3,588,627</u>	<u>\$3,790,024</u>
Deferred inflows of resources					
Deferred revenue- property taxes	<u>\$ 172,753</u>	<u>\$ 155,726</u>	<u>\$ 119,640</u>	<u>\$ 94,866</u>	<u>\$ -</u>
LIABILITIES					
Accounts Payable	\$59,419	\$43,638	\$52,095	\$32,985	\$23,900
Accrued wages payable	175,878	164,429	165,132	0	0
Payroll ded. and withholdings payable	12,753	36,601	0	123,304	134,683
Accrued expenditures/expenses	3,735	3,284	3,038	2,251	2,448
Due to other funds	0	7	47,856	47,856	47,856
Due to other Governments	0	0	225,536	440,287	0
Deferred Revenues	0	0	0	0	110,863
Total Liabilities	<u>\$251,785</u>	<u>\$247,959</u>	<u>\$493,657</u>	<u>\$646,683</u>	<u>\$319,750</u>
FUND BALANCES					
Reserved Fund Balance	\$0	\$0	\$0	\$0	\$0
Federal or State Funds Grant Restriction	0	0	0	0	0
Retirement or Long -Term Debt	0	0	0	0	0
Construction	1,500,000	1,500,000	1,500,000	1,500,000	0
Self-insurance	50,000	50,000	50,000	50,000	0
Unassigned Fund Balance	1,351,213	1,342,055	1,349,342	1,297,078	3,470,274
Total Fund Balances	<u>\$2,901,213</u>	<u>\$2,892,055</u>	<u>\$2,899,342</u>	<u>\$2,847,078</u>	<u>\$3,470,274</u>
Total Liabilities & Fund Balances	<u>\$3,325,751</u>	<u>\$3,295,740</u>	<u>\$3,512,639</u>	<u>\$3,588,627</u>	<u>\$3,790,024</u>

**ITASCA INDEPENDENT SCHOOL DISTRICT
COMPARATIVE STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES**

	Fiscal Years Ending August 31,				
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Beginning Fund Balance	<u>\$2,892,055</u>	<u>\$2,899,342</u>	<u>\$2,847,078</u>	<u>\$3,470,274</u>	<u>\$3,291,101</u>
<u>REVENUES</u>					
Total Local and Intermediate Sources	\$2,194,917	\$2,153,044	\$2,167,024	\$1,969,139	\$2,086,290
State Program Revenue	4,726,245	4,753,393	4,548,037	4,261,376	4,418,360
Federal Program Revenues	181,853	116,157	15,073	0	0
Total Revenues	<u>\$7,103,015</u>	<u>\$7,022,594</u>	<u>\$6,730,134</u>	<u>\$6,230,515</u>	<u>\$6,504,650</u>
<u>EXPENDITURES</u>					
Instruction	\$3,855,905	\$3,754,026	\$3,633,888	\$3,564,251	\$3,539,152
Instructional Resources & Media	213,908	199,822	212,405	207,414	208,528
Curriculum & Instructional Staff Dev.	29,498	21,025	11,557	17,073	4,132
Instructional Leadership	99,621	99,297	98,652	93,522	88,282
School Leadership	382,759	383,329	351,390	356,486	320,250
Guidance & Counseling	145,405	141,480	135,603	133,795	77,346
Health Services	57,422	55,592	54,484	52,834	51,952
Student Transportation	208,780	162,572	137,110	126,876	165,493
Food Services	0	0	0	0	0
Extracurricular Activities	338,305	311,218	318,419	303,868	275,587
General Administration	388,467	374,647	353,727	334,902	343,516
Facilities Maintenance & Operations	875,429	964,398	832,288	859,107	751,102
Security and Monitoring Services	15,489	15,565	5,723	15,133	8,186
Data Processing	97,099	93,501	97,398	84,989	87,333
Community Services	598	214	956	671	562
Capital Outlay	7,300	18,720	182,211	41,711	79,709
Payments to Juvenile Justice Alternative Ed. Progran	18,080	7,520	0	5,680	2,607
Payments related to shared services arrangeme	205,996	298,924	176,359	201,074	205,002
Other intergovernmental charges	77,796	78,031	75,700	70,915	66,738
Total Expenditures	<u>\$7,017,857</u>	<u>\$6,979,881</u>	<u>\$6,677,870</u>	<u>\$6,470,301</u>	<u>\$6,275,477</u>
Excess (Deficiency) of Revenues over (Under)					
Expenditures	<u>\$85,158</u>	<u>\$42,713</u>	<u>\$52,264</u>	(<u>\$239,786</u>)	<u>\$229,173</u>
OTHER FINANCING SOURCES (USES)					
Transfers Out	(<u>\$76,000</u>)	(<u>\$50,000</u>)	<u>\$0</u>	(<u>\$100,000</u>)	(<u>\$50,000</u>)
Net change in fund balances	<u>9,158</u>	(<u>7,287</u>)	<u>52,264</u>	(<u>339,786</u>)	<u>179,173</u>
Prior Period Adjustments	<u>0</u>	<u>0</u>	<u>0</u>	(<u>283,410</u>)	<u>0</u>
Ending Fund Balance - August 31	<u>\$2,901,213</u>	<u>\$2,892,055</u>	<u>\$2,899,342</u>	<u>\$2,847,078</u>	<u>\$3,470,274</u>

APPENDIX B

**ADDITIONAL INFORMATION REGARDING
ITASCA INDEPENDENT SCHOOL DISTRICT**

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**ADDITIONAL INFORMATION REGARDING
ITASCA INDEPENDENT SCHOOL DISTRICT**

Itasca ISD is located in Hill County, is an agricultural area that includes the City of Itasca, a commercial center located off Interstate Highway 35. Itasca ISD provides a range of organizations the students can get involved in such as Itasca FFA, Science Club, One Act Play, Student Council, Booster Club, PALS, UIL Competition, National Honor Society and Yearbook. The district also has a published Newspaper called the Paw Print Press. The Paw Print Press began August 29, 1997 as a bi-weekly publication. It has been published continuously since that date without any interruptions (no deadlines missed). On June 8, 1998 it became a weekly publication. They are recognized by all aspects of Texas government such as the Texas Railroad Commission and TEA as the official newspaper of Itasca, TX. National publications and news media (Publisher's Auxiliary, The New Yorker Magazine, Editor & Publisher, The Dallas Morning News, The Fort Worth Star Telegram, Channel 8 News (Dallas), and the BBC in Australia and Europe) have also recognized us as such. The City of Itasca, Itasca PD and Itasca ISD print all of their official notices in the Paw Print Press. The Paw Print Press also receives official notices from Hill County on voting.

The district is home to one of the most unusual and unique mascots, the Wampus Cat, a mascot only used by five other school districts in the United States. The Wampus Cat was born from Native American folklore, described as a cougar like creature, half man and half cat, that could walk on its hind legs, outrun arrows and possess you with its piercing yellow eyes. The cat was strong, fast and almost impossible to kill. There are two different stories as to how the district came up with the nick name, both dating back to the 1920s. One story has Itasca High School football player, Travis Burks, proclaiming the team as playing like Wampus Cats after a night of victory on the football field and the other story has a cheerleader picking the winning name in a contest. Either way, the interesting mythical mascot of Itasca has caught the attention of many different newspapers, authors and radio stations over the years, proclaiming it as one of the weirdest, funniest and most unique.

According to the most recent Texas Academic Performance Report for the 2016-2017 school year, Itasca ISD had 682 students and received an accountability rating of "met standard." In addition, 46.5% of students were considered "at risk" of dropping out of school as defined by the Texas Education Agency 11.7% of students were enrolled in bilingual and English language learning programs.

<u>Water provided by:</u>	City of Itasca and Files Valley
<u>Electricity provided by:</u>	Hudson Energy and Hilco Electric
<u>Telephone service provided by:</u>	AT&T
<u>Natural Gas provided by:</u>	Atmos
<u>Motor Freight Carriers provided by:</u>	U.P.S., Federal Express, Central Freight
<u>Colleges, Junior Colleges, Universities</u>	Hill College, Hillsboro, Texas

ENROLLMENT STATISTICS

<u>Year Ending, 8-31</u>	<u>Enrollment</u>
--------------------------	-------------------

2008	693
2009	716
2010	756
2011	736
2012	704
2013	721
2014	685
2015	654
2016	674
2017	678
2018	696

* Current Enrollment: as of 5/24/18

FACILITIES

<u>School</u>	<u>Grades</u>	<u>Planned Student Capacity</u>	<u>Present Enrollment</u>
Itasca Elementary School	PK-5	192	201
Itasca Middle School	6-8	169	146
Itasca High School	9-12	329	349

ADDITIONAL SITES OWNED BY THE DISTRICT

<u>Name/Location of Site</u>	<u>Size (acres)</u>	<u>Expected Grade Use</u>
Athletic Fields	31.3	9-12

EMPLOYMENT OF THE DISTRICT

Teachers	57
Administrators.....	8
Teacher Aids & Secretaries.....	39
Auxiliary Employees	17
Tax Office.....	0
 Total Number of Employees.....	 121

PRINCIPAL EMPLOYERS OF THE DISTRICT

<u>Name of Company</u>	<u>Product</u>	<u># of Employees</u>
Hilco Coop Electric	Electric Provider	93
Texas Premium	Meat Plant	20
Bowman Environmental Enterprises	Septic Services	15
Itasca Co-Op Grain Inc.	Grain Co-Op	13
Leach Trailers	Trailer Company	12
David's Meat processing plant (Brookshire Bros.)	Meat Plant	12
Sonic/Shell	Restaurant/Gas Station	12
Citizens State Bank	Bank	9
Lloyd Ford Motor Company	Car Dealership	9
Dollar General	General Store	7
Karen's Restaurant	Restaurant	5
Diaz's Mexican Restaurant	Restaurant	5

ADDITIONAL INFORMATION

HILL COUNTY, TEXAS

Hill County, established in 1853 after a petition to split neighboring Navarro county was granted, is a North Central Texas county with an economy based on agribusiness, tourism and varied manufacturing. The Texas Almanac designates corn, cattle, sorghum, wheat, cotton, dairy and turkey as principal sources of agricultural income. Hillsboro, located at the junction of Interstate Highway 35 East and West, is where the county seat is located and serves as the center of government and manufacturing. Minerals produced in the county include gas and limestone.

LABOR FORCE STATISTICS FOR HILL COUNTY

	<u>2018^(A)</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Labor Force	16,582	16,142	15,778	15,603	15,883
Employed	16,016	15,516	15,083	14,894	15,046
Unemployed	566	626	695	709	837
Percent of Labor Force Unemployed	3.4%	3.9%	4.4%	4.5%	5.3%

^(A) As of May 2018.

Source: Labor Market Information Department, Texas Workforce Commission.

Comparative Unemployment Rates

	<u>2018^(A)</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Hill County	3.4%	3.9%	4.4%	4.5%	5.3%
State of Texas	3.7%	4.3%	4.6%	4.5%	5.1%
United States of America	3.6%	4.4%	4.9%	5.3%	6.2%

^(A) As of May 2018.

Source: Labor Market Information Department, Texas Workforce Commission.

PENSION FUND LIABILITY

The District has no direct liability for pensions. A mandatory contribution of a percentage of gross salary is made by all employees to the Texas Retirement System of Texas. The District is required to deduct and forward the contributions to the State Administered System.

TAX RATE LIMITATIONS

For Debt Service: Unlimited Tax Bonds - No Limitation (Chapter 45, Tx. Education Code)
 For Local Maintenance: \$1.50 per \$100 of Assessed Valuation (Chapter 45 voted 02/07/1956)

ESTIMATED OVERLAPPING DEBT STATEMENT

<u>Taxing Body</u>	<u>Amount</u>	<u>As Of</u>	<u>% Overlap</u>	<u>\$ Overlap</u>
Hill Co.	\$ 4,090,000.00 *	04/30/18	8.67%	\$ 354,603
Itasca, City of	212,468.00 *	04/30/18	100.00%	<u>212,468</u>
Total Net Overlapping Debt				\$ 567,071
Itasca ISD	\$ 10,778,294.00	07/18/18	100.00%	<u>10,778,294</u>
Total Direct and Overlapping Debt.....				\$ 11,345,365
* Gross Debt				
Direct and Overlapping Debt to Net Taxable Valuation				5.93%
Direct and Overlapping Debt to Actual Total Valuation				2.77%
Per Capita Direct and Overlapping Debt				\$3,368

2017 TOTAL TAX RATES OF OVERLAPPING POLITICAL ENTITIES

Hill Co.	\$ 0.459041
Itasca, City of	\$ 0.491900

CAPITAL LEASES

NONE

NOTES PAYABLE

NONE

PUBLIC FACILITY CORPORATION

NONE

CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY

Property Use Category	Total Tax Roll for Tax Years - Per Comptroller's Report				
	2017	2016	2015	2014	2013
Single-Family Residential	\$ 59,856,709	\$ 53,556,691	\$ 50,469,790	\$ 48,598,020	\$ 47,150,048
Multi-Family Residential	425,080	416,630	401,910	313,720	250,280
Vacant Lots/Tracts	1,567,068	1,406,398	1,416,200	1,412,949	1,483,757
Acreage (Land Only)	202,700,022	187,233,644	178,176,710	175,396,430	171,751,491
Farm and Ranch Improvements	72,091,840	63,343,506	59,542,960	56,918,020	55,140,440
Commercial and Industrial	13,784,370	13,696,720	13,093,320	12,031,550	11,367,440
Oil & Gas	6,240,490	9,608,376	14,663,244	11,290,384	7,353,824
Residential Inventory	-	-	-	-	-
Business, Tangible	20,063,360	22,951,560	23,500,450	22,341,790	20,409,100
Other, Tangible	-	-	-	-	-
Mobile Homes	1,527,260	1,512,140	1,454,670	1,747,690	1,899,230
Special/Real Inventory	307,580	307,290	353,120	286,930	367,430
Utilities	31,359,920	29,968,690	28,170,200	27,469,440	27,370,230
Total Assessed Valuation	\$ 409,923,699	\$ 384,001,645	\$ 371,242,574	\$ 357,806,923	\$ 344,543,270
Less Exemptions:					
Residential Homestead	\$ 19,176,356	\$ 18,897,069	\$ 18,702,629	\$ 11,538,264	\$ 11,408,671
Disabled/Deceased Veterans	1,827,188	1,458,350	1,224,420	1,188,530	1,152,960
Over-65 and/or disabled	3,232,357	3,218,654	3,089,855	3,274,712	3,191,814
Freeport Loss	-	-	-	-	-
Cap Value Loss	1,466,169	665,900	492,632	228,390	417,481
Freeze Value Loss	7,944,199	6,648,750	5,994,718	5,246,266	5,363,431
Solar Wind	20,000	20,000	20,000	20,000	20,000
Pollution Control	42,370	45,570	47,829	48,725	50,405
Agriculture Use/Productivity	184,845,243	170,884,732	164,300,170	162,322,330	159,330,510
Total Exemptions	\$ 218,553,882	\$ 201,839,025	\$ 193,872,253	\$ 183,867,217	\$ 180,935,272
Taxable Assessed Valuation ⁽¹⁾	\$ 191,369,817	\$ 182,162,620	\$ 177,370,321	\$ 173,939,706	\$ 163,607,998

⁽¹⁾ Includes Frozen values

PERCENTAGE TOTAL ASSESSED VALUATION BY CATEGORY

Property Use Category	Percent of Total Tax Roll for Tax Years				
	2017	2016	2015	2014	2013
Single-Family Residential	14.60%	13.95%	13.59%	13.58%	13.68%
Multi-Family Residential	0.10%	0.11%	0.11%	0.09%	0.07%
Vacant Lots/Tracts	0.38%	0.37%	0.38%	0.39%	0.43%
Acreage (Land Only)	49.45%	48.76%	47.99%	49.02%	49.85%
Farm and Ranch Improvements	17.59%	16.50%	16.04%	15.91%	16.00%
Commercial and Industrial	3.36%	3.57%	3.53%	3.36%	3.30%
Oil & Gas	1.52%	2.50%	3.95%	3.16%	2.13%
Residential Inventory	0.00%	0.00%	0.00%	0.00%	0.00%
Business, Tangible	4.89%	5.98%	6.33%	6.24%	5.92%
Other, Tangible	0.00%	0.00%	0.00%	0.00%	0.00%
Mobile Homes	0.37%	0.39%	0.39%	0.49%	0.55%
Special/Real Inventory	0.08%	0.08%	0.10%	0.08%	0.11%
Utilities	7.65%	7.80%	8.07%	8.38%	7.94%
	<u>100.00%</u>	<u>100.00%</u>	<u>100.48%</u>	<u>100.70%</u>	<u>100.00%</u>

Note: Totals may not equal 100% due to rounding

**ITASCA INDEPENDENT SCHOOL DISTRICT
OUTSTANDING AND NEW DEBT SERVICE REQUIREMENTS**

<u>Fiscal Year</u> <u>Ended 8/31</u>	<u>Outstanding Debt Service Requirements</u>	<u>Less: Bonds to be Refunded</u>	<u>Debt Service Requirements of the Series 2018</u>		<u>Total</u>	<u>Total Debt Service Requirements</u>
			<u>Principal</u>	<u>Interest</u>		
2018	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2019	544,241.25	261,135.00	225,000.00	207,580.21	432,580.21	715,686.46
2020	597,106.25	260,500.00	250,000.00	187,112.50	437,112.50	773,718.75
2021	546,716.25	264,310.00	335,000.00	179,612.50	514,612.50	797,018.75
2022	517,581.25	262,375.00	345,000.00	169,562.50	514,562.50	769,768.75
2023	439,006.25	-	160,000.00	159,212.50	319,212.50	758,218.75
2024	435,406.25	-	165,000.00	154,412.50	319,412.50	754,818.75
2025	436,606.25	-	175,000.00	147,812.50	322,812.50	759,418.75
2026	437,406.25	-	180,000.00	140,812.50	320,812.50	758,218.75
2027	437,806.25	-	190,000.00	133,612.50	323,612.50	761,418.75
2028	437,806.25	-	195,000.00	126,012.50	321,012.50	758,818.75
2029	437,406.25	-	205,000.00	118,212.50	323,212.50	760,618.75
2030	436,606.25	-	210,000.00	110,012.50	320,012.50	756,618.75
2031	435,406.25	-	220,000.00	103,712.50	323,712.50	759,118.75
2032	438,443.75	-	225,000.00	97,112.50	322,112.50	760,556.25
2033	435,862.50	-	235,000.00	88,112.50	323,112.50	758,975.00
2034	437,868.75	-	245,000.00	78,712.50	323,712.50	761,581.25
2035	439,256.25	-	255,000.00	68,912.50	323,912.50	763,168.75
2036	440,025.00	-	265,000.00	58,712.50	323,712.50	763,737.50
2037	435,175.00	-	275,000.00	48,112.50	323,112.50	758,287.50
2038	434,912.50	-	285,000.00	37,112.50	322,112.50	757,025.00
2039	439,031.25	-	295,000.00	25,712.50	320,712.50	759,743.75
2040	437,325.00	-	310,000.00	13,175.00	323,175.00	760,500.00
TOTAL	<u>\$10,077,001.25</u>	<u>\$ 1,048,320.00</u>	<u>\$5,245,000.00</u>	<u>\$2,453,355.21</u>	<u>\$7,698,355.21</u>	<u>\$16,727,036.46</u>

TAX ADEQUACY WITH RESPECT TO THE DISTRICT'S OUTSTANDING BONDS

Projected Maximum P & I Requirements for FYE	August 31, 2020	\$797,018.75
less: projected EDA and IFA payments from the State		<u>109,896.00</u>
District's Net Requirement		\$687,122.75
Based on Projected 2020 Taxable Valuation of		\$187,232,394.00
\$0.4300	x rate w/ tax collections of	99.00%
		\$797,018.75

AUTHORIZED BUT UNISSUED BONDS

After this sale, the District will have no authorized but unissued bonds.

APPENDIX C
FORM OF LEGAL OPINION OF BOND COUNSEL

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Proposed Form of Opinion of Bond Counsel

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

**ITASCA INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING AND REFUNDING BONDS, SERIES 2018**

IN THE AGGREGATE PRINCIPAL AMOUNT OF \$5,245,000

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

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

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

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Bonds, including the amount, accrual or receipt of interest on, the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds.

IN EXPRESSING THE AFOREMENTIONED OPINIONS, we have relied on and assume continuing compliance with, certain representations contained in the federal tax certificate of the Issuer and covenants set forth in the order adopted by the Issuer to authorize the issuance of



the Bonds, relating to, among other matters, the use of the project being financed and refinanced and the investment and expenditure of the proceeds and certain other amounts used to pay or to secure the payment of debt service on the Bonds, the sufficiency certificate of George K. Baum & Company as to the sufficiency of the amounts initially deposited to the to the escrow fund to pay the redemption price of the refunded bonds, and the certificate with respect to arbitrage by the Commissioner of Education regarding the allocation and investment of certain investments in the Permanent School Fund, the accuracy of which we have not independently verified. We call your attention to the fact that if such representations are determined to be inaccurate or if the Issuer fails to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.

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

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

Respectfully,

APPENDIX D

The information contained in this Appendix has been reproduced from the Itasca Independent School District Annual Financial Report (the "Report") for the Fiscal Year Ended August 31, 2017.

THE INFORMATION PRESENTED REPRESENTS ONLY A PART OF THE REPORT AND DOES NOT PURPORT TO BE A COMPLETE STATEMENT OF THE DISTRICT'S FINANCIAL CONDITION. REFERENCE IS MADE TO THE COMPLETE REPORT FOR ADDITIONAL INFORMATION

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ITASCA

INDEPENDENT SCHOOL DISTRICT

Home of the
Wampus Cats!



ANNUAL FINANCIAL
REPORT
FOR THE YEAR ENDED
AUGUST 31, 2017

P&H

PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

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ITASCA INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2017

TABLE OF CONTENTS

<u>Exhibit</u>	<u>Page</u>
Certificate of Board	1
Independent Auditor’s Report	2 – 4
Management’s Discussion and Analysis	5 – 11
 <u>Basic Financial Statements</u>	
Government-wide Statements:	
A-1 Statement of Net Position	12
B-1 Statement of Activities	13
Governmental Fund Financial Statements:	
C-1 Balance Sheet	14
C-2 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	15
C-3 Statement of Revenues, Expenditures, and Changes in Fund Balance	16
C-4 Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	17
Proprietary Fund Financial Statements:	
D-1 Statement of Proprietary Net Position	18
D-2 Statement of Revenues, Expenses, and Changes in Fund Net Position	19
D-3 Statement of Cash Flows	20
E-1 Statement of Fiduciary Net Position	21
E-2 Statement of Changes in Fiduciary Fund Net Position	22
Notes to the Financial Statements	23 – 43
 <u>Required Supplementary Information</u>	
G-1 Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual – General Fund	44
G-2 Schedule of the District’s Proportionate Share of the Net Pension Liability	45
G-3 Schedule of District Contributions Teacher Retirement System	46
Notes to Required Supplementary Information	47
 <u>Combining Statements</u>	
Nonmajor Governmental Funds:	
H-1 Combining Balance Sheet	48 – 49
H-2 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	50 – 51
 <u>Required TEA Schedules</u>	
J-1 Schedule of Delinquent Taxes Receivable	52 – 53
J-4 Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual – National School Breakfast and Lunch Program	54
J-5 Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual – Debt Service Fund	55
 <u>Internal Control Report</u>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	56 – 57

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CERTIFICATE OF BOARD

Itasca Independent School District
Name of School District

Hill
County

109-907
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 22nd day of January, 2018.

Signature of Board Secretary

Signature of Board President

If the Board of Trustees disapproved of the auditors' report, the reason(s) for disapproving it is (are):
(attach list as necessary)

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P A T T I L L O , B R O W N & H I L L , L . L . P .
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Itasca Independent School District
Itasca, 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 Itasca Independent School District as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the Itasca Independent School 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.

Auditors' 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 auditors' 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 Itasca Independent School District as of August 31, 2017, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison and pension information on pages 5 – 11 and 44 – 46 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 Itasca Independent School District's basic financial statements. The combining nonmajor fund financial statements and required TEA schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2018, on our consideration of the Itasca Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Itasca Independent School District's internal control over financial reporting and compliance.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
January 16, 2018

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

Our discussion and analysis of Itasca Independent School District's financial performance provides an overview of the District's financial activities for the fiscal year ended August 31, 2017. Please read it in conjunction with the District's financial statements, which begin on page 12.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$6,420,404 (*net position*). Of this amount, \$1,965,200 (*unrestricted net position*) may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net position decreased by (\$107,963).
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$3,364,514, an increase of \$136,212 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was, \$1,351,213 or 19.25% of total General Fund expenditures.

USING THIS ANNUAL REPORT

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

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

The notes to the financial statements (starting on page 23) 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. The sections labeled TEA Required Schedules and Compliance 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

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 12. Its primary objective 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, deferred inflows/outflows of resources and liabilities while the Statement of Activities includes all the revenue and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by most private sector companies.

All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid. The District's revenue is 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 revenue), and general revenue provided by the taxpayers or by TEA in equalization funding processes (general revenue). 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, deferred inflows/outflows of resources and liabilities) provide one measure of the District's financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider nonfinancial 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 the following activity:

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

Reporting the District's Most Significant Funds

Fund Financial Statements

The Fund financial statements begin on page 14 and provide detailed information about the most significant funds – not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under ESEA Title I 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 (like campus activities). The District incorporates two kinds of funds – governmental funds and proprietary funds.

Governmental Funds – The District reports its services 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 they 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 governmental fund financial statements.

Proprietary Funds – The District's proprietary fund is classified as an internal service fund which is used to report activities that provide supplies and services for the District's other programs and activities—such as the District's Workers' Compensation Self-Insurance Fund

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position on page 21. We exclude these resources from the District's other financial statements because the District cannot use them to support its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the District's governmental activities.

Net position of the District's governmental activities decreased from \$6,528,367 to \$6,420,404. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was \$1,965,200 and \$2,046,720 at August 31, 2017 and 2016, respectively.

TABLE 1
ITASCA INDEPENDENT SCHOOL DISTRICT
NET POSITION

	Governmental Activities	
	2017	2016
Current and other assets	\$ 3,910,981	\$ 3,772,455
Capital Assets	<u>11,038,456</u>	<u>11,433,016</u>
Total Assets	<u>14,949,437</u>	<u>15,205,471</u>
Total deferred outflows of resources	<u>555,913</u>	<u>651,299</u>
Long-term liabilities	8,548,132	8,843,685
Other liabilities	<u>375,040</u>	<u>366,922</u>
Total liabilities	<u>8,923,172</u>	<u>9,210,607</u>
Total deferred inflows of resources	<u>161,774</u>	<u>117,796</u>
Net position:		
Net investment in capital assets	4,026,613	4,171,962
Restricted	428,591	309,685
Unrestricted	<u>1,965,200</u>	<u>2,046,720</u>
Total net position	<u>\$ 6,420,404</u>	<u>\$ 6,528,367</u>

TABLE 2
ITASCA INDEPENDENT SCHOOL DISTRICT
CHANGES IN NET POSITION

	Governmental Activities	
	2017	2016
REVENUES		
Program revenue:		
Charges for services	\$ 93,337	\$ 143,059
Operating grants and contributions	1,400,993	1,361,214
General revenues:		
Maintenance and operations taxes	2,169,717	2,091,022
Debt service taxes	564,577	480,859
Grants and contributions not restricted	4,424,647	4,470,502
Investment earnings	22,085	9,028
Miscellaneous	-	29,879
Total Revenue	<u>8,675,356</u>	<u>8,585,563</u>
EXPENSES		
Instruction	4,650,638	4,573,411
Instructional resources and media services	232,116	219,211
Curriculum and Instructional staff development	50,647	46,423
Instructional leadership	123,942	124,113
School leadership	425,196	437,914
Guidance, counseling and evaluation services	165,689	159,397
Health services	64,094	63,152
Student (pupil) transportation	184,178	135,925
Food services	457,929	463,116
Co-curricular/extra curricular activities	357,700	333,515
General administration	405,267	399,395
Plant maintenance and operations	934,325	1,040,144
Security and monitoring services	18,570	18,646
Data processing services	103,412	101,222
Community services	598	214
Debt service - interest on long-term debt	297,260	307,638
Debt service - bond issuance costs	1,605	2,306
Payments to fiscal agents/member districts of SSA	205,996	298,924
Payments to Juvenile Justice Alternative Ed. Program	18,080	7,520
Other intergovernmental charges	77,796	78,031
Total Expenses	<u>8,783,319</u>	<u>8,810,217</u>
CHANGE IN NET POSITION	(107,963)	(224,654)
NET POSITION, BEGINNING	<u>6,528,367</u>	<u>6,753,021</u>
NET POSITION, ENDING	<u>\$ 6,420,404</u>	<u>\$ 6,528,367</u>

Governmental activities decreased the District's net position by (\$107,963). Revenues increased due to an increase in taxes (\$162,413) and operating grants and contributions (\$39,779). For the most part, the decrease in expenses was primarily due to decreases in plant maintenance and operations, school leadership, food services, debt service, and payments to fiscal agents.

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 14) reported a combined fund balance of \$3,364,514, which is more than last year's total of \$3,228,302. Included in this year's total change in fund balance is a decrease of \$9,158 in the District's General Fund. The primary reason for the decrease in the General Fund is a result of an increase in instruction, instructional resources and media services, student transportation, extracurricular activities, general administration, and shared services arrangements expenditures. The increase in expenditures was offset by increased Foundation Entitlements and SHARS revenue.

Over the course of the year, the Board of Trustees amended the District's General Fund budget several times. The primary budget amendments for the year were to budget for increased expenditures in instruction, instructional resources and media services, student transportation, extracurricular activities, and payments related to share services arrangements. The difference between the original and final budgeted expenditures was an increase of \$909,302.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2017, the District had approximately \$11.0 million invested in a broad range of capital assets, including instructional facilities and equipment, transportation facilities and equipment, athletic facilities, and administrative and maintenance buildings and equipment. The District's major additions included the installation of football stadium lighting and the purchase of a school bus. Additional information on the District's capital assets can be found in Note II, page 33 of this report.

Debt

At year-end, the District had approximately \$6.9 million in bonds outstanding versus \$7.2 million last year – a decrease of 3%. This decrease in debt resulted from the debt service payments of \$245,000. Additional information on the District's long-term debt can be found in Note II, pages 34 – 35 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the fiscal year 2017 budget and tax rates. One of these factors is the funding available through the state's funding mechanism as well as federal revenue. The District's enrollment is down for the 2017-2018 school year. There was a slight increase in appraised property values within the district which effects local tax revenue.

District facilities offer ample space for growth. The expenses for day to day operations are strained due to increased curriculum and state assessment requirements.

The District's budgetary General Fund balance for 2018 is expected to slightly decrease from that of 2017.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Administration office, at 123 N. College Street, Itasca, Texas 76055.

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BASIC FINANCIAL STATEMENTS

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

<u>Data Control Codes</u>		<u>Governmental Activities</u>
ASSETS		
1110	Cash and cash equivalents	\$ 3,056,517
1220	Property taxes receivables (delinquent)	193,746
1230	Allowance for uncollectible taxes	(23,250)
1240	Due from other governments	625,246
1290	Other receivables (net)	58,722
	Capital assets:	
1510	Land	290,265
1520	Buildings and improvements, net	10,456,501
1530	Furniture and equipment, net	291,690
1000	Total assets	<u>14,949,437</u>
DEFERRED OUTFLOWS OF RESOURCES		
1705	Deferred outflow related to TRS	<u>555,913</u>
1700	Total deferred outflows of resources	<u>555,913</u>
LIABILITIES		
2110	Accounts payable	69,331
2140	Interest payable	12,120
2150	Payroll deductions and withholdings	12,753
2160	Accrued wages payable	205,205
2190	Due to student groups	15,951
2200	Accrued expenses	57,987
2300	Unearned revenue	1,693
	Noncurrent liabilities:	
2501	Due within one year	255,000
2502	Due in more than one year	6,756,843
2540	Net pension liability	1,536,289
2000	Total liabilities	<u>8,923,172</u>
DEFERRED INFLOWS OF RESOURCES		
2605	Deferred inflow related to TRS	<u>161,774</u>
2600	Total deferred inflows of resources	<u>161,774</u>
NET POSITION		
3200	Net investment in capital assets	4,026,613
	Restricted for:	
3820	Federal and state programs	1,125
3850	Debt service	427,466
3900	Unrestricted	<u>1,965,200</u>
3000	Total net position	<u>\$ 6,420,404</u>

The accompanying notes are an integral part of this financial statement.

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

Data Control Codes	1 Functions/Programs	Program Revenues		Net (Expenses)	
		3 Charges for Services	4 Operating Grants and Contributions	Revenue and Changes in Net Position 6 Primary Government Governmental Activities	
	Expenses				
Primary government:					
Governmental activities:					
11	Instruction	\$ 4,650,638	\$ 18,796	\$ 742,360	\$(3,889,482)
12	Instructional resources and media services	232,116	-	4,095	(228,021)
13	Curriculum and staff development	50,647	-	16,430	(34,217)
21	Instructional leadership	123,942	-	36,229	(87,713)
23	School leadership	425,196	-	23,524	(401,672)
31	Guidance, counseling, and evaluation services	165,689	-	12,184	(153,505)
33	Health services	64,094	-	3,101	(60,993)
34	Student transportation	184,178	-	26,081	(158,097)
35	Food service	457,929	68,706	283,703	(105,520)
36	Extracurricular activities	357,700	5,835	10,304	(341,561)
41	General administration	405,267	-	14,579	(390,688)
51	Facilities maintenance and operations	934,325	-	30,897	(903,428)
52	Security and monitoring services	18,570	-	-	(18,570)
53	Data processing services	103,412	-	4,825	(98,587)
61	Community services	598	-	-	(598)
72	Interest on long-term debt	297,260	-	109,971	(187,289)
73	Bond issuance costs and fees	1,605	-	-	(1,605)
93	Payments related to shared services arrangements	205,996	-	82,710	(123,286)
95	Payments to Juvenile Justice Alternative Education Programs	18,080	-	-	(18,080)
99	Other governmental changes	77,796	-	-	(77,796)
	[TP] Total primary government	<u>\$ 8,783,319</u>	<u>\$ 93,337</u>	<u>\$ 1,400,993</u>	<u>(7,288,989)</u>
	Data Control Codes				
			General revenues:		
			Taxes:		
			MT	Property taxes, levied for general purp	2,169,717
			DT	Property taxes, levied for debt service	564,577
			GC	Grants and contributions not restricted	4,424,647
			IE	Investment earnings	<u>22,085</u>
			TR	Total general revenues and transfe	<u>7,181,026</u>
			CN	Change in net position	(107,963)
			NB	Net position, beginning	<u>6,528,367</u>
			NE	Net position, ending	<u>\$ 6,420,404</u>

The accompanying notes are an integral part of this financial statement.

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

Data Control Codes	10	ESEA I, A Improving Basic Programs	511 Debt Service Fund	Other Governmental	98 Total Governmental Funds	
	General	Basic Programs	Fund	Governmental	Funds	
ASSETS						
1110	Cash and cash equivalents	\$ 2,552,626	\$ -	\$ 396,436	\$ 76,879	\$ 3,025,941
1220	Property taxes, delinquent	159,792	-	33,954	-	193,746
1230	Allowance for uncollectible taxes	(19,176)	-	(4,074)	-	(23,250)
1240	Due from other governments	363,350	164,216	16,641	81,039	625,246
1260	Due from other funds	219,186	-	-	-	219,186
1290	Other receivables	49,973	-	8,749	-	58,722
1000	Total assets	<u>3,325,751</u>	<u>164,216</u>	<u>451,706</u>	<u>157,918</u>	<u>4,099,591</u>
LIABILITIES						
Liabilities:						
2110	Accounts payable	59,419	-	-	9,912	69,331
2150	Payroll deductions and withholdings	12,753	-	-	-	12,753
2160	Accrued wages payable	175,878	20,245	-	9,082	205,205
2170	Due to other funds	-	141,928	-	75,114	217,042
2190	Due to student groups	-	-	-	15,951	15,951
2200	Accrued expenditures/expenses	3,735	2,043	-	239	6,017
2300	Unearned revenue	-	-	-	1,693	1,693
2000	Total liabilities	<u>251,785</u>	<u>164,216</u>	<u>-</u>	<u>111,991</u>	<u>527,992</u>
DEFERRED INFLOWS OF RESOURCES						
2600	Unavailable revenue-property taxes	172,753	-	34,332	-	207,085
	Total deferred inflows of resources	<u>172,753</u>	<u>-</u>	<u>34,332</u>	<u>-</u>	<u>207,085</u>
FUND BALANCES						
Restricted:						
3450	Federal and state grants	-	-	-	1,125	1,125
3480	Debt service	-	-	417,374	-	417,374
3490	Other	-	-	-	8,855	8,855
Committed:						
3510	Construction	1,500,000	-	-	-	1,500,000
3540	Self-insurance	50,000	-	-	-	50,000
3545	Other	-	-	-	35,947	35,947
3600	Unassigned	1,351,213	-	-	-	1,351,213
3000	Total fund balances	<u>2,901,213</u>	<u>-</u>	<u>417,374</u>	<u>45,927</u>	<u>3,364,514</u>
4000	Total liabilities, deferred inflows of resources and fund balances	<u>\$ 3,325,751</u>	<u>\$ 164,216</u>	<u>\$ 451,706</u>	<u>\$ 157,918</u>	<u>\$ 4,099,591</u>

The accompanying notes are an integral part of this financial statement.

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

Total Fund Balances - Governmental Funds	\$	3,364,514
1 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 of the internal service funds are included in governmental activities in the statement of net position. The net effect of this consolidation is to increase net position.	(23,538)
2 Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		11,038,456
3 Uncollected property taxes are reported as unavailable resources in the governmental funds balance sheet, but are recognized as a revenue in the statement of activities.		207,085
4 Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(7,011,843)
5 Interest payable is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(12,120)
6 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability in the amount of \$1,536,289, a deferred resource inflow related to TRS in the amount of \$161,774, and a deferred resource outflow related to TRS in the amount of \$555,913.	(<u>1,142,150)</u>
19 Net position of governmental activities	\$	<u>6,420,404</u>

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

Data Control Codes	10 General	ESEA I, A Improving Basic Program	50 Debt Service	Other Governmental	98 Total Governmental Funds	
REVENUES						
5700	Local and intermediate sources	\$ 2,194,917	\$ -	\$ 564,815	\$ 69,445	\$ 2,829,177
5800	State program revenues	4,726,245	-	109,971	85,482	4,921,698
5900	Federal program revenues	181,853	269,091	-	404,394	855,338
5020	Total revenues	<u>7,103,015</u>	<u>269,091</u>	<u>674,786</u>	<u>559,321</u>	<u>8,606,213</u>
EXPENDITURES						
0011	Instruction	3,855,905	247,671	-	168,319	4,271,895
0012	Instructional resources and media services	213,908	-	-	-	213,908
0013	Curriculum and instructional staff development	29,498	908	-	14,877	45,283
0021	Instructional leadership	99,621	14,534	-	1,153	115,308
0023	School leadership	382,759	1,314	-	233	384,306
0031	Guidance, counseling, and evaluation services	145,405	4,664	-	-	150,069
0033	Health services	57,422	-	-	-	57,422
0034	Student transportation	208,780	-	-	23,200	231,980
0035	Food service	-	-	-	426,735	426,735
0036	Extracurricular activities	338,305	-	-	-	338,305
0041	General administration	388,467	-	-	-	388,467
0051	Facilities maintenance and operations	875,429	-	-	-	875,429
0052	Security and monitoring services	15,489	-	-	-	15,489
0053	Data processing services	97,099	-	-	-	97,099
0061	Community services	598	-	-	-	598
Debt service:						
0071	Principal on long-term debt	-	-	245,000	-	245,000
0072	Interest on long-term debt	-	-	301,931	-	301,931
0073	Bond issuance costs and fees	-	-	1,605	-	1,605
Capital outlay:						
0081	Capital outlay	7,300	-	-	-	7,300
Intergovernmental:						
0095	Payments to Juvenile Justice	-	-	-	-	-
	Alternative Education Programs	18,080	-	-	-	18,080
0093	Payments related to shared services arrangements	205,996	-	-	-	205,996
0099	Other intergovernmental charges	77,796	-	-	-	77,796
6030	Total expenditures	<u>7,017,857</u>	<u>269,091</u>	<u>548,536</u>	<u>634,517</u>	<u>8,470,001</u>
1100	EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>85,158</u>	<u>-</u>	<u>126,250</u>	<u>(75,196)</u>	<u>136,212</u>
OTHER FINANCING SOURCES (USES)						
7915	Transfers in	-	-	-	76,000	76,000
8911	Transfers out	(76,000)	-	-	-	(76,000)
7080	Total other financing sources (uses)	<u>(76,000)</u>	<u>-</u>	<u>-</u>	<u>76,000</u>	<u>-</u>
1200	NET CHANGE IN FUND BALANCES	9,158	-	126,250	804	136,212
0100	FUND BALANCES, BEGINNING	<u>2,892,055</u>	<u>-</u>	<u>291,124</u>	<u>45,123</u>	<u>3,228,302</u>
3000	FUND BALANCES, ENDING	<u>\$ 2,901,213</u>	<u>\$ -</u>	<u>\$ 417,374</u>	<u>\$ 45,927</u>	<u>\$ 3,364,514</u>

The accompanying notes are an integral part of this financial statement.

ITASCA 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

Net change in fund balances - total governmental funds	\$	136,212
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
Internal service funds are used by management to charge the costs of certain activities, such as print shop services and insurance, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.	(26,803)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	(394,560)
Property tax revenues that do not provide current financial resources are not reported as revenues in the funds.		20,539
Bond and loan proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which proceeds exceeded repayments.		249,671
Certain pension expenditures are de-expended in the government-wide financial statements and recorded as deferred resource outflows. These contributions made after the measurement date of August 31, 2016, caused the change in the ending net position to increase in the amount of \$129,692. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in the net pension liability for the District. This caused a decrease in the change in net position totaling \$132,675. The District's proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net result is to decrease the change in net position by \$93,022.	(<u>93,022)</u>
Change in net position of governmental activities	\$(<u><u>107,963)</u></u>

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

	Governmental Activities
	<u>Total</u>
	Internal Service Funds
	<u>Service Funds</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ <u>30,576</u>
Total assets	<u>30,576</u>
LIABILITIES	
Current liabilities:	
Due to other funds	2,144
Accrued expenses	<u>51,970</u>
Total liabilities	<u>54,114</u>
NET POSITION	
Unrestricted net position	(<u>23,538</u>)
Total net position	<u><u>\$ (23,538)</u></u>

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

	Governmental Activities
	Total Internal Service Funds
OPERATING REVENUES	
Local and intermediate sources	\$ 166
Total operating revenues	166
OPERATING EXPENSES	
Other operating costs	26,969
Total operating expenses	26,969
CHANGES IN NET POSITION	(26,803)
TOTAL NET POSITION, BEGINNING	3,265
TOTAL NET POSITION, ENDING	\$(23,538)

The accompanying notes are an integral part of this financial statement.

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

	Governmental Activities
	Total Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash payments for insurance claims	\$(38,346)
Net cash provided (used) by operating activities	<u>(38,346)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Interest on investments	<u>166</u>
Net cash provided (used) by capital and related financing activities	<u>166</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(38,180)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>68,756</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 30,576</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CHANGES IN NET POSITION	
Operating income (loss)	\$(26,969)
Effect of increases and decreases in current assets and liabilities	
Increase (decrease) in accrued expenses	<u>(11,377)</u>
Net cash provided (used) for operating activities	<u>\$(38,346)</u>

The accompanying notes are an integral part of this financial statement.

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

	Private Purpose Trust Funds	Agency Fund
	<u> </u>	<u> </u>
ASSETS		
Cash and cash equivalents	\$ 27,662	\$ 37,911
Restricted assets	<u>154,545</u>	<u>-</u>
Total assets	<u>\$ 182,207</u>	<u>\$ 37,911</u>
LIABILITIES		
Due to student groups	\$ <u>2,680</u>	\$ <u>37,911</u>
Total liabilities	<u>\$ 2,680</u>	<u>\$ 37,911</u>
NET ASSETS		
Unrestricted net assets	\$ <u>179,527</u>	
Total net assets	<u>\$ 179,527</u>	

**ITASCA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2017**

	<u>Private Purpose Trust Funds</u>
ADDITIONS	
Local and intermediate sources	\$ <u>-</u>
Total additions	<u>-</u>
DEDUCTIONS	
Other operating costs	<u>-</u>
Total deductions	<u>-</u>
Changes in net position	-
TOTAL NET POSITION, BEGINNING	<u>179,527</u>
TOTAL NET POSITION, ENDING	<u>\$ 179,527</u>

The accompanying notes are an integral part of this financial statement.

ITASCA INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Itasca Independent School District (the “District”) is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven-member Board of Trustees (the “Board”) elected by registered voters of the District. The Board of Trustees (the “Board”) 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. There are no component units included within the reporting entity. The District prepares its basic financial statements in conformity with generally accepted accounting principles 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.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenue, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenue and expenses are nonoperating.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which it is 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, deferred inflows/outflows of resources 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.

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 unearned revenue until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the District to refund all or part of the unused amount.

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

D. Fund Accounting

The District reports the following major governmental funds:

The ***General Fund*** is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The ***ESEA Title I, Part A*** is a ***Special Revenue Fund***. See the description of ***Special Revenue Funds*** below.

The ***Debt Service Fund*** accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Additionally, the government reports the following fund types:

Non-major Governmental Funds:

Special Revenue Funds accounts for resources restricted to, or designated for, specific purposes by a grantor. Some Federal and State financial assistance is accounted for in a ***Special Revenue Fund***, and sometimes unused balances must be returned to the grantor at the close of specific project periods.

The ***Capital Projects Fund*** is used to account for the construction of capital assets.

Proprietary Funds:

The ***Internal Service Funds*** account for revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis. The District's Internal Service Fund is the Workman Compensation Fund.

Fiduciary Fund Types:

The ***Private Purpose Trust Fund*** accounts for donations for which the donor has stipulated that the principal may not be expended and where the income may only be used for purposes that support the District's programs.

Agency Funds accounts for resources held for others in a custodial capacity. The District's *Agency Fund* is the Activity Account.

E. Assets, Liabilities, Deferred outflows/inflows of Resources, and Net Position or Equity

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments for the District are reported at fair value

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

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

Tax collections are prorated between the General Fund and Debt Service Fund based on the tax rate approved by the Board. For the year ended August 31, 2017, the rates were \$1.1700 and \$0.2905, respectively, per \$100 of assessed value.

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

Capital Assets

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 \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value, which is the price that would be paid to acquire an asset with equivalent service potential at the acquisition date.

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

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

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	40
Vehicles	5
Furniture and equipment	5 - 15

Compensated Absences

It is the District's policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated vacation or sick leave since the District does not have a policy to pay any amounts when employees separate from service with the District.

Long-term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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.

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualifies for reporting in this category. It is deferred outflow related to TRS reported in the government-wide statement of net position. This TRS related item represents the District's share of the unrecognized plan deferred outflow of resources which TRS uses in calculating the ending net pension liability.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statements element, deferred inflows of resources, represents 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. The District has two types of inflows that qualify for reporting in this category. The governmental funds report unavailable revenues from one source: property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District also recognizes their share of the unrecognized TRS plan deferred inflows of resources which TRS uses in calculating the ending net pension liability in the government-wide statement of net position.

Fund Balance

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by ordinance of the School Board, the District's highest level of decision making authority. These amounts cannot be used for any other purpose unless the School Board removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

- Assigned: This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the School Board or Superintendent.
- Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

Pensions

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

Net Position

Net position represents the difference between assets, deferred inflows/outflows of resources and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Net Position Flow Assumption

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

Fund Balance Flow Assumption

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

Data Control Codes

The Data Control Codes refer to the account code structure prescribed by TEA in the *Financial Accountability System Resource Guide*. Texas Education Agency requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a statewide database for policy development and funding plans.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The amount of state foundation revenue a school district earns for a year can and does vary until the time final values for each of the factors in the formula become available. Availability can be as late as midway into the next fiscal year. It is at least reasonably possible that the foundation revenue estimates as of August 31, 2017, will change.

II. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) 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) bankers' acceptances, (7) Mutual Funds, (8) investment pools, (9) guaranteed investment contracts, and (10) 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.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. As of August 31, 2017, the District had a deposit balance of \$273,130. The District's deposit balance was fully collateralized with securities held by the pledging financial institution in the District's name and FDIC insurance. In addition, the highest deposit balance occurred in December 2016 and was entirely covered by FDIC insurance or by securities held by the pledging financial institution.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the District's investments of \$3,135,643 are registered, therefore, it does not have any custodial credit risk exposure.

Interest Rate Risk

As a means of limiting its exposure to interest rate risk, the District diversifies its investments by security type and institution, and limits holdings in any one type of investment with any one issuer. The District coordinates its investment maturities to closely match cash flow needs and restricts the maximum investment term to less than one year from the purchase date.

Credit Risk

The District’s investments at August 31, 2017, are shown below:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
TexPool Investment	\$ 3,135,643	42
	<u>\$ 3,135,643</u>	

Public Funds Investment Pools

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

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

B. Interfund Balances and Activities

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

<u>Due to Fund</u>	<u>Due from Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	ESEA Title I, Part A	\$ 141,928	Excess transferred
General Fund	Non-major Funds	75,114	Excess transferred
General Fund	Internal Service Fund	<u>2,144</u>	To cover expenditures
Total		<u>\$ 219,186</u>	

Interfund transfers at August 31, 2017 consisted of the following individual fund balances

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Reason</u>
General	Non-major funds	\$ <u>76,000</u>	Cover expenditures
		<u>\$ 76,000</u>	

C. Capital Assets

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

	Balance 09/01/16	Additions	Deletions	Transfers	Balance 08/31/17
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 290,265	\$ -	\$ -	\$ -	\$ 290,265
Total capital assets, not being depreciated	<u>290,265</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>290,265</u>
Capital assets, being depreciated:					
Buildings and improvements	17,989,225	-	-	-	17,989,225
Furniture and equipment	1,141,346	107,135	(76,800)	-	1,171,681
Total capital assets, being depreciated	<u>19,130,571</u>	<u>107,135</u>	<u>(76,800)</u>	<u>-</u>	<u>19,160,906</u>
Less accumulated depreciation for:					
Buildings and improvements	(7,114,378)	(418,346)	-	-	(7,532,724)
Furniture and equipment	(873,442)	(83,349)	76,800	-	(879,991)
Total Accumulated Depreciation	<u>(7,987,820)</u>	<u>(501,695)</u>	<u>76,800</u>	<u>-</u>	<u>(8,412,715)</u>
Total capital assets, being depreciated, net	<u>11,142,751</u>	<u>(394,560)</u>	<u>-</u>	<u>-</u>	<u>10,748,191</u>
Governmental activities capital assets, net	<u>\$ 11,433,016</u>	<u>\$ (394,560)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,038,456</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 256,090
Instructional resources and media services	17,109
Curriculum and instructional staff development	5,337
Instructional leadership	3,924
School leadership	33,745
Guidance, counseling and evaluation services	12,086
Health services	5,337
Student (Pupil) Transportation	32,997
Food services	24,630
Cocurricular/Extracurricular activities	12,592
General administration	12,558
Plant maintenance and operations	76,207
Security and monitoring services	3,081
Data processing services	5,021
Facilities acquisition and construction	<u>981</u>
Total Depreciation Expense	<u>\$ 501,695</u>

D. Deferred Outflows and Inflows of Resources

At year-end the District reported deferred inflows for the following:

	General Fund	Debt Service Fund
Unavailable - property taxes	\$ <u>172,753</u>	\$ <u>34,332</u>
Totals	<u>\$ 172,753</u>	<u>\$ 34,332</u>

E. Bonds Payable

The District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities. General obligation bonds are direct obligations and pledge the full faith and credit of the government.

A summary of changes in general long-term debt for the year ended August 31, 2017, is as follows:

Description	Interest Rate Payable	Amounts Original Issue	Maturity Date	Interest Current Year	Balance Outstanding 09/01/16	Retired/ Refunded	Additions	Outstanding 08/31/17	Amounts Due in One Year
Unlimited Tax Building Bonds Series 1998	4.60-6.0%	\$ 1,500,000	8/15/2021	\$ 20,500	\$ 500,000	\$ 90,000	\$ -	\$ 410,000	\$ 95,000
Unlimited Tax Building Bonds Series 1999	4.50-6.00%	1,950,000	8/15/2022	35,775	825,000	100,000	-	725,000	110,000
Unlimited Tax Building Bonds Series 2010	2.00-4.125%	6,000,000	8/15/2040	234,606	5,835,000	55,000	-	5,780,000	50,000
Premium				-	101,054	4,211	-	96,843	-
Net pension liability				-	1,582,631	129,171	82,829	1,536,289	-
				<u>\$ 290,881</u>	<u>\$ 8,843,685</u>	<u>\$ 378,382</u>	<u>\$ 82,829</u>	<u>\$ 8,548,132</u>	<u>\$ 255,000</u>

Debt service requirements are as follows:

Year Ended August 31,	General Obligations		Total Requirements
	Principal	Interest	
2018	\$ 255,000	\$ 290,881	\$ 545,881
2019	265,000	279,241	544,241
2020	330,000	267,106	597,106
2021	295,000	251,716	546,716
2022	280,000	237,581	517,581
2023-2027	1,155,000	1,031,231	2,186,231
2028-2032	1,405,000	780,669	2,185,669
2033-2037	1,720,000	468,188	2,188,188
2037-Maturity	<u>1,210,000</u>	<u>101,269</u>	<u>1,311,269</u>
Total Minimum Rentals	<u>\$ 6,915,000</u>	<u>\$ 3,707,882</u>	<u>\$ 10,622,882</u>

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

F. Commitments Under Leases

The District did not have any commitments to capital lease agreements.

G. Defined Benefit Pension Plan

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

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

Pension Plan Fiduciary Net Position. Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at http://www.trs.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 in (A) 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	
	2016	2017
Member	7.2%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
2016 Employer Contributions		\$ 129,692
2016 Member Contributions		349,236
2015 NECE On-behalf Contributions		239,278

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

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

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

- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

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

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

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

Valuation Date	August 31, 2016
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Inflation	2.5%
Salary Increases including inflation	3.5% to 9.5%
Payroll Growth Rate	2.50%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

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

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

Teacher Retirement System of Texas
Asset Allocation and Long-Term Expected Real Rate of Return
As of August 31, 2017

	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio 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	-	1.8%	-
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	(0.2%)	-
Real Return			
Global Inflation Linked Bonds	3%	0.9%	-
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Commodities	-	1.2%	-
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Inflation Expectation	-		2.2%
Alpha	-		1%
Total	<u>100%</u>		<u>9%</u>

* *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 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:	\$ 2,377,658	\$ 1,536,289	\$ 822,638

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2017, the District's liability was \$1,536,289 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 1,536,289
State's proportionate share that is associated with the District	<u>2,840,188</u>
Total	<u>\$ 4,376,477</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 0.0040665% which was a decrease of -0.0004117% from its proportion measured as of August 31, 2015.

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

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

For the year ended August 31, 2017, the District recognized pension expense of \$294,744 and revenue of \$294,744 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 24,089	\$ 45,873
Changes in actuarial assumptions	46,823	42,584
Difference between projected and actual investment earnings	130,090	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	225,219	73,317
Contributions paid to TRS subsequent to the measurement date	<u>129,692</u>	<u>-</u>
Total	<u>\$ 555,913</u>	<u>\$ 161,774</u>

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

Year ended August 31,	Pension Expense Amount
2018	\$ 45,287
2019	45,287
2020	128,264
2021	38,913
2022	14,753
Thereafter	(8,057)

H. Health Care Coverage

During the period ended August 31, 2017, employees of the District were covered by a state-wide health care plan, TRS Active Care. The District's participation in this plan is renewable annually. The District paid into the Plan \$225 per month per employee. Employees, at their option, pay premiums for any coverage above these amounts as well as for dependent coverage.

The Teachers Retirement System (TRS) manages TRS Active Care. The medical plan is administered by Blue Cross and Blue Shield of Texas, FIRSTCARE, and Scott and White HMO. Medco Health administers the prescription drug plan. The latest financial information on the state-wide plan may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading.

I. Retiree Health Plan

Plan Description. The Itasca Independent School 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 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 Teacher Retirement System of Texas issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS Website under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8778, or by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701.

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

Contribution Rates						
Year	Active Member		State		School District	
	Rate	Amount	Rate	Amount	Rate	Amount
2017	0.65%	\$ 29,642	1.0%	\$ 45,602	0.55%	\$ 25,081
2016	0.65%	28,822	1.0%	43,302	0.55%	24,388
2015	0.65%	28,147	1.0%	42,314	0.55%	23,816

Medicare Part D – On-behalf Payments. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. These on-behalf payments of \$13,703 \$17,430 and \$17,875 were recognized for the years ended August 31, 2017, 2016 and 2015 respectively, as equal revenues and expenditures.

J. Commitments and Contingencies

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

K. Unearned Revenue

Unearned revenue at year-end consisted of the following:

	Non-major Governmental Funds
	<u> </u>
Grant revenue	\$ 1,693
Total unearned revenue	<u>\$ 1,693</u>

L. Disaggregation of Receivables and Payables

Receivables at August 31, 2017, were as follows:

Fund	Property Taxes	Other Governments	Due from Other Funds	Other Receivables	Total Receivables
General	\$ 159,792	\$ 363,350	\$ 219,186	\$ 49,973	\$ 792,301
ESEA Title I, Part A	-	164,216	-	-	164,216
Debt Service Fund	33,954	16,641	-	8,749	59,344
Non-Major Funds	<u>-</u>	<u>81,039</u>	<u>-</u>	<u>-</u>	<u>81,039</u>
Total Governmental Activities	<u>\$ 193,746</u>	<u>\$ 625,246</u>	<u>\$ 219,186</u>	<u>\$ 58,722</u>	<u>\$ 1,096,900</u>
Allowance for uncollectibles	<u>\$ (23,250)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (23,250)</u>

Payables at August 31, 2017, were as follows:

Fund	Accounts Payable	Salaries and Benefits	Due to Other Funds	Due to Student Groups	Total Payables
General	\$ 59,419	\$ 192,366	\$ -	\$ -	\$ 251,785
ESEA Title I, Part A	-	22,288	141,928	-	164,216
Internal Service Fund	-	51,970	2,144	-	54,114
Non-Major Funds	<u>9,912</u>	<u>9,321</u>	<u>75,114</u>	<u>15,951</u>	<u>110,298</u>
Totals	<u>\$ 69,331</u>	<u>\$ 275,945</u>	<u>\$ 219,186</u>	<u>\$ 15,951</u>	<u>\$ 580,413</u>

M. Due from Other Governments

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

<u>Fund</u>	<u>State Entitlement</u>	<u>Federal Grants</u>	<u>Total</u>
General	\$ 363,350	\$ -	\$ 363,350
ESEA Title I, Part A	-	164,216	164,216
Debt Service Fund	16,641	-	16,641
Non-Major Funds	-	81,039	81,039
Total Entitlements	<u>\$ 379,991</u>	<u>\$ 245,255</u>	<u>\$ 625,246</u>

N. Joint Venture-Shared Service Arrangements

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

O. Risk Management

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past four years.

P. Maintenance of Effort

The District spent \$211,650 for health insurance premiums in the fiscal year ended August 31, 2017.

Q. Federal Revenue Reconciliation

The following is the reconciliation of federal revenues and the expenditures of federal awards for the year ended August 31, 2017.

Federal revenues per the Statement of Revenues, Expenditures and Changes in Fund Balance - Government Funds (Exhibit C-3)	\$ 855,338
Less: SHARS	<u>181,853</u>
Federal expenditures	<u>\$ 673,485</u>

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REQUIRED SUPPLEMENTARY INFORMATION

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

Data Control Codes		Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
		Original	Final		
REVENUES					
5700	Local and intermediate sources	\$ 2,042,707	\$ 2,193,746	\$ 2,194,917	\$ 1,171
5800	State program revenues	4,469,379	4,648,519	4,726,245	77,726
5900	Federal program revenues	122,000	60,000	181,853	121,853
5020	Total revenues	<u>6,634,086</u>	<u>6,902,265</u>	<u>7,103,015</u>	<u>200,750</u>
EXPENDITURES					
Current:					
0011	Instruction	3,180,850	3,860,228	3,855,905	4,323
0012	Instructional resources and media services	212,934	232,560	213,908	18,652
0013	Curriculum and staff development	40,880	39,606	29,498	10,108
0021	Instructional leadership	80,598	105,576	99,621	5,955
0023	School leadership	351,475	409,353	382,759	26,594
0031	Guidance, counseling, and evaluation services	143,376	151,942	145,405	6,537
0033	Health services	54,861	58,855	57,422	1,433
0034	Student transportation	239,122	260,865	208,780	52,085
0036	Extracurricular activities	316,934	388,335	338,305	50,030
0041	General administration	399,050	388,800	388,467	333
0051	Facilities maintenance and operations	964,707	968,290	875,429	92,861
0052	Security and monitoring services	30,019	30,019	15,489	14,530
0053	Data processing services	93,744	100,626	97,099	3,527
0061	Community services	1,500	1,500	598	902
Capital outlay:					
0081	Capital outlay	-	8,000	7,300	700
Intergovernmental:					
0095	Payments to Juvenile Justice Alternative	14,220	18,080	18,080	-
0093	Payments related to shared services arrangements	196,698	205,996	205,996	-
0099	Other governmental charges	84,361	86,000	77,796	8,204
6030	Total expenditures	<u>6,405,329</u>	<u>7,314,631</u>	<u>7,017,857</u>	<u>296,774</u>
1100	EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>228,757</u>	<u>(412,366)</u>	<u>85,158</u>	<u>497,524</u>
OTHER FINANCING SOURCES (USES)					
8911	Transfers out	-	-	(76,000)	(76,000)
7080	Total other financing sources (uses)	-	-	(76,000)	(76,000)
1200	NET CHANGE IN FUND BALANCES	228,757	(412,366)	9,158	421,524
0100	FUND BALANCES, BEGINNING	<u>2,892,055</u>	<u>2,892,055</u>	<u>2,892,055</u>	<u>-</u>
3000	FUND BALANCES, ENDING	<u>\$ 3,120,812</u>	<u>\$ 2,479,689</u>	<u>\$ 2,901,213</u>	<u>\$ 421,524</u>

**ITASCA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM
FOR THE YEAR ENDED AUGUST 31, 2017**

	Measurement Year Ended August 31,		
	2016	2015	2014
District's Proportion of the Net Pension Liability (Asset)	0.0040655%	0.0044772%	0.0032896%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 1,536,289	\$ 1,582,631	\$ 878,698
States Proportionate Share of the Net Pension Liability (Asset) associated with the District	<u>2,840,188</u>	<u>2,677,048</u>	<u>2,314,059</u>
Total	<u>\$ 4,376,477</u>	<u>\$ 4,259,679</u>	<u>\$ 3,192,757</u>
District's Covered Employee Payroll	\$ 4,434,221	\$ 4,330,243	\$ 4,231,366
District's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Employee Payroll	34.65%	36.55%	20.77%
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	78.00%	78.43%	83.25%

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

**ITASCA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM
FOR THE YEAR ENDED AUGUST 31, 2017**

	Fiscal Year Ended August 31,		
	2017	2016	2015
Contractually Required Contribution	\$ 129,692	\$ 132,676	\$ 131,737
Contribution in Relation to the Contractually Required Contribution	(129,692)	(132,676)	(131,737)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered Employee Payroll	\$ 4,560,235	\$ 4,434,221	\$ 4,330,243
Contributions as a percentage of Covered Employee Payroll	2.84%	2.99%	3.04%

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

ITASCA INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

AUGUST 31, 2017

Budgetary Information

The Board of Trustees adopts an “appropriated budget” for the General Fund, Debt Service and the National School Breakfast and Lunch Program Fund, which is included in the Special Revenue Funds.

The District is required to present the adopted and final amended budgeted revenue and expenditures for each of these funds. The District compares the final amended budget to actual revenue and expenditures. The General Fund Budget is presented at Exhibit G-1 and the Debt Service and the National School Breakfast and Lunch Program Funds are presented at Exhibit J-4 and J-5.

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

1. Prior to August 20, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least 10 days’ public notice of the meeting must be given.
3. Prior to August 31, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. However, none of these were significant.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year-end.
5. Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year’s budget. The District had no outstanding end-of-year encumbrances.
6. The District’s expenditures did exceed appropriations in Function 11 - Instruction in the General Fund. Expenditures did not exceed appropriations in any function for the National Breakfast and Lunch Program or the Debt Service Fund. The excess expenditures in the General Fund were covered by savings from other functions.

COMBINING SCHEDULES

ITASCA INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AUGUST 31, 2017

Data Control Codes	240 National Breakfast and Lunch Program	255 ESEA II, A Training and Recruiting	265 Title IV, B Community Learning	270 ESEA VI, B Rural and Low- Income Program
ASSETS				
1110	Cash and cash equivalents	\$ 14,726	\$ -	\$ -
1240	Due from other governments	<u>4,930</u>	<u>702</u>	<u>-</u>
1000	Total assets	<u>19,656</u>	<u>702</u>	<u>-</u>
LIABILITIES				
Liabilities:				
2110	Accounts payable	9,912	-	-
2160	Accrued wages payable	8,444	638	-
2170	Due to other funds	-	24,487	-
2190	Due to Student Groups	-	-	-
2200	Accrued Expenditures	175	64	-
2300	Unearned revenue	<u>-</u>	<u>-</u>	<u>-</u>
	Total liabilities	<u>18,531</u>	<u>702</u>	<u>-</u>
FUND BALANCES				
Restricted:				
3450	Federal or state grants	1,125	-	-
3490	Other	-	-	-
Committed:				
3545	Other	<u>-</u>	<u>-</u>	<u>-</u>
3000	Total fund balances	<u>1,125</u>	<u>-</u>	<u>-</u>
4000	Total liabilities, deferred inflows of resources and fund balances	<u>\$ 19,656</u>	<u>\$ 702</u>	<u>\$ -</u>

410 State Instructional Materials	429 Other State Special Revenue Funds	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds	699 Capital Projects	Total Nonmajor Governmental
\$ -	\$ 1,400	\$ 51,898	\$ 68,024	\$ 8,855	\$ 76,879
<u>50,920</u>	<u>-</u>	<u>-</u>	<u>81,039</u>	<u>-</u>	<u>81,039</u>
<u>50,920</u>	<u>1,400</u>	<u>51,898</u>	<u>149,063</u>	<u>8,855</u>	<u>157,918</u>
-	-	-	9,912	-	9,912
-	-	-	9,082	-	9,082
50,627	-	-	75,114	-	75,114
-	-	15,951	15,951	-	15,951
-	-	-	239	-	239
<u>293</u>	<u>1,400</u>	<u>-</u>	<u>1,693</u>	<u>-</u>	<u>1,693</u>
<u>50,920</u>	<u>1,400</u>	<u>15,951</u>	<u>111,991</u>	<u>-</u>	<u>111,991</u>
-	-	-	1,125	-	1,125
-	-	-	-	8,855	8,855
-	-	35,947	35,947	-	35,947
-	-	35,947	37,072	8,855	45,927
<u>\$ 50,920</u>	<u>\$ 1,400</u>	<u>\$ 51,898</u>	<u>\$ 149,063</u>	<u>\$ 8,855</u>	<u>\$ 157,918</u>

ITASCA INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes	240 National Breakfast and Lunch Program	255 ESEA II, A Training and Recruiting	265 Title IV, B Community Learning	270 ESEA VI, B Rural and Low- Income Program
REVENUES				
5700	Local and intermediate sources	\$ 69,445	\$ -	\$ -
5800	State program revenues	12,245	-	-
5900	Federal program revenues	<u>269,849</u>	<u>31,413</u>	<u>13,402</u>
5020	Total revenues	<u>351,539</u>	<u>31,413</u>	<u>13,402</u>
EXPENDITURES				
Current:				
0011	Instruction	-	17,600	66,530
0013	Curriculum and instructional staff development	-	12,427	-
0023	School leadership	-	233	-
0034	Student (pupil) transportation	-	-	23,200
0035	Food services	<u>426,735</u>	<u>-</u>	<u>-</u>
6030	Total expenditures	<u>426,735</u>	<u>31,413</u>	<u>13,402</u>
1100	EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(75,196)	-	-
OTHER FINANCING SOURCES (USES)				
7915	Transfers in	<u>76,000</u>	<u>-</u>	<u>-</u>
7080	Total other financing sources (uses)	<u>76,000</u>	<u>-</u>	<u>-</u>
1200	NET CHANGE IN FUND BALANCES	804	-	-
0100	FUND BALANCE, BEGINNING	<u>321</u>	<u>-</u>	<u>-</u>
3000	FUND BALANCE, ENDING	<u>\$ 1,125</u>	<u>\$ -</u>	<u>\$ -</u>

410 State Instructional Materials	429 Other State Special Revenue Funds	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds	699 Capital Projects	Total Nonmajor Governmental
\$ -	\$ -	\$ -	\$ 69,445	\$ -	\$ 69,445
69,037	4,200	-	85,482	-	85,482
-	-	-	404,394	-	404,394
<u>69,037</u>	<u>4,200</u>	<u>-</u>	<u>559,321</u>	<u>-</u>	<u>559,321</u>
69,037	1,750	-	168,319	-	168,319
-	2,450	-	14,877	-	14,877
-	-	-	233	-	233
-	-	-	23,200	-	23,200
-	-	-	426,735	-	426,735
<u>69,037</u>	<u>4,200</u>	<u>-</u>	<u>634,517</u>	<u>-</u>	<u>634,517</u>
-	-	-	(75,196)	-	(75,196)
<u>-</u>	<u>-</u>	<u>-</u>	<u>76,000</u>	<u>-</u>	<u>76,000</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>76,000</u>	<u>-</u>	<u>76,000</u>
-	-	-	804	-	804
-	-	35,947	36,268	8,855	45,123
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,947</u>	<u>\$ 37,072</u>	<u>\$ 8,855</u>	<u>\$ 45,927</u>

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REQUIRED TEA SCHEDULES

**ITASCA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2017**

Last Ten Years Ended August 31,	1		2	3	10	20
	Tax Rates			Net Assessed/ Appraised Value for School Tax Purpose	Beginning Balance 09/01/16	Current Year's Total Levy
	Maintenance	Debt Service				
2008 and prior years	various	various		various	\$ 12,607	\$ -
2009	1.170000	0.101800		171,523,040	2,279	-
2010	1.170000	0.104100		207,362,856	4,012	-
2011	1.170000	0.265000		202,767,618	3,471	-
2012	1.170000	0.274300		190,447,741	6,506	-
2013	1.170000	0.280500		173,525,543	11,255	-
2014	1.170000	0.286300		163,459,452	19,092	-
2015	1.170000	0.256100		173,882,266	32,400	-
2016	1.170000	0.256100		177,088,129	101,906	-
2017	1.170000	0.290500		181,934,385	-	2,657,152
1000 Totals					\$ 193,528	\$ 2,657,152

EXHIBIT J-1

31	32	40	50
<u>Maintenance Total Collections</u>	<u>Debt Service Total Collections</u>	<u>Entire Year's Adjustments</u>	<u>Ending Balance 08/31/2017</u>
\$ -	\$ -	\$(3,510)	\$ 9,097
-	-	(286)	1,993
154	14	(493)	3,351
49	11	(556)	2,855
824	193	(367)	5,122
5,018	1,203	1,390	6,424
7,494	1,834	816	10,580
12,647	2,768	349	17,334
55,831	12,827	370	33,618
<u>2,035,553</u>	<u>505,581</u>	<u>(12,646)</u>	<u>103,372</u>
<u>\$ 2,117,570</u>	<u>\$ 524,431</u>	<u>\$(14,933)</u>	<u>\$ 193,746</u>

ITASCA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - NATIONAL BREAKFAST AND LUNCH PROGRAM
FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes	Budgeted Amounts		Actual Amounts GAAP Basis)	Variance with Final Budget Positive (Negative)	
	Original	Final			
REVENUES					
5700	Local and intermediate sources	\$ 90,000	\$ 80,000	\$ 69,445	\$(10,555)
5800	State program revenues	11,031	12,150	12,245	95
5900	Federal program revenues	239,000	268,000	269,849	1,849
5020	Total revenues	<u>340,031</u>	<u>360,150</u>	<u>351,539</u>	<u>(8,611)</u>
EXPENDITURES					
0035	Food Service	<u>412,307</u>	<u>436,150</u>	<u>426,735</u>	<u>9,415</u>
6030	Total expenditures	<u>412,307</u>	<u>436,150</u>	<u>426,735</u>	<u>9,415</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES					
		<u>(72,276)</u>	<u>(76,000)</u>	<u>(75,196)</u>	<u>804</u>
OTHER FINANCING SOURCES (USES)					
7915	Transfers in	<u>-</u>	<u>-</u>	<u>76,000</u>	<u>76,000</u>
	Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>76,000</u>	<u>76,000</u>
1200	NET CHANGE IN FUND BALANCE	<u>(72,276)</u>	<u>(76,000)</u>	<u>804</u>	<u>76,804</u>
0100	FUND BALANCE, BEGINNING	<u>321</u>	<u>321</u>	<u>321</u>	<u>-</u>
3000	FUND BALANCE, ENDING	<u>\$(71,955)</u>	<u>\$(75,679)</u>	<u>\$ 1,125</u>	<u>\$ 76,804</u>

ITASCA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes		Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
		Original	Final		
REVENUES					
5700	Local and intermediate sources	\$ 441,838	\$ 495,358	\$ 564,815	\$ 69,457
5800	State program revenues	105,443	103,722	109,971	6,249
5020	Total revenues	<u>547,281</u>	<u>599,080</u>	<u>674,786</u>	<u>75,706</u>
EXPENDITURES					
Current:					
0071	Principal on long-term debt	235,000	245,000	245,000	-
0072	Interest on long-term debt	312,281	301,932	301,931	1
0073	Bond issuance costs and fees	2,409	2,408	1,605	803
6030	Total expenditures	<u>549,690</u>	<u>549,340</u>	<u>548,536</u>	<u>804</u>
1200	NET CHANGE IN FUND BALANCES	(2,409)	49,740	126,250	76,510
0100	FUND BALANCES, BEGINNING	<u>291,124</u>	<u>291,124</u>	<u>291,124</u>	<u>-</u>
3000	FUND BALANCES, ENDING	<u>\$ 288,715</u>	<u>\$ 340,864</u>	<u>\$ 417,374</u>	<u>\$ 76,510</u>

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INTERNAL CONTROL REPORT

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PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

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

Board of Trustees
Itasca Independent School District
Itasca, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Itasca Independent School District as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise Itasca Independent School District's basic financial statements and have issued our report thereon dated January 16, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
January 16, 2018



George K. Baum & Company

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