OFFICIAL STATEMENT
Dated: February 22, 2018

Rating (PSF): S&P:.....“AAA”
Underlying Rating: S&P: ..... “A”
(See “OTHER INFORMATION – RATINGS” herein)

NEW ISSUE - Book-Entry Only

In the opinion of Orrick, Herrington & Sutcliffe LLP, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Orrick, Herrington & Sutcliffe LLP, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Orrick, Herrington & Sutcliffe LLP expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See “TAX MATTERS” herein.

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

$7,220,000
STRATFORD INDEPENDENT SCHOOL DISTRICT
(Sherman and Dallam Counties, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS
SERIES 2018

Interest to Accrue from Date of Delivery **Due: February 15, as shown on the inside cover page**

Stratford Independent School District (the “District”) is issuing its $7,220,000 Unlimited Tax School Building Bonds, Series 2018 (the “Bonds”). The Bonds are issued pursuant to the Constitution and general laws of the State, including particularly Chapter 45, Texas Education Code, as amended, and an election held in the District on November 7, 2017, and are direct obligations of the District. The Bonds are payable from an ad valorem tax levied, without legal limit as to rate or amount, on all taxable property located within the District, as provided in the order adopted on February 22, 2018 authorizing issuance of the Bonds (the “Order”) (see “THE BONDS – Authority for Issuance”). Additionally, the District has received conditional approval of the Bonds to be guaranteed by the Permanent School Fund of the State of Texas (see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).

Interest on the Bonds will accrue from the date of their delivery and will be payable on February 15 and August 15 of each year, commencing February 15, 2019, until maturity or prior redemption. The Bonds will be issued in principal denominations of $5,000 or any integral multiple thereof within a maturity. Interest accruing on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months (see “THE BONDS – Description of the Bonds”).

The District intends to use the Book-Entry Only System of The Depository Trust Company, New York, New York (“DTC”), but use of such system could be discontinued. The principal of the Bonds at maturity or on a prior redemption date and interest on the Bonds will be payable to Cede & Co., as nominee for DTC, by UMB Bank, N.A., Austin, Texas, as the initial paying agent/registrar (the “Paying Agent/Registrar”) for the Bonds. No physical delivery of the Bonds will be made to the beneficial owners thereof. Such Book-Entry Only System will affect the method and timing of payment and the method of transfer of the Bonds (see “BOOK-ENTRY ONLY SYSTEM”).

Proceeds from the sale of the Bonds will be used (i) to finance the construction, acquisition and equipment of school buildings in the District (including the rehabilitation, renovation, expansion and improvement thereof), and (ii) to pay the costs incurred in the issuance of the Bonds. (See “THE BONDS – Purpose” and “THE BONDS – Sources and Uses of Funds”).

The Bonds maturing on and after February 15, 2024, are subject to redemption at the option of the District prior to maturity, in whole or in part, in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2023 or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption (see “THE BONDS – Optional Redemption”).

See Principal Amounts, Maturities, Interest Rates, and Prices on the Inside Cover Page

The Bonds are offered for delivery when, as, and if issued and received by the underwriters listed below (the “Underwriters”) and subject to the approving opinions of the Attorney General of Texas and the opinion of Orrick, Herrington & Sutcliffe LLP, Houston, Texas, Bond Counsel (see “APPENDIX C – Form of Bond Counsel Opinion”). Certain legal matters will be passed upon for the Underwriters by Andrews Kurth Kenyon LLP, Houston, Texas, as Counsel to the Underwriters.

It is expected that the Bonds will be available for delivery through DTC on or about March 15, 2018.

FTN FINANCIAL CAPITAL MARKETS **RAYMOND JAMES**

PRINCIPAL AMOUNTS, MATURITIES, INTEREST RATES AND PRICES

$7,220,000 Unlimited Tax School Building Bonds, Series 2018

Maturity (2/15)[a]	Principal Amount	Interest Rate	Initial Reoffering Yield[b]	CUSIP No. [c] (863030)
2019	$265,000	2.000%	1.450%	AX0
2020	385,000	3.000	1.650	AY8
2021	400,000	3.000	1.800	AZ5
2022	415,000	4.000	1.950	BA9
2023	425,000	3.000	2.150	BB7
2024	440,000	4.000	2.250	BC5
2025	460,000	4.000	2.350	BD3
2026	480,000	4.000	2.400	BE1
2027	500,000	4.000	2.450	BF8
2028	520,000	4.000	2.500	BG6
2029	540,000	4.000	2.550	BH4
2030	560,000	4.000	2.600	BJ0
2031	585,000	4.000	2.630	BK7
2032	610,000	4.000	2.670	BL5
2033	635,000	4.000	2.720	BM3

(Interest accrues from date of delivery)

(a) The Bonds maturing on and after February 15, 2024, are subject to optional redemption, in whole or in part, on February 15, 2023, or any date thereafter, at a price equal to the par value thereof, plus accrued interest from the most recent interest payment date to the date of redemption. (See "THE BONDS – Optional Redemption").

(b) The initial yields and prices are established by, and are the sole responsibility of the Underwriters and may subsequently be changed.

(c) CUSIP numbers have been assigned to this issue by the CUSIP Global Services managed by S&P Global Market Intelligence on behalf of the American Bankers Association and are included solely for the convenience of the purchasers of the Bonds. Neither the District, the Financial Advisor, nor the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

USE OF INFORMATION IN THIS OFFICIAL STATEMENT

This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the District's undertaking to provide certain information on a continuing basis.

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

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

Neither the District, the Financial Advisor nor the Underwriters makes any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company or its Book-Entry Only System or the affairs of the Texas Education Agency described under "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM".

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

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information set forth 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 Underwriters do not guarantee the accuracy or completeness of such information.

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

TABLE OF CONTENTS

INTRODUCTION 1
Description of the District 1
THE BONDS 1
Description of the Bonds 1
Optional Redemption 2
Notice of Redemption 2
Authority For Issuance 2
Purpose 2
Sources and Uses of Funds 3
Security and Source of Payment 3
Permanent School Fund Guarantee 3
Legality 3
Amendments to the Order 3
Defeasance 3
Book-Entry Only System 4
Paying Agent/Registrar 5
Transfer, Exchange, and Registration 6
Record Date for Interest Payment 6
Owners' Remedies 6
THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM 7
History and Purpose 7
The Total Return Constitutional Amendment 8
Management and Administration of the Fund 10
Capacity Limits for the Guarantee Program 11
The School District Bond Guarantee Program 12
The Charter District Bond Guarantee Program 13
2017 Legislative Changes to the Charter District Bond Guarantee Program 14
Charter District Risk Factors 15
Potential Impact of Hurricane Harvey on the PSF 16
Ratings of Bonds Guaranteed Under the Guarantee Program 17
Valuation of the PSF and Guaranteed Bonds 17
Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2017 18
2011 Constitutional Amendment 19
Other Events and Disclosures 20
PSF Continuing Disclosure Undertaking 21
Annual Reports 21
Material Event Notices 21
Availability of Information 22
Limitations and Amendments 22
Compliance with Prior Undertakings 22
SEC Exemptive Relief 22
STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS 23
Litigation Relating to the Texas Public School Finance System 23
Possible Effects of Changes in Law on District Bonds 23
CURRENT PUBLIC SCHOOL FINANCE SYSTEM 23
Overview 23
Local Funding for School Districts 24
State Funding for School Districts 24
2006 Legislation 25
2017 Legislation 26
Wealth Transfer Provisions 26
Possible Effects of Wealth Transfer Provisions on the District's Financial Condition 27
AD VALOREM TAX PROCEDURES 27
Property Tax Code and County-Wide Appraisal District 27
Property Subject to Taxation by the District 27
Valuation of Property for Taxation 29
Residential Homestead Exemption 29
District and Taxpayer Remedies 30
Public Hearing and Rollback Tax Rate 30
Levy and Collection of Taxes 31
District's Rights in the Event of Tax Delinquencies 31
Collection of Taxes - Penalty and Interest Charges 31
EMPLOYEES' BENEFIT PLANS 32
TAX RATE LIMITATIONS 32
INVESTMENTS 33
Legal Investments 33
Investment Policies 34
Additional Provisions 34
TAX MATTERS 35
Tax Exemption 35
QUALIFIED TAX-EXEMPT OBLIGATIONS 36
CONTINUING DISCLOSURE OF INFORMATION 36
Annual Reports 36
Material Event Notices 36
Limitations and Amendments 37
Compliance with Prior Undertakings 37
OTHER INFORMATION 37
Ratings 37
No Litigation Certificate 38
Legal Investments and Eligibility to Secure Public Funds in Texas 38
Registration and Qualification of Bonds for Sale 38
Legal Matters 38
Financial Advisor 39
Forward Looking Statements 39
Use of Audited Financial Statements 39
Underwriting 39
Miscellaneous 39
Concluding Statement 40

APPENDIX A -FINANCIAL INFORMATION REGARDING THE DISTRICT
APPENDIX B -ANNUAL FINANCIAL REPORT
APPENDIX C - FORM OF BOND COUNSEL OPINION

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

OFFICIAL STATEMENT SUMMARY

This summary 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 summary from this Official Statement or to otherwise use it without the entire Official Statement.

The District	The Stratford Independent School District (the "District") is a political subdivision located in Sherman and Dallam Counties, 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. Consultants and advisors supply support services. See "INTRODUCTION – Description of the District."
Authority For Issuance	The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Chapter 45, Texas Education Code, as amended, an election held in the District on November 7, 2017, and the order authorizing the issuance of the Bonds adopted by the Board of Trustees of the District on February 22, 2018 (the "Order") (see "THE BONDS – Authority for Issuance").
The Bonds	The District's Unlimited Tax School Building Bonds, Series 2018 (the "Bonds") shall mature on the dates and in the amounts set forth on the inside cover page of this Official Statement (see "THE BONDS – Description of the Bonds").
Payment of Interest	Interest on the Bonds will accrue from the date of their delivery and will be payable semiannually on February 15 and August 15 of each year, commencing February 15, 2019, until maturity or prior redemption (see "THE BONDS – Description of the Bonds").
Paying Agent/Registrar	The initial Paying Agent/Registrar is UMB Bank, N.A., Austin, Texas (see "THE BONDS – Paying Agent/Registrar"). Initially, the District intends to use the Book-Entry Only System of The Depository Trust Company, New York, New York ("DTC")(see "THE BONDS – Book-Entry Only System").
Security For The Bonds	The Bonds are direct obligations of the District, payable from an ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District. (See "THE BONDS – Security and Source of Payment"). In addition, the District has received conditional approval for payment of the Bonds to be guaranteed by the Permanent School Fund of the State of Texas (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").
Optional Redemption	The Bonds maturing on and after February 15, 2024, are subject to redemption at the option of the District prior to maturity, in whole or in part, in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2023 or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption (see "THE BONDS – Optional Redemption").
Tax Matters	In the opinion of Orrick, Herrington & Sutcliffe LLP, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Orrick, Herrington & Sutcliffe LLP, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Orrick, Herrington & Sutcliffe LLP expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein. The District has designated the Bonds as "Qualified Tax-exempt Obligations" for financial institutions.

Use of Proceeds	Proceeds from the sale of the Bonds will be used (i) to finance the construction, acquisition and equipment of school buildings in the District (including the rehabilitation, renovation, expansion and improvement thereof) and (ii) to pay the costs incurred in the issuance of the Bonds. (See "THE BONDS – Purpose" and "THE BONDS – Sources and Uses of Funds.").
Book-Entry Only System	The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry Only System described herein. The Bonds will be issued in principal denominations of $5,000 or any integral multiple thereof within a maturity. No physical delivery of the Bonds will be made to the beneficial owners thereof. The principal of the Bonds at maturity or on a prior redemption date and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. (See "THE BONDS – Book-Entry Only System").
Ratings	S&P Global Ratings ("S&P") has assigned its municipal bond rating of "AAA" to the Bonds by virtue of the guarantee of the Permanent School Fund of the State of Texas of the Bonds. In addition, S&P has assigned its underlying unenhanced rating of "A" to the Bonds. An explanation of the significance of such ratings may be obtained from S&P (See "OTHER INFORMATION – Ratings").
Payment Record	The District has never defaulted on the payment of its bonded indebtedness.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 8/31	Estimated Population[1]	Taxable Assessed Valuation[2]	Taxable Assessed Valuation Per Capita	Tax Supported Debt Outstanding	Ratio of Tax Supported Debt to Assessed Valuation	Tax Supported Debt Per Capita
2014	2,491	$457,297,472	$183,580	$ 220,000	0.05%	$ 88
2015	2,379	481,479,471	202,387	0	0.00%	0
2016	2,387	471,734,232	197,626	0	0.00%	0
2017	2,345	418,498,203	178,464	0	0.00%	0
2018	2,355	413,372,686	175,530	7,220,000[3]	1.75%	3,066

(1) Source: Municipal Advisory Council of Texas
(2) As reported by Sherman County Appraisal District and Dallam County Appraisal District on the District's annual State Property Tax Reports and such values are subject to change during ensuing year.
(3) Includes the Bonds.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

For Fiscal Year Ended August 31,

	2016	2015	2014	2013	2012
Beginning Balance	$ 3,425,037	$ 3,454,730	$ 3,617,891	$ 3,604,440	$ 3,282,160
Total Revenue	7,715,589	6,419,131	6,268,169	6,416,305	6,221,768
Total Expenditures	8,585,101	6,448,824	6,460,534	6,402,854	5,934,352
Excess/(Deficiency) of Revenues	(869,512)	-	(192,365)	-	287,416
Net Transfers/Adjustments	988,853	(29,693)	29,204	13,451	34,864
Ending Balance	$ 3,544,378	$ 3,425,037	$ 3,454,730	$ 3,617,891	$ 3,604,440

Source: The District's audited financial statements.

For additional information regarding the District, please contact:

Mike Dominguez, Superintendent
Stratford Independent School District
503 N. 8th
Stratford, Texas 79084
(806) 366-3303
Mike.dominguez@Stratfordisd.net

John Blackburn
Government Capital Securities Corporation
559 Silicon Drive, Suite 102
Southlake, Texas 76092
(817) 229-5086
jblackburn@govcapsecurities.com

DISTRICT OFFICIALS, STAFF, AND CONSULTANTS

Elected Officials

Board of Trustees	Length of Service	Term Expires	Occupation
Brad McBryde, President	5 Years	Nov., 2018	Farmer
Tim Hudson, Vice President	3 Years	Nov., 2020	Farmer
Jo Hinds, Secretary	3 Years	Nov., 2019	Bank Officer
Walt Berry, Trustee	3 Years	Nov., 2020	Insurance Salesman
Tres Hess, Trustee	2 Years	Nov., 2018	Feed Lot Manager
Dan Law, Trustee	2 Years	Nov., 2018	Farmer
Bryan Clift, Trustee	3 Years	Nov., 2019	Real Estate Broker

Selected Administrative Staff

Name	Position	Length of Service Within District	Total Industry Experience
Mike Dominguez	Superintendent	< 1 Year	31 Years
Lynette Kautz	Business Manager	23 Years	23 Years
Clint Seward	Junior High Principal	12 Years	25 Years
Jennifer DeAnda	Elementary Principal	20 Years	20 Years

Consultants and Advisors

Auditors ..... Coy Barton, CPA
Dumas, Texas

Bond Counsel ..... Orrick, Herrington & Sutcliffe LLP, Houston, Texas

Financial Advisor ..... Government Capital Securities Corporation
Southlake, Texas

OFFICIAL STATEMENT

RELATING TO
STRATFORD INDEPENDENT SCHOOL DISTRICT

$7,220,000 UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018

INTRODUCTION

This Official Statement, which includes APPENDICES A and B hereto, provides certain information regarding the issuance of the $7,220,000 Stratford Independent School District Unlimited Tax School Building Bonds, Series 2018 (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the order (the "Order") adopted by the Board of Trustees (the "Board") of the Stratford Independent School District (the "District") on February 22, 2018, which authorizes the issuance of the Bonds, except as otherwise indicated herein.

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 (see "OTHER INFORMATION – Forward Looking Statements").

Included in this Official Statement are descriptions of the Bonds, the Order, and certain other information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained by writing the Stratford Independent School District, 503 N. 8th, Stratford, Texas 79084, and, during the offering period, from the District's Financial Advisor, Government Capital Securities Corporation, 559 Silicon Drive, Suite 102, Southlake, Texas 76092, upon payment of reasonable copying, mailing, and handling charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. Copies of the Official Statement will be deposited with the Municipal Securities Rulemaking Board, 1900 Duke Street, Suite 600, Alexandria, Virginia 22314 and will be available through its Electronic Municipal Market Access System ("EMMA"). See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the District's undertaking to provide certain information on a continuing basis.

Description of the District

The District is a political subdivision of the State of Texas located in Sherman and Dallam Counties, Texas. The District is governed by the Board who serve staggered three-year terms with elections being held in November of each year. Policymaking 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

Description of the Bonds

The Bonds shall be dated March 1, 2018. Interest will accrue on the Bonds from the date of delivery thereof and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds will be issued in principal denominations of $5,000 or any integral multiple thereof within a maturity. The paying agent/registrar (the "Paying Agent/Registrar") for the Bonds is initially UMB Bank, N.A., Austin, Texas.

Initially, the Bonds will be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book-Entry Only System described below. No physical delivery of the Bonds will be made to the beneficial owners. The principal of the Bonds at maturity or on a prior redemption date and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will distribute the amounts paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry Only System" for a more complete description of such system.

Optional Redemption

The Bonds maturing on and after February 15, 2024 are subject to redemption prior to maturity, at the option of the District, in whole or in part, in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2023 or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. If less than all of the Bonds are to be redeemed, the District shall determine the principal amount and maturities to be redeemed and shall direct the Paying Agent/Registrar to select by lot or other customary method that results in a random selection, the Bonds or portions thereof within a maturity, to be redeemed.

Notice of Redemption

At least 30 days prior to the date fixed for any such redemption, the District shall cause a written notice of such redemption to be deposited in the United States mail, postage prepaid, addressed to each registered owner at the address shown on the Registration Books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice.

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. UPON THE GIVING OF THE NOTICE OF REDEMPTION AND THE DEPOSIT OF THE FUNDS NECESSARY TO REDEEM SUCH BONDS, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND INTEREST ON SUCH BONDS OR PORTION THEREOF SHALL CEASE TO ACCRUE, IRRESPECTIVE OF WHETHER SUCH BONDS ARE SURRENDERED FOR PAYMENT.

The Paying Agent/Registrar and the District, so long as a Book-Entry Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the 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 "THE BONDS – Book-Entry Only System").

Authority For Issuance

The Bonds are being issued pursuant to authority conferred by the Constitution and general laws of the State of Texas, including particularly Chapter 45, Texas Education Code, as amended, an election held in the District on November 7, 2017, and the Order, adopted by the District on February 22, 2018.Capitalized terms used herein have the same meanings assigned to such terms in the Order, except as otherwise indicated.

Purpose

Proceeds from the sale of the Bonds will be used (i) to finance the construction, acquisition and equipment of school buildings in the District (including the rehabilitation, renovation, expansion and improvement thereof), and (ii) to provide funds to pay issuance costs associated with the Bonds.

Sources and Uses of Funds

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

Sources of Funds:	
Par Amount of the Bonds	$7,220,000.00
Plus/Minus: Net Premium/Discount	433,884.80
Total Sources of Funds	$7,653,884.80
Uses of Funds	
Deposit to Project Fund	$7,480,000.00
Underwriters' Discount and Issuance Costs[(a)]	169,650.81
Additional Proceeds	4,233.99
Total Uses of Funds	$7,653,884.80

(a) Includes Underwriters' discount and the fees of Bond Counsel, the Paying Agent/Registrar, the rating agency and other costs related to the issuance of the Bonds.

Security and Source of Payment

The Bonds are direct obligations of the District, payable from an ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District, as provided in the Order. In addition, the District has received approval, subject to certain conditions, for the Bonds to be guaranteed by the Permanent School Fund of The State of Texas. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM", "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM") herein.

Permanent School Fund Guarantee

In connection with the sale of the Bonds, the District has submitted an application to the Texas Education Agency for the payment of the Bonds to be guaranteed under the Guarantee Program for School District Bonds (Chapter 45, Subchapter C, of the Texas Education Code). Subject to meeting certain conditions discussed under the heading "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein, the payment of the Bonds will be guaranteed by the corpus of the Permanent School Fund of the State in accordance with the terms of the Guarantee Program for School District Bonds (the "Permanent School Fund Guarantee"). In the event of default, registered owners will receive all payments due from the corpus of the Permanent School Fund. In the event the District defeases any of the Bonds, the payment of such defeased Bonds will cease to be guaranteed by the Permanent School Fund Guarantee.

Legality

The Bonds are offered when, as, and if issued, and subject to the approval of legality by the Attorney General of the State of Texas and the opinion of the District's Bond Counsel, Orrick, Herrington & Sutcliffe LLP, Houston, Texas ("Bond Counsel") (see "OTHER INFORMATION – Legal Matters" and "APPENDIX C – FORM OF BOND COUNSEL'S OPINION").

Amendments to the Order

In the Order, the District has reserved the right to amend the Order without the consent of any holder in any manner not detrimental to the interests of the holders, including the curing of any ambiguity, inconsistency, or formal defect or omission herein. In addition, the District has reserved the right, with the consent of holders who own in the aggregate 51% of the principal amount of the Bonds then Outstanding, to amend, add to, or rescind any of the provisions of the Order; provided that, without the consent of all holders of Outstanding Bonds, no such amendment, addition, or rescission shall (i) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof or the rate of interest thereon, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (ii) give any preference to any Bond over any other Bond, or (iii) reduce the aggregate principal amount of Bonds required to be held by holders for consent to any such amendment, addition, or rescission.

Defeasance

The Order provides that the District may defease the Bonds and discharge its obligation to the holders of any or all of the Bonds to pay the principal of and interest thereon in any manner now or hereafter permitted by law, including by depositing with the

Registrar or with the Comptroller of the State of Texas either: (a) cash in an amount equal to the principal amount of and interest thereon to the date of maturity; or (b) pursuant to an escrow or trust agreement, cash and/or (i) direct noncallable obligations of United States of America, including obligations that are unconditionally guaranteed by the United States of America; or (ii) 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 Board approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; and the principal of and interest on which will, when due or redeemable at the option of the holder, without further investment or reinvestment of either the principal amount thereof or the interest earnings thereon, provide money in an amount which, together with other moneys, if any, held in such escrow at the same time and available for such purpose, shall be sufficient to provide for the timely payment of the principal of and interest thereon to the date of maturity or earlier redemption; provided, however, that if any of the Bonds are to be redeemed prior to their respective dates of maturity, provision shall be made for the giving of notice of redemption as provided in the Order. Any surplus amount not required to accomplish such defeasance shall be returned to the District.

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 the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorize.

The Permanent School Fund guarantee of the Bonds will be released upon the defeasance of the 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, New York, New York, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District, the Financial Advisor, and the Underwriters (hereinafter defined) believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

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

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

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

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

Principal, interest, and redemption payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, 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 principal, interest, and redemption 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, Bonds are required to be printed and delivered.

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

Use of Certain Terms in Other Sections of this Official Statement

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

The information in this section concerning DTC and DTC's book-entry-only system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

Paying Agent/Registrar

UMB Bank, N.A., Austin, Texas has been named to serve as initial Paying Agent/Registrar for the Bonds. In the Order, the District retains the right to replace 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 applicable law; or other entity duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

In the event the Book-Entry Only System should be discontinued, interest on the Bonds will be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest will be paid (i) by check sent United States mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal and redemption payments of the Bonds will be paid to the registered owner at the stated maturity or earlier redemption upon presentation to the designated payment/transfer office of the Paying Agent/Registrar. If the date for the payment of the principal or interest on the Bonds is a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment will be the next succeeding day which is not such a day, and payment on such date will have the same force and effect as if made on the date payment was due. So long as Cede & Co. is the registered owner of the Bonds, principal, interest, and redemption payments on the Bonds will be made as described in "Book-Entry Only System" above.

Transfer, Exchange, and Registration

In the event the Book-Entry Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar and such transfer or exchange 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, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the principal office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, 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 any integral multiple of $5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "THE BONDS - Book-Entry Only System" for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

Neither the District nor the Paying Agent/Registrar shall be required to transfer or exchange Bonds (i) during a period beginning at the close of business on any Record Date and ending with the next interest payment date or (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

Record Date for Interest Payment

The record date ("Record Date") for the interest payable on any interest payment date means the close of business on the last business day of the month next preceding such interest payment date.

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

Owners' Remedies

The Order does not provide for the appointment of a trustee to represent the interests of the Bondholders upon any failure of the District to perform in accordance with the terms of the Order or upon any other condition and, in the event of any such failure to perform, the registered owners would be responsible for the initiation and cost of any legal action to enforce performance of the Order. Furthermore, the Order does not establish specific events of default with respect to the Bonds and, under State law, there is no right to the acceleration of maturity of the Bonds upon the failure of the District to observe any covenant under the Order. A registered owner of Bonds could seek a judgment against the District if a default occurred in the payment of principal of or interest on any such Bonds; however, such judgment could not be satisfied by execution against any property of the District and a suit for monetary damages could be vulnerable to the defense of sovereign immunity. A registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the District to levy, assess, and collect an annual ad valorem tax sufficient to pay principal of and interest on the Bonds as it becomes due or perform other material terms and covenants contained in the Order. In general, Texas courts have held that a writ of mandamus may be issued to require a public official to perform legally imposed ministerial duties necessary for the performance of a valid contract, and Texas law provides that, following their approval by the Attorney General and issuance, the Bonds are valid and binding obligations for all purposes according to their terms. However, the enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. The District is also eligible to seek relief from its

creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of 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 Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, including rights afforded to creditors under the Bankruptcy Code.

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

The information below concerning the State Permanent School Fund and the Guarantee Program for School District Bonds has been provided by the Texas Education Agency and is not guaranteed as to accuracy or completeness by, and should not be construed as a representation by the District or the Underwriters.

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

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

History and Purpose

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

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

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

In 2011, legislation was enacted that established the Charter District Bond Guarantee Program as a new component of the Guarantee Program. That legislation authorized the use of the PSF to guarantee revenue bonds issued by or for the benefit of certain open-enrollment charter schools that are designated as "charter districts" by the Commissioner. On approval by the Commissioner, bonds properly issued by a charter district participating in the Program are fully guaranteed by the corpus of the PSF. As described below, the implementation of the Charter District Bond Guarantee Program was deferred pending receipt of

guidance from the Internal Revenue Service (the "IRS") which was received in September 2013, and the establishment of regulations to govern the program, which regulations became effective on March 3, 2014. See "The Charter District Bond Guarantee Program."

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

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

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

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

The Total Return Constitutional Amendment

The Total Return Constitutional Amendment approved a fundamental change in the way that distributions are made to the ASF from the PSF. The Total Return Constitutional Amendment requires that PSF distributions to the ASF be determined using a total-return-based formula instead of the current-income-based formula, which was used from 1964 to the end of the 2003 fiscal year. The Total Return Constitutional Amendment provides that the total amount distributed from the Fund to the ASF: (1) in each year of a State fiscal biennium must be an amount that is not more than 6% of the average of the market value of the Fund, excluding real property (the "Distribution Rate"), on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium (the "Distribution Measurement Period"), in accordance with the rate adopted by: (a) a vote of two-thirds of the total membership of the State Board of Education ("SBOE"), taken before the Regular Session of the Legislature convenes or (b) the Legislature by general law or appropriation, if the SBOE does not adopt a rate as provided by clause (a); and (2) over the ten-year period consisting of the current State fiscal year and the nine preceding state fiscal years may not exceed the total return on all investment assets of the Fund over the same ten-year period (the "Ten Year Total Return"). In April 2009, the Attorney General issued a legal opinion, Op. Tex. Att'y Gen. No. GA-0707 (2009) ("GA-0707"), at the request of the Chairman of the SBOE with regard to certain matters pertaining to the Distribution Rate and

the determination of the Ten Year Total Return. In GA-0707 the Attorney General opined, among other advice, that (i) the Ten Year Total Return should be calculated on an annual basis, (ii) a contingency plan adopted by the SBOE, to permit monthly transfers equal in aggregate to the annual Distribution Rate to be halted and subsequently made up if such transfers temporarily exceed the Ten Year Total Return, is not prohibited by State law, provided that such contingency plan applies only within a fiscal year time basis, not on a biennium basis, and (iii) that the amount distributed from the Fund in a fiscal year may not exceed 6% of the average of the market value of the Fund or the Ten Year Total Return. In accordance with GA-0707, in the event that the Ten Year Total Return is exceeded during a fiscal year, transfers to the ASF will be halted. However, if the Ten Year Total Return subsequently increases during that biennium, transfers may be resumed, if the SBOE has provided for that contingency, and made in full during the remaining period of the biennium, subject to the limit of 6% in any one fiscal year. Any shortfall in the transfer that results from such events from one biennium may not be paid over to the ASF in a subsequent biennium as the SBOE would make a separate payout determination for that subsequent biennium.

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

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

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

With respect to the management of the Fund's financial assets portfolio, the single most significant change made to date as a result of the Total Return Constitutional Amendment has been new asset allocation policies adopted from time to time by the SBOE. The SBOE generally reviews the asset allocations during its summer meeting in even numbered years. The first asset allocation policy adopted by the SBOE following the Total Return Constitutional Amendment was in February 2004, and the policy was reviewed and modified or reaffirmed in the summers of 2006, 2008, 2010, 2012, 2014 and 2016. 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, is as follows: (i) an equity allocation of 35% (consisting of U.S. large cap equities targeted at 13%, emerging and international equities at 17% 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; 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 has approved the first of

two required approvals of the rollback of a portion of the multiplier increase. 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 $111,568,711,072on 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 School District Bond Guarantee Program

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

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

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

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

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

The Charter District Bond Guarantee Program

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

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

As of February 27, 2017 (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 5.10%. As of December 14, 2017, there were 182 active open-enrollment charter schools in the State and there were 717 charter school campuses operating under such charters (though as of such date, seven of such campuses' operations 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 is on the agenda of the SBOE for its Winter 2018 meeting, which if approved will rollback that increase). 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 5.10% in March 2017, representing a growth of 45%. 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, the SBOE voted to authorize the full 20% increase in the amount of charter district bonds that may be guaranteed for fiscal year 2018, which increases the relative capacity of the Charter District Bond Guarantee Program to the School District Bond Guarantee Program for that fiscal year.

Taking into account the enactment of SB 1480 and the increase in the CDBGP Capacity effected thereby, at its November 2017 meeting the SBOE approved on the first of two required readings amendments to the SDBGP Rules to rollback the multiplier from 3.75 times market value to 3.50 times. The SBOE is expected to finally approve that reduction at its Winter 2018 meeting. Moreover, it should be noted that given the market value of the Fund at August 31, 2017, a 3.75 times multiplier would result in the State Capacity Limit exceeding the IRS Limit for the Guarantee Program.

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 in September 2017, the SBOE authorized the PSF staff to begin the process of transferring the management of the Reserve Fund to the PSF, where it is expected to 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 November 30, 2017, the Charter District Reserve Fund contained $4,441,512.

Potential Impact of Hurricane Harvey on the PSF

Hurricane Harvey struck coastal Texas on August 26, 2017, resulting in historic levels of rainfall. The 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 along the Texas Gulf Coast. 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.

As of mid-December, 2017, the TEA, members of the Legislature and the Governor, among others, were 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. In early October, the TEA had 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 the remainder of fiscal year 2018. In the past, storm damage in the affected areas caused multiple year impacts to affected schools with respect to both attendance figures and tax base (for school districts), and the damage caused by Harvey is expected to be well in excess of previous storm damage.

Most school district and charter district bonds that are guaranteed by the PSF are fixed rate bonds that pay principal on an annual basis and interest on a semiannual basis, in February and August of each year. The hurricane hit the Texas coast after the August 2017 payment dates, so the first payment cycle that could be affected by the storm will occur in February 2018. As of mid-December, 2017, the TEA was unaware of any issuer of guaranteed bonds that has indicated an inability to make their bond payments on a timely basis, although TEA is continuing to collect financial impact information from affected districts. In addition, the Act requires that an issuer of guaranteed bonds notify the PSF five days prior to a scheduled payment date if it will not be able to make timely payment on guaranteed bonds. As a consequence, as of mid-December 2017, the TEA cannot predict

whether there will need to be a draw on the Guarantee Program for payments on guaranteed bonds due in the fiscal year 2018 or thereafter. It should be noted that 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

Fiscal Year Ended 8/31	Book Value[(1)]	Market Value[(1)]
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 November 30, 2017, the PSF had a book value of $32,001,966,103 and a market value of $42,311,176,980. November 30, 2017 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds

At 8/31	Principal Amount[(1)]
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. 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)

	School District Bonds		Charter District Bonds		Totals	
Fiscal Year Ended 8/31	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 November 30, 2017 (based on unaudited data, which is subject to adjustment), there were $75,619,800,600 of bonds guaranteed under the Guarantee Program, representing 3,313 school district issues, aggregating $74,207,390,600 in principal amount and 43 charter district issues, aggregating $1,412,410,000 in principal amount. At November 30, 2017, the capacity allocation of the Charter District Bond Guarantee Program was $2,013,789,828 (based on unaudited data, which is subject to adjustment).

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

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

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

The market value of the Fund's assets is directly impacted by the performance of the various financial markets in which the assets are invested. The most important factors affecting investment performance are the asset allocation decisions made by the SBOE and SLB. The current SBOE long term asset allocation policy allows for diversification of the PSF(SBOE) portfolio into alternative asset classes whose returns are not as positively correlated as traditional asset classes. The implementation of the long term asset allocation will occur over several fiscal years and is expected to provide incremental total return at reduced risk. As of

August 31, 2017, the PSF(SBOE) portion of the Fund had diversified into emerging market and large cap international equities, absolute return funds, real estate, private equity, risk parity, real return Treasury Inflation-Protected Securities, real return commodities, and emerging market debt.

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

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

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

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

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

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

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

2011 Constitutional Amendment

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

The amendments approved at the referendum included an increase to the base used to calculate the Distribution Rate by adding to the calculation base certain discretionary real assets and cash in the Fund that is managed by entities other than the SBOE (at present, by the SLB). The value of those assets were already included in the value of the Fund for purposes of the Guarantee Program, but prior to the amendment had not been included in the calculation base for purposes of making transfers from the Fund to the ASF. While the amendment provided for an increase in the base for the calculation of approximately $2 billion, no

new resources were provided for deposit to the Fund. As described under "The Total Return Constitutional Amendment" the SBOE is prevented from approving a Distribution Rate or making a pay out from the Fund if the amount distributed would exceed 6% of the average of the market value of the Fund, excluding real property in the Fund, but including discretionary real asset investments on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium or if such pay out would exceed the Ten Year Total Return.

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

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

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

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

Other Events and Disclosures

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

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

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

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

PSF Continuing Disclosure Undertaking

The SBOE has adopted an investment policy rule (the "TEA Rule") pertaining to the PSF and the Guarantee Program. The TEA Rule is codified in Section I of the TEA Investment Procedure Manual, which relates to the Guarantee Program and is posted to the TEA web site at http://tea.texas.gov/Finance_and_Grants/Texas_Permanent_School_Fund/Texas_Permanent_School_Fund_Disclosure_Statement_-_Bond_Guarantee_Program/. The most recent amendment to the TEA Rule was adopted by the SBOE on November 19, 2010, and is summarized below. Through the adoption of the TEA Rule and its commitment to guarantee bonds, the SBOE has made the following agreement for the benefit of the issuers, holders and beneficial owners of guaranteed bonds. The TEA (or its successor with respect to the management of the Guarantee Program) is required to observe the agreement for so long as it remains an "obligated person," within the meaning of Rule 15c2-12, with respect to guaranteed bonds. Nothing in the TEA Rule obligates the TEA to make any filings or disclosures with respect to guaranteed bonds, as the obligations of the TEA under the TEA Rule pertain solely to the Guarantee Program. The issuer or an "obligated person" of the guaranteed bonds has assumed the applicable obligation under Rule 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 http://emma.msrb.org/IssueView/NonCUSIP9IssueDetails.aspx?id=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.

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

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

On May 13, 2016, the Court issued its opinion in the most recent school finance litigation, Morath, et.al v. The Texas Taxpayer and Student Fairness Coalition, et al., No. 14-0776 (Tex. May 13, 2016) ("Morath"). The plaintiffs and intervenors in the case had alleged that the Finance System, as modified by the Legislature in part in response to prior decisions of the Court, violated article VII, section 1 and article VIII, section 1-e of the Texas Constitution. In its opinion, the Court held that "[d]espite the imperfections of the current school funding regime, it meets minimum constitutional requirements." The Court also noted that:

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

Possible Effects of Changes in Law on District Bonds

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

Overview

The following description 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 Vernon's Texas Codes Annotated, Education Code, Chapters 41 through 46, as amended.

Funding for school districts in the State is provided primarily from State and local sources. State funding for all school districts is provided through a set of funding formulas comprising the "Foundation School Program," as well as two facilities funding programs. Generally, the Finance System is designed to promote wealth equalization among school districts by balancing State and local sources of funds available to school districts. In particular, because districts with relatively high levels of property wealth per student can raise more local funding, such districts receive less State aid, and in some cases, are required to disburse local funds to equalize their overall funding relative to other school districts. Conversely, because districts with relatively low levels of property wealth per student have limited access to local funding, the Finance System is designed to provide more State funding to such districts. Thus, as a school district's property wealth per student increases, State funding to the school district is reduced. As a school district's property wealth per student declines, the Finance System is designed to increase that district's State funding. The Finance System provides a similar equalization system for facilities funding wherein districts with the same

tax rate for debt service raise the same amount of combined State and local funding. Facilities funding for debt incurred in prior years is expected to continue in future years; however, State funding for new school facilities has not been consistently appropriated by the Texas Legislature, as further described below.

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

Local Funding for School Districts

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

State Funding for School Districts

State funding for school districts is provided through the Foundation School Program, which provides each school district with a minimum level of funding (a "Basic Allotment") for each student in average daily attendance ("ADA"). The Basic Allotment is calculated for each school district using various weights and adjustments based on the number of students in average daily attendance and also varies depending on each district's compressed tax rate. This Basic Allotment formula determines most of the allotments making up a district's basic level of funding is 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 and an Instructional Facilities Allotment ("IFA") to subsidize debt service on newly issued bonds. 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 servic on eligible bonds issued to construct, acquire and improve facilities. Tier One and Tier Two allotments and existing EDA and IFA allotments are generally required to be funded each year by the Texas Legislature. Since future-year IFA awards were not funded by the Texas Legislature for the 2018-19 State fiscal biennium and debt service assistance on school district bonds that are not yet eligible for EDA is not available, debt service on new bonds issued by districts to construct, acquire and improve facilities must be funded solely from local I&S taxes..

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

As described above, the cost of the basic program is based on an allotment per student known as the "Basic Allotment". For the 2018-19 State fiscal biennium, the Basic Allotment is $5,140 for each student in average daily attendance. The Basic Allotment is then adjusted for all districts by several different weights to account for inherent differences between school districts. These weights consist of (i) a cost adjustment factor intended to address varying economic conditions that affect teacher hiring known

as the "cost of education index", (ii) district-size adjustments for small and mid-size districts, and (iii) an adjustment for the sparsity of the district's student population. The cost of education index, district-size and population sparsity adjustments, as applied to the Basic Allotment, create what is referred to as the "Adjusted Allotment". The Adjusted Allotment is used to compute a "regular program allotment", as well as various other allotments associated with educating students with other specified educational needs.

Tier Two supplements the basic funding of Tier One and provides two levels of enrichment with different guaranteed yields (i.e., guaranteed levels of funding by the State) depending on the district's local tax effort. The first six cents of tax effort that exceeds the compressed tax rate (for most districts, M&O tax rates ranging from $1.00 to $1.06 per $100 of taxable value) will, for most districts, generate the a guaranteed yield of $99.41 and $106.28 per cent per weighted student in average daily attendance ("WADA") in the

2017-18 and 2018-19 State fiscal years, respectively. The second level of Tier Two is generated by tax effort that exceeds the district's compressed tax rate plus six cents (for most districts eligible for this level of funding, M&O tax rates ranging from $1.06 to $1.17 per $100 of taxable value) and has a guaranteed yield per cent per WADA of $31.95 for the 2018-19 State fiscal biennium. Property-wealthy school districts that have an M&O tax rate that exceeds the district's compressed tax rate plus six cents are subject to recapture above this tax rate level at the equivalent wealth per student of $319,500 (see "Wealth Transfer Provisions" below).

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

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

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

2006 Legislation

Since the enactment of the Reform Legislation in 2006, most school districts in the State have operated with a "target" funding level per student ("Target Revenue") that is based upon the "hold harmless" principles embodied in the Reform Legislation. This system of Target Revenue was superimposed on the Foundation School Program and made existing funding formulas

substantially less important for most school districts. The Reform Legislation was intended to lower M&O tax rates in order to give school districts "meaningful discretion" in setting their M&O tax rates, while holding school districts harmless by providing them with the same level of overall funding they received prior to the enactment of the Reform Legislation. Under the Target Revenue system, each school district is generally entitled to receive the same amount of revenue per student as it did in either the 2005–2006 or 2006–07 fiscal year (under existing laws prior to the enactment of the Reform Legislation), as long as the district adopted an M&O tax rate that was at least equal to its compressed rate. The reduction in local M&O taxes resulting from the mandatory compression of M&O tax rates under the Reform Legislation, by itself, would have significantly reduced the amount of local revenue available to fund the Finance System. 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. This phase-out of ASATR began with actions adopted by the 83rd Texas Legislature. Beginning with the 2017-18 school year, the statutes authorizing ASATR are repealed.

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, as well as receiving ASATR until their overall funding meets or exceeds their Target Revenue level of funding. 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.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; certain Chapter 41 districts may apply ASATR funds to offset recapture and to achieve the statutory wealth equalization requirements, as described above, without approval from voters.

A district may not adopt a tax rate until its effective wealth per student is at or below the equalized wealth level. If a district fails to exercise a permitted option, the Commissioner must reduce the district's property wealth per student to the equalized wealth level by

detaching certain types of property from the district and annexing the property to a property-poor district or, if necessary, consolidate the district with a property-poor district. Provisions governing detachment and annexation of taxable property by the Commissioner do not provide for assumption of any of the transferring district's existing debt. The Commissioner has not been required to detach property in the absence of a district failing to select another wealth-equalization option..

Possible Effects of Wealth Transfer Provisions on the District's Financial Condition

The District's wealth per student for the current school year is greater than the equalized wealth value. Accordingly, the District has been required to exercise one of the permitted wealth equalization options.(See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Wealth Transfer Provisions").

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.

AD VALOREM TAX PROCEDURES

Property Tax Code and County-Wide Appraisal District

Title I of 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 taxing units within the county. The Sherman and Dallam Counties Appraisal District (the "Appraisal District") is responsible for appraising property within the District, generally, as of January 1 of each year. The appraised values set by the Appraisal District are subject to review and change by an Appraisal Review Board of each Appraisal District (collectively, the "Appraisal Review Board"), whose members are appointed by the Board of Directors of each 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 State law, all real and certain tangible personal property with a tax situs in the District is subject to taxation by the District. Principal categories of exempt property (including certain exemptions which are subject to local option by the Board of Trustees of the District) include property owned by the State or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain improvements to real property and certain tangible personal property located in designated reinvestment zones on which the District has agreed to abate ad valorem taxes; certain household goods, family supplies and personal effects; farm products owned by the producers; certain real property and tangible personal property owned by a non-profit community business organization or a charitable organization; and designated historic sites. Other principal categories of exempt property include tangible personal property not held or used for production of income; solar and windpowered energy devices; most individually owned automobiles; $10,000 exemption to residential homesteads of disabled persons or persons ages 65 or over; an exemption from $5,000 to a maximum of $12,000 for real or personal property of disabled veterans or the surviving spouses (so long as the surviving spouse remains unmarried) or children (under 18 years of age) of a deceased veteran who died while on active duty in the armed forces, with veterans who are 100% disabled (being 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) are entitled to an exemption from taxation of the total appraised value of the veteran's residential homestead; further, 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; a partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability

rating if the residence homestead was donated by a charitable organization; effective as of January 1, 2018, this exemption will also apply to a residence homestead that was donated by a charitable organization at some costs to such veterans; the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse; $25,000 in market value for all residential homesteads; and certain classes of intangible property. In addition, except for increases attributable to certain improvements, the District is prohibited by State law from increasing the total ad valorem tax of the residence homestead of persons 65 years of age or older above the amount of tax imposed in the year such residence qualified for an exemption based on age of the owner. The freeze on ad valorem taxes on the homesteads of persons 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 (i) the taxpayer died in a year in which he qualified for the exemption, (ii) the surviving spouse was at least 55 years of age when the taxpayer died and (iii) the property was the residence homestead of the surviving spouse when the taxpayer died and the property remains the residence homestead of the surviving spouse. The freeze on taxes paid on residence homesteads of persons 65 years of age and older was extended to include the resident homesteads of "disabled" persons, including the right to transfer the freeze to a different residence homestead. A "disabled" person is one who is "under a disability for purposes of payment of disability insurance benefits under the Federal Old Age, Survivors and Disability Insurance." 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"). 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. Effective as of January 1, 2018, the surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to an exemption of the total appraised value of the surviving spouse's residence homestead if the surviving spouse has not remarried since the first responder's death, and said property was the first responder's residence homestead at the time of death. Such exemption would be transferred to a subsequent residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

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 Section 11.253 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. Section 11.253 of the Tax Code permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax "goods-in-transit" during the following tax year. A taxpayer may only receive either the freeport exemption or the "goods-in-transit" exemption for items of personal property. See "Appendix A – Financial Information Regarding the District" for a schedule of exemptions allowed by the District.

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

school district may only levy and collect ad valorem taxes for maintenance and operation purposes on the agreed-to limited appraised property value. The taxpayer is entitled to a tax credit from the school district for the amount of taxes imposed during the first two years of the tax limitation agreement on the appraised value of the property above the agreed-to limited value. Additional State funding is provided to a school district for each year of such tax limitation in the amount of the tax credit provided to the taxpayer. During the first two years of a tax limitation agreement, the school district may not adopt a tax rate that exceeds the district's rollback tax rate (see "AD VALOREM TAX PROCEDURES – Public Hearing and Rollback Tax Rate").

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 method of appraisal or the 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 not to 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 for the preceding tax year, (b) the appraised value of the property for the preceding tax year; and (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 choose to formally include such values on their appraisal roll.

Residential Homestead Exemption

Under Section 1-b, Article VIII of the Texas Constitution and State law, the governing body of a political subdivision, at its option, may grant an exemption of not less than $3,000 of market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision. Once authorized, such exemption may be repealed or decreased or increased in amount (i) by the governing body of the political subdivision or (ii) by a favorable vote of a majority of the qualified voters at an election called by the governing body of the political subdivision, which election must be called upon receipt of a petition signed by at least 20% of the number of qualified voters who voted in the preceding election of the political subdivision. In the case of a decrease, the amount of the exemption may not be reduced to less than $3,000 of the market value.

As earlier described, 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.

Also as described above, veterans who are 100% disabled (being 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) are entitled to an exemption from taxation of the total appraised value of the veteran's residential homestead, and 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, a partially disabled veteran or the surviving spouse of a partially disabled veteran is entitled to an exemption equal to the percentage of the veteran's disability, if the residence was donated at no cost to the veteran by a charitable organization, and effective January 1, 2018, this exemption will also apply to a residence homestead that was donated by a charitable organization at some costs to such veterans. Also, the surviving spouse of a member of the armed forces who is killed in action is entitled to a property tax exemption for all or part of the market value of such surviving spouse's

residences homestead, if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received. Effective January 1, 2018, the surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to an exemption of the total appraised value of the surviving spouse's residence homestead if the surviving spouse has not remarried since the first responder's death, and said property was the first responder's residence homestead at the time of death. Such exemption would be transferred to a subsequent residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

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

In the case of residence homestead exemptions granted under Section 1-b, Article VIII, ad valorem taxes may continue to be levied against the value of homesteads exempted where ad valorem taxes have previously been pledged for the payment of debt if cessation of the levy would impair the obligation of the contract by which the debt was created. Effective for tax years beginning January 1, 2015, political subdivisions may not reduce the amount of or repeal an optional homestead exemption granted for the 2014 tax year for a period running through December 31, 2019.

See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - 2015 Legislation" for a description of recent Texas Constitutional amendments affecting residential homestead exemptions.

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 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 collection of its taxes, unless it elects to transfer such functions to another governmental entity. Before the later of September 30 or the 60th day after the date that the certified appraisal role is received by 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 and the amount required to be raised for debt service and maintenance and operations purposes. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty from six percent (6%) to twelve percent (12%) of the amount of the tax, depending on the time of payment, and accrues interest at the rate of one percent (1%) per month. If the tax is not paid by the following July 1, an additional penalty of up to twenty percent (20%) may, under certain circumstances, be imposed by the District. The 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 on 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 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. The automatic stay in bankruptcy will prevent the automatic attachment of tax liens with respect to post-petition tax years unless relief is sought and granted by the bankruptcy judge. 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.

Collection of Taxes - Penalty and Interest Charges

The Board of Trustees has approved a resolution initiating an additional 20% penalty to defray attorney costs in the collection of delinquent taxes over and above the penalty automatically assessed under the Tax Code. Charges for penalties and interest on the unpaid balance of delinquent taxes are as follows:

Month	Cumulative Penalty	Cumulative Interest[(b)]	Total
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	32[(a)]	6	38

[(a)] Includes additional penalty of 20% assessed after July 1 in order to defray attorney collection expenses.
[(b)] Taxes delinquent after July 1 incur an additional interest penalty of 20% of the sum of the delinquent taxes plus the penalties and interest to defray attorney collection fees.

Property within the District is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of pricing information contained in the most recently published Early Release Overview of the Annual Energy Outlook published by the United States Energy Information Administration, as well as appraisal formulas developed by the State Comptroller of Public Accounts. Effective January 1, 2016, the valuation of assessment of oil and gas reserves will depend upon pricing information in either the standard

edition of the Annual Energy Outlook or, if the most recently published edition of the Annual Energy Outlook was published before December 1 of the preceding calendar year, the Short-Term Energy Outlook report published in January of the current calendar year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first installment due on February 1 of each year and the final installment due on August 1.

EMPLOYEES' BENEFIT PLANS

The District's employees participate in a retirement plan (the "Plan") with the State of Texas. The Plan is 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 the years ended August 31, 2017, 2016, and 2015 the State contributed $301,773, $281,405 and $269,702, respectively, respectively, to TRS on behalf of the District; the District paid additional state contributions for the years ended August 31, 2017, 2016 and 2015 in the amount of $110,621, $104,834 and $107,319, respectively. In addition to the TRS retirement plan, the District provides health care coverage for its employees. For a detailed description of the Plan, see Note P to the Annual Financial Report of the District attached hereto as Appendix B.

Formal collective bargaining agreements relating directly to wages and other conditions of employment are prohibited by Texas law, as are strikes by teachers. There are various local, state, and national organized employee groups who engage in efforts to better the 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.

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 in the District pursuant to Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended ("Article 2784e-1"). Article 2784e-1 limits the District's annual M&O tax rate based upon a comparison between the District's outstanding bonded indebtedness and the District's taxable assessed value per $100 of assessed valuation. Article 2784e-1 provides for a reduction of $0.10 for each one percent (1%) or major fraction thereof increase in bonded indebtedness beyond seven percent (7%) of assessed valuation of property in the District. This limitation is capped when the District's bonded indebtedness is ten percent (10%) (or greater) of the District's assessed valuation which would result in an annual M&O tax rate not to exceed $1.20. Lastly, the Texas Attorney General in reviewing the District's transcript of proceedings will allow the District to reduce the amount of its outstanding bonded indebtedness by the amount of funds (on a percentage basis) that the District receives in State assistance for the repayment of this bonded indebtedness (for example, if the District anticipates that it will pay 75% of its bonded indebtedness from State assistance, for the purposes of Article 2784e-1, the Texas Attorney General will assume that only 25% of the District's bonded indebtedness is outstanding and payable from local ad valorem taxes). The bonded indebtedness of the District after the issuance of the Bonds will be approximately 1.75% of the District's current taxable assessed valuation of property. See "Table 1 Valuation, Exemptions and Tax Supported Debt" in Appendix A hereto.

The maximum tax rate per $100 of assessed valuation that may be adopted by the District may not exceed the lesser of (A) $1.50, or such lower rate as described in the preceding paragraph, and (B) the sum of (1) the rate of $0.17, and (2) the product of the "State Compression Percentage" multiplied by $1.50. The State Compression Percentage has been set, and will remain, at 66.67% for fiscal year 2017–18. The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. For a more detailed description of the State Compression Percentage, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Local Funding for School Districts". Furthermore, a school district cannot annually increase its tax rate in excess of the district's "rollback tax rate" without submitting such tax rate to a referendum election and a majority of the voters voting at such election approving the adopted rate. See "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 of school district bonded indebtedness (see "THE BONDS - Security and Source of Payment").

Section 45.0031, Texas Education Code, as amended ("Section 45.0031"), requires a district to demonstrate to the Texas Attorney General that it has the prospective ability to pay its maximum annual debt service on a proposed issue of bonds and all previously issued bonds, other than bonds approved by district voters at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds, collectively, "exempt bonds"), from a tax levied at a rate of $0.50 per $100 of assessed valuation before bonds may be issued. In demonstrating the ability to pay debt service at a rate of $0.50, a

district may take into account EDA and IFA allotments to the district, which effectively reduces the district's local share of debt service, and may also take into account Tier One funds allotted to the district. The District is required to deposit any State allotments provided solely for payment of debt service into the District's interest and sinking fund upon receipt of such amounts. In addition, the District must, prior to levying an interest and sinking fund tax rate that exceeds $0.50 per $100 of assessed valuation, credit to the interest and sinking fund other State assistance, including Tier One funds that may be used for either operating purposes or for payment of debt service, in an amount equal to the amount needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Once the prospective ability to pay such tax has been shown and the bonds are issued, a district may levy an unlimited tax to pay debt service. Taxes levied to pay refunding bonds issued pursuant to Chapter 1207, Texas Government Code, are not subject to the $0.50 tax rate test; however, taxes levied to pay debt service on such bonds (other than bonds issued to refund exempt bonds) are included in maximum annual debt service for calculation of the $0.50 threshold tax rate test when applied to subsequent bond issues. The Bonds are being issued for school building purposes pursuant to Chapter 45, Texas Education Code as new debt, and are subject to the $0.50 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 Attorney General must find that the district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the $0.50 threshold tax rate test from a tax rate of $0.45 per $100 of valuation. The District has not used projected property values to satisfy this threshold test.

INVESTMENTS

The District invests its investable funds in investments authorized by Texas law in accordance with investment policies approved by the Board. Both state law and the District's investment policies are subject to change. See Table 12 in APPENDIX A for a description of the District's investments as of October 31, 2017.

Legal Investments

Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit (i) meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for District deposits or, (ii) where (a) the funds are invested by the District through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the District as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the District; (iii) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District; (iv) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (v) the District appoints the depository institution selected under (ii) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit issued for the account of the District; (8) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1) require the securities being purchased by the District or cash held by the District to be pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share; and (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the this

paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than “AAA” or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

A political subdivision such as the District may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than “A” or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (10) through (12) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

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

Investment Policies

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that 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 Texas Public Funds Investment Act. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

Additional Provisions

Under Texas law, the District is additionally required to: (1) annually review its adopted policies and strategies, (2) require any investment officers with personal business relationships or family relationships with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the District, (3) require the registered principal of firms seeking to sell securities to the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the District's investment policy, (5) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement, (6) restrict the investment in non-money market mutual funds in the

aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, (7) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements and (8) provide specific investment training for the Treasurer, the chief financial officer (if not the Treasurer) and the investment officer.

TAX MATTERS

Tax Exemption

In the opinion of Orrick, Herrington & Sutcliffe LLP, ("Orrick"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Orrick is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. A complete copy of the proposed form of opinion of Orrick is set forth in Appendix C hereto.

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

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

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

Although Orrick is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Orrick expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Orrick is expected to express no opinion.

The opinion of Orrick is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Orrick's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Orrick cannot give and has not given any opinion or assurance

about the future activities of the District or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

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

QUALIFIED TAX-EXEMPT OBLIGATIONS

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

CONTINUING DISCLOSURE OF INFORMATION

In the Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board ("MSRB"). This information will be available free of charge from the MSRB via Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" for a description of the continuing disclosure undertaking to provide certain updated financial information and operating data annually with respect to the Permanent School Fund and the State of Texas, as the case may be, and to provide timely notice of specified material events related to the guarantee to certain information vendors.

Annual Reports

The District will provide certain updated financial information and operating data to the MSRB annually in an electronic format as prescribed by the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in Appendix A to this Official Statement under Tables numbered 1 through 5 and 7 through 12, and in APPENDIX B. The District will update and provide this information within six months after the end of each fiscal year.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial statements by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

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

Material Event Notices

The District will also provide timely notices of certain events to the MSRB (not in excess of ten (10) days after the occurrence of the event). The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release,

substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. (Neither the Bonds nor the Order make any provision for debt service reserves, redemption provisions, liquidity enhancement, or credit enhancement, except for the Permanent School Fund Guarantee). 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".

All documents provided to the MSRB shall be accompanied by identifying information, as prescribed by the MSRB.

Limitations and Amendments

The District has agreed to update information and to provide notices of material 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 the 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 the Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

This continuing disclosure agreement may be amended by the District 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 of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the District (such as nationally recognized bond counsel) determines 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 this 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 its agreement, it must include with the next financial information and opening data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in type of information and data provided. The District may also amend or repeal the provisions of this 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.

Compliance with Prior Undertakings

During the last 5 years, the District has complied in all material respects with its previous continuing disclosure agreements entered into pursuant to the Rule.

OTHER INFORMATION

Ratings

The District has received conditional approval for payment of the Bonds to be guaranteed by the Permanent School Fund of the State of Texas and S&P Global Ratings ("S&P"), rates all bond issues (such as the Bonds) guaranteed by the Permanent School Fund of the State of Texas "AAA". See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein. In addition, S&P has assigned its underlying unenhanced rating of "A" to the Bonds. An explanation of the significance of such ratings may be obtained from S&P. The ratings reflect only the views of S&P, and the District makes no representation as to the appropriateness of such ratings.

The above ratings are not recommendations to buy, sell, or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of either or both ratings may have an adverse effect on the market price of the Bonds.

No Litigation Certificate

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

Legal Investments and Eligibility to Secure Public Funds in Texas

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201), the Bonds (1) are negotiable instruments, (2) are investment securities to which Chapter 8 of the Texas Uniform Commercial Code applies, and (3) are legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds may have to be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency before such Bonds are eligible investments for sinking funds and other public funds. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least $1 million of capital and savings and loan associations.

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

Registration and Qualification of Bonds for Sale

No registration statement relating to the Bonds has been filed with the United States Securities and Exchange Commission 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 registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities acts of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold, or otherwise transferred. This disclaimer of responsibility for registration and qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdictions.

Legal Matters

The District will furnish a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinions 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 legal opinion of Orrick, Herrington & Sutcliffe LLP, Houston, Bond Counsel, with respect to the Bonds being issued in compliance with the provisions of applicable law and the opinion of Orrick that the interest on the Bonds being excludable from gross income for purposes of federal income tax. The form of Bond Counsel opinions are attached hereto as APPENDIX C – Form of Bond Counsel Opinions.

Bond Counsel was engaged by, and only represents, the District. Except as noted below, Bond Counsel did not take part in the preparation of the Official Statement, and the firms have 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 "Sources and Uses of Funds", "Permanent School Fund Guarantee", "Book-Entry Only System" and "Owner's Remedies"), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" (except under the subcaption "Possible Effects of Wealth Transfer Provisions on the District's Financial Condition"), "TAX RATE LIMITATIONS," "TAX MATTERS", "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance With Prior Undertakings"), "OTHER INFORMATION – Legal Investments and Eligibility To Secure Public Funds in Texas", "OTHER INFORMATION – Registration and Qualification of Bonds For Sale", and "OTHER INFORMATION – Legal Matters" (except for the last two sentences of the second paragraph thereof), excluding any material that may be treated as included under such captions by cross-reference or reference to other documents or sources, 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 description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on

the definitive Bonds in the event of the discontinuance of the Book-Entry Only System. Certain legal matters will be passed upon for the Underwriters by their counsel, Andrews Kurth Kenyon LLP, Houston, Texas. The legal fee of such firm 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 opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Financial Advisor

In its role as Financial Advisor, Government Capital Securities Corporation has relied on the District for certain information concerning the District and the Bonds. The fee of the Financial Advisor for services with respect to the Bonds is contingent upon the issuance and sale of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement.

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

Forward Looking Statements

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

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

Use of Audited Financial Statements

Coy Barton, CPA, 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. Coy Barton, CPA also has not performed any procedures relating to this Official Statement.

Underwriting

FTN Financial Capital Markets and Raymond James (the "Underwriters") have agreed to purchase the Bonds from the District for $7,602,168.99 (being the principal amount of the Bonds, plus a net premium of $433,884.80, less an Underwriters' discount of $51,715.81).

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information set forth 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 Underwriters do not guarantee the accuracy or completeness of such information.

Miscellaneous

The financial data and other information contained herein have been obtained from the District's records, audited financial statements, and other sources that are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. 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.

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 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 authorizing the issuance of the Bonds also approve the form and content of this Official Statement and any addenda, supplement, or amendment thereto and authorize its further use in the re-offering of the Bonds by the Underwriters. This Official Statement has been approved by the Board of Trustees of the District for distribution in accordance with the provisions of the United States Securities and Exchange Commission's rule codified at 17 C.F.R. Section 240.15c2-12, as amended.

APPENDIX A

FINANCIAL INFORMATION REGARDING THE DISTRICT

The Tax Code as it Applies to the District

The District grants a state mandated homestead exemption of $15,000 to all qualified residents. If the property owner qualifies for an over 65 or disabled person's exemption, the school district grants a state mandated exemption of an additional $10,000. A person eligible for both the over 65 and disabled person's exemption may receive only one.

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

The District does not tax nonbusiness personal property and Sherman County Appraisal District collects taxes for the District. Discounts are allowed.

The District taxes Freeport property and Goods-in-Transit.

The District does not currently participate in any abatement agreements or in any tax increment reinvestment zones.

TABLE 1 - VALUATION, EXEMPTIONS, AND TAX SUPPORTED DEBT

District Direct Debt

2017 Certified Net Taxable Assessed Valuation[(1)] (100% of Estimated Market Value)	$413,372,686
Outstanding Debt	0
Plus: The Bonds	7,220,000
Total Direct Debt	$ 7,220,000
As a % of 2017 Certified Taxable Assessed Valuation	1.75%

[(1)] Provided by Sherman County Appraisal District and Dallam County Appraisal District.

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

	Tax Year 2017	Tax Year 2016	Tax Year 2015	Tax Year 2014	Tax Year 2013
Real Property	$647,781,973	$ 641,698,042	$ 531,939,294	$527,926,566	$426,680,766
Personal Property	45,318,700	44,089,040	42,032,700	32,844,800	31,860,130
	162,067,910	164,556,73	244,199,70	258,121,760	251,510,340
Mineral Property		0	0		
Gross Value	$855,168,583	$850,343,812	$818,171,694	$818,893,126	$710,051,236
	441,795,897	431,845,609	346,437,46	337,413,655	252,753,764
Less Exemptions			2		
Net Taxable Value	$413,372,686	$ 418,498,203	$ 471,734,232	$481,479,471	$457,297,472

[*Remainder of page intentionally left blank*]

TABLE 3 - VALUATION AND TAX SUPPORTED DEBT HISTORY

Fiscal Year Ended 8/31	Estimated Population[1]	Taxable Assessed Valuation[2]	Taxable Assessed Valuation Per Capita	Tax Supported Debt Outstanding	Ratio of Tax Supported Debt to Assessed Valuation	Tax Supported Debt Per Capita
2014	2,491	$457,297,472	$183,580	$ 220,000	0.05%	$ 88
2015	2,379	481,479,471	202,387	0	0.00%	0
2016	2,387	471,734,232	197,626	0	0.00%	0
2017	2,345	418,498,203	178,464	0	0.00%	0
2018	2,355	413,372,686	175,530	7,220,000[3]	1.75%	3,066

(1) Source: Municipal Advisory Council of Texas
(2) As reported by Sherman County Appraisal District and Dallam County Appraisal District on the District's annual State Property Tax Reports and such values are subject to change during ensuing year.
(3) Includes the Bonds.

TABLE 4 - TAX RATE, LEVY, AND COLLECTION HISTORY

Fiscal Year Ended 8/31	Tax Year	Taxable Assessed Valuation[1]	Tax Rate	Tax Levy[2]	Percent Collected	
					Current	Total
2014	2013	$457,297,472	$1.0879	$4,960,543	98.00%	98.00%
2015	2014	481,479,471	1.0867	5,215,910	97.00%	97.00%
2016	2015	471,734,232	1.0400	4,886,315	97.00%	97.00%
2017	2016	418,498,203	1.1700	4,857,134	98.00%	98.00%
2018	2017	413,372,686	1.1700	4,787,197	(In process of collection)	

(1) Net of exemptions. Assessed valuations do not include adjustments in supplemental rolls made after the end of each fiscal year.
(2) Excludes penalties and interest.

TABLE 5 - TEN LARGEST TAXPAYERS

Taxpayers	Type of Property	2017 Net Taxable Assessed Valuations	% of Total 2017 Assessed Valuation
1. Pantera Energy Co	Oil & Gas	$ 24,670,650	5.97%
2. BNSF Railway Company	Railroad	18,898,190	4.57%
3. Union Pacific Railroad Co	Railroad	12,569,380	3.04%
4. Aurora Organic Dairy	Dairy Farm	11,803,660	2.86%
5. Front Range Pipeline LLC	Pipeline	8,758,820	2.12%
6. Prestage Farms	Poultry Farm	8,686,810	2.10%
7. Skiles, Clifford A., Jr.	Residential	7,005,200	1.69%
8. Sparky Farms	Farm	6,792,020	1.64%
9. Conoco Phillips Company (Min)	Oil & Gas	6,310,070	1.53%
10. AG Producers Co-op	Grain Production	5,483,930	1.33%
Total		$110,978,730	26.85%

TABLE 6 - ESTIMATED OVERLAPPING DEBT

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

Taxing Jurisdiction	As Of	Total Debt[(a)]	Estimated % Overlapping	Overlapping Debt
Dallam County	10/31/17	-	12.18%	$ 0
Dallam-Hartley Counties	10/31/17	$3,478,000	6.95%	241,721
Sherman County	10/31/17	-	60.94%	0
Stratford, City of	10/31/17	$2,485,000	100.00%	2,485,000
Estimated (Net) Overlapping Debt				$ 2,726,721
Stratford ISD[(b)]		$7,220,000		7,220,000
Total Direct & Estimated Overlapping Debt[(b)]				$ 9,946,721
As a % of Certified 2017 Taxable Assessed Valuation[(b)]				2.41%

(a) Gross Debt
(b) Includes the Bonds.

[*Remainder of page intentionally left blank*]

DEBT INFORMATION

TABLE 7 - TAX SUPPORTED DEBT SERVICE REQUIREMENTS

FISCAL YEAR ENDED 8/31	THE BONDS PRINCIPAL	THE BONDS INTEREST	TOTAL DEBT SERVICE
2019	$265,000.00	$381,833.33	646,833.33
2020	385,000.00	260,325.00	645,325.00
2021	400,000.00	248,550.00	648,550.00
2022	415,000.00	234,250.00	649,250.00
2023	425,000.00	219,575.00	644,575.00
2024	440,000.00	204,400.00	644,400.00
2025	460,000.00	186,400.00	646,400.00
2026	480,000.00	167,600.00	647,600.00
2027	500,000.00	148,000.00	648,000.00
2028	520,000.00	127,600.00	647,600.00
2029	540,000.00	106,400.00	646,400.00
2030	560,000.00	84,400.00	644,400.00
2031	585,000.00	61,500.00	646,500.00
2032	610,000.00	37,600.00	647,600.00
2033	635,000.00	12,700.00	647,700.00
	$7,220,000.00	$2,481,133.33	$9,701,133.33

Average Annual Debt Service Requirements	$646,742.22
Maximum Annual Debt Service Requirement	$649,250.00

TABLE 8 – AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS

After the issuance of the Bonds, the District will have no authorized but unissued unlimited tax bonds. The District does not anticipate issuing additional debt this fiscal year.

[*Remainder of page intentionally left blank*]

TABLE 9 - OTHER OBLIGATIONS

The District entered into a Public Property Finance Act Contract (No. 7766) dated April 18, 2017, to finance the HVAC Energy Conservation Project. The District's Public Property Finance Act Contract (No. 7766) is not payable from the District's I&S taxes.

Fiscal Year Ended 8/31	Principal	Interest	Debt Service
2018	$ 50,833.31	$ 36,324.75	$ 87,158.06
2019	52,408.89	34,749.17	87,158.06
2020	54,348.02	32,810.04	87,158.06
2021	56,358.90	30,799.16	87,158.06
2022	58,444.18	28,713.88	87,158.06
2023	60,606.61	26,551.45	87,158.06
2024	62,849.06	24,309.00	87,158.06
2025	65,174.47	21,983.59	87,158.06
2026	67,585.93	19,572.13	87,158.06
2027	70,086.61	17,071.45	87,158.06
2028	72,679.81	14,478.25	87,158.06
2029	75,368.96	11,789.10	87,158.06
2030	78,157.62	9,000.44	87,158.06
2031	81,049.45	6,108.61	87,158.06
2032	84,048.18	3,109.88	87,158.06
	$990,000.00	$317,370.90	$1,307,370.90

[*Remainder of page intentionally left blank*]

TABLE 10 – SCHEDULE OF GENERAL FUND REVENUES AND EXPENDITURE HISTORY

For Fiscal Year Ended August 31st

	2017	2016	2015	2014	2013
REVENUES:					
Local and Intermediate Sources	$ 5,718,332	$ 4,920,386	$ 4,991,078	$ 4,796,943	$ 5,117,035
State Program Revenues	1,935,313	1,429,236	1,258,608	1,606,161	1,104,733
Federal Program Revenues	61,944	69,509	18,483	13,201	-
Total Revenues	$ 7,715,589	$ 6,419,131	$6,268,169	$ 6,416,305	$ 6,221,768
EXPENDITURES:					
Current:					
Instruction	$ 3,820,807	$ 3,796,718	$ 3,889,276	$ 3,845,351	$ 3,698,199
Instructional Resources and Media Services	80,314	36,838	32,685	29,057	24,698
Curriculum and Instructional Staff Development	24,264	20,531	20,201	23,216	17,069
Instructional Leadership	7,779	620	-	-	-
School Leadership	360,387	356,064	348,092	317,567	316,652
Guidance, Counseling & Evaluation Services	90,164	75,760	76,772	79,893	73,216
Health Services	51,170	52,618	46,175	42,821	42,429
Student (Pupil) Transportation	182,673	196,057	211,477	257,751	185,557
Food Services	-	-	-	-	-
Extracurricular Activities	342,583	365,387	323,273	339,227	314,894
General Administration	437,094	387,752	373,586	357,786	353,559
Facilities Maintenance and Operations	741,801	787,900	769,696	549,948	583,158
Security and Monitoring Services	21,919	23,703	1,350	20,884	1,350
Data Processing Services	108,755	106,986	105,887	90,280	88,593
Community Services	2,620	2,146	3,241	1,992	1,658
Capital Outlay:					
Facilities Acquisition and Construction	1,920,779	-	20,283	201,456	300
Intergovernmental:					
Contracted Instructional Services Between Schools	197,886	44,863	42,974	43,979	38,509
Payments to Fiscal Agent/Member Districts of SSA	35,442	39,122	41,262	40,394	42,218
Other Intergovernmental Charges	158,664	155,759	154,304	161,252	152,293
Total Expenditures	$ 8,585,101	$ 6,448,824	$ 6,460,534	$ 6,402,854	$ 5,934,352
Excess (Deficit) Revenue Over (Under) Expenditures	(869,512)	-	(192,365)	-	287,416
OTHER FINANCING SOURCES (USES):					
Non-Current Loans	990,000	-	-	-	-
Transfers In	-	-	29,204	-	-
Transfers Out (Use)	(1,147)	-	-	-	-
Sale of Real and Personal Property	-	-	-	-	34,864
Total Other Financing Sources (Uses)	988,853	-	29,204	-	34,864
Net Change in Fund Balances	119,341	(29,693)	(163,161)	13,451	322,280
Fund Balance – September 1 (Beginning)	3,425,037	3,454,730	3,617,891	3,604,440	3,282,160
Fund Balance – August 31 (Ending)	$ 3,544,378	$ 3,425,037	$ 3,454,730	$ 3,617,891	$ 3,604,440

Source: The District's audited financial statements.

TABLE 11 - GENERAL OPERATING FUND COMPARATIVE BALANCE SHEET[(A)]

For Fiscal Year Ended August 31st

	2017	2016	2015	2014	2013
ASSETS:					
Cash and Cash Equivalents	$ 2,725,077	$ 3,314,635	$ 3,128,337	$ 3,136,645	$ 3,680,419
Property Taxes - Delinquent	176,216	147,228	146,011	113,338	119,583
Allowance for Uncollectible Taxes (Credit)	(17,622)	(14,723)	(14,601)	(11,334)	(11,958)
Receivables from Other Governments	919,548	398,045	559,911	717,098	169,936
Due from Other Funds	334	16,527	2,811	2,536	-
Other Receivables	184,340	2,254	3,311	2,699	3,105
Total Assets	$ 3,987,893	$ 4,874,761	$ 3,825,780	$ 3,960,982	$ 3,961,085
LIABILITIES:					
Liabilities:					
Accounts Payable	$ 19,340	$ 49,844	$ 19,358	$ 29,453	$ 25,559
Accrued Wages Payable	265,581	256,580	219,530	210,930	221,679
Due to Other Funds	-	-	752	70	-
				4	
Due to Other Governments	-	-	-	-	1,782
Total Liabilities	$ 284,921	$ 306,424	$ 239,640	$ 241,087	$ 249,020
DEFERRED INFLOWS OF RESOURCES:					
Unavailable Revenue – Property Taxes	158,594	132,505	131,410	102,004	107,625
Total Deferred Inflows of Resources	158,594	132,505	131,410	102,044	107,625
FUND BALANCES:					
Nonspendable Fund Balance:					
Inventories	-	-	-	-	-
Restricted Fund Balance:					
Federal or State Funds Grant Restriction	-	-	-	-	-
Committed Fund Balance:					
Construction	2,750,000	2,750,000	2,750,000	2,750,000	2,750,000
Unassigned Fund Balance	794,378	675,037	704,730	867,891	854,440
Total Fund Balances	$ 3,544,378	$ 3,425,037	$ 3,454,730	$ 3,617,891	$ 3,604,440
Total Liabilities, Deferred Inflows & Fund Balances	$ 3,987,893	$ 3,863,966	$ 3,825,780	$ 3,960,982	$ 3,961,085

[(a)] Source: The District's audited financial reports.

TABLE 12 - CURRENT INVESTMENTS

As of October 31, 2017, the District's investable funds amounted to $5,245,003. The following summary itemizes the District's investment portfolio by type of security:

	Percent	Book Value	Market Value
Cash and Cash Equivalents	33.27%	$1,745,003	$1,745,003
Certificates of Deposit	66.73%	$3,500,000	$3,500,000
Total	100.00%	$5,245,003	$5,245,003

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

APPENDIX B

ANNUAL FINANCIAL REPORT

STRATFORD INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED

AUGUST 31, 2017

STRATFORD INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
For the Year Ended August 31, 2017

TABLE OF CONTENTS

Exhibit		Page
	Certificate of Board	1
	Independent Auditor's Report	2-4
	Management's Discussion and Analysis	5-12
	BASIC FINANCIAL STATEMENTS	
	Government Wide Statements:	
A-1	Statement of Net Position	13
B-1	Statement of Activities	14
	Governmental Fund Financial Statements:	
C-1	Balance Sheet	15
C-2	Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	16
C-3	Statement of Revenues, Expenditures, and Changes in Fund Balances	17
C-4	Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	18
	Fiduciary Fund Financial Statements:	
E-1	Statement of Net Position	19
E-2	Statement of Changes in Net Position	20
	Notes to the Financial Statements	21-53
	REQUIRED SUPPLEMENTARY INFORMATION	
G-1	Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	54
G-2	Schedule of the District's Proportionate Share of the Net Pension Liability	55
G-3	Schedule of District Contributions	56
	Notes to the Required Supplementary Information	57

STRATFORD INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
For the Year Ended August 31, 2017

TABLE OF CONTENTS

Exhibit		Page
	REQUIRED TEA SCHEDULES	
J-1	Schedule of Delinquent Taxes Receivable	58
J-2	Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Child Nutrition Program	59
	REPORTS ON INTERNAL CONTROL AND ON COMPLIANCE AND OTHER MATTERS	
	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*	60-61
	Schedule of Findings and Responses	62
	Schedule of Status of Prior Audit Findings	63
	Corrective Action Plan	64

CERTIFICATE OF BOARD

Stratford Independent School District	Sherman	211902
Name of School District	County	Co.-Dist. Number

We, the undersigned, certify that the attached Annual Financial Reports of the above-named school district were reviewed and (check one) ____**X**____ approved _____ disapproved for the year ended August 31, 2017, at a meeting of the Board of Trustees of such school district on the 16th day of November 2017.

Jo Hinds	*Brad McBryde*
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)

COY BARTON, C.P.A.

CERTIFIED PUBLIC ACCOUNTANT

116 EAST SEVENTH
P.O. BOX 800 – TELEPHONE 806-935-4188

DUMAS, TEXAS 79029

MEMBER OF

THE AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

THE AICPA'S PRIVATE COMPANIES
PRACTICE SECTION

TEXAS SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Unmodified Opinion on Basic Financial Statements Accompanied By Required Supplementary Information and Other Supplementary Information

To the Board of Trustees
Stratford Independent School District
503 North 8th
Stratford, Texas

Members of the Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Stratford 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 District's basic financial statements as listed in the table of contents.

Administration's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by administration, 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 Stratford 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 and budgetary comparison information on pages 5 through 12 and 54 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. The District has also included a Schedule of the District's Proportionate Share of the Net Pension Liability and Schedule of District Contributions – Teacher Retirement System in the required supplementary information. 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 administration about the methods of preparing the information and comparing the information for consistency with administration'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 Stratford Independent School District's basic financial statements. The TEA required schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The TEA required schedules are the responsibility of administration 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 TEA required schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2017, on our consideration of Stratford 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 the District's internal control over financial reporting and compliance.

Coy Barton, CPA
Dumas, Texas

November 7, 2017

STRATFORD INDEPENDENT SCHOOL DISTRICT
Introductory to Management's Discussion and Analysis
For the Year Ended August 31, 2017

To the Citizens and Taxpayers of Stratford Independent School District:

The Annual Financial Report of Stratford Independent School District, for the year ended August 31, 2017, is hereby submitted with the District responsible for the completeness and fairness of these financial statements.

The financial statements are presented in the following sections: Introductory, Management's Discussion and Analysis, Basic Financial Statements, Notes to the Financial Statements, Required Supplementary Information, Required TEA Schedules, and Reports on Internal Control and on Compliance and Other Matters.

This financial report is designed to provide the citizens and taxpayers of Stratford Independent School District information concerning the financial condition of the District.

The increase of state and federal compliance requirements has provided challenges to the District's Board of Trustees and administration. Budgeting continues to be a major priority to provide quality education for the students and responsible fiscal decision making for the patrons of this District.

The District is making improvements each year to the District's plant and equipment in order to maintain our school for future years. The future appears to be good for the District with the continued good stewardship by the Board of Trustees and administration.

Sincerely,

Mike Dominguez

Mike Dominguez
Superintendent

STRATFORD INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the administrators of Stratford Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2017. Please read it in conjunction with our transmittal letter on page 5, the Independent Auditor's Report on pages 2-4, and the District's Basic Financial Statements, which begin on page 13.

FINANCIAL HIGHLIGHTS

The District's net position increased by $0.59 million compared to last year.

During the year, the District had expenses that were $0.59 million less than the $8.29 million generated in tax and other revenues for governmental programs. This compares to last year, when expenses were more than revenues by $0.39 million.

Total cost of all of the District's programs increased by $0.21 million from last year.

The General Fund ended the year with a fund balance of $3.54 million.

The resources available for appropriation were $1.31 million less than budgeted expenses for the General Fund.

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 13 and 14). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 15) 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 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 District.

The notes to the financial statements (starting on page 21) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The sections labeled Required TEA Schedules and Reports on Internal Control and on Compliance and Other Matters 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 13. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets and liabilities at the end of the fiscal year, and the Statement of Activities includes all the revenues and expenses generated by the District's operations during the twelve month period. These apply the accrual basis of accounting, which is the basis used by private sector companies.

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

These two statements report the District's net position and changes in them. The District's net position (the difference between assets and liabilities) provides one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net position is 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 one kind of activity.

- Governmental activities – Most of the District's basic 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 15 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 the Every Student Succeeds Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District's governmental funds use the following accounting approach:

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

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in the Statement of Net Position and the Statement of Changes in Net Position – Fiduciary Funds on pages 19 and 20.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The District implemented GASB Statement No. 34 in prior years. We have presented both current and prior year data and discussed significant changes in accounts. Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental activities.

Net position of the District's governmental activities increased from $10.93 million to $11.51 million. 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 $2.94 million at August 31, 2017. This increase in governmental net position was the result of the District's revenues exceeding expenditures by about $0.59 million.

Table I
Stratford Independent School District

NET POSITION
(in thousands)

	Governmental Activities 2017	**Total 2017**	Total 2016
Current and other assets	$ 4,044	**$ 4,044**	$ 3,939
Capital assets	9,532	**9,532**	7,985
Total Assets	13,576	**13,576**	11,924
Deferred Outflows of Resources	580	**580**	825
Long-term liabilities	2,237	**2,237**	1,281
Other liabilities	300	**300**	322
Total Liabilities	2,537	**2,537**	1,603
Deferred Inflows of Resources	104	**104**	218
Net Position:			
Investment in capital assets	8,542	**8,542**	7,984
Restricted	34	**34**	46
Unrestricted	2,939	**2,939**	2,898
Total Net Position	$ 11,515	**$ 11,515**	$ 10,928

Table II
Stratford Independent School District

CHANGES IN NET POSITION
(in thousands)

	Governmental Activities 2017	**Total 2017**	Total 2016
Revenues:			
Program Revenues:			
Charges for services	$ 87	**$ 87**	$ 105
Operating grants and contributions	1,059	**1,059**	971
General Revenues:			
Maintenance and operations taxes	4,747	**4,747**	4,784
Debt service taxes	-	**-**	-
State aid - formula grants	1,424	**1,424**	1,148
Investment earnings	16	**16**	17
Miscellaneous	956	**956**	80
Total Revenues	8,289	**8,289**	7,105
Expenses:			
Instruction, curriculum, and media services	4,462	**4,462**	4,494
Instructional and school leadership	378	**378**	375
Student support services	397	**397**	337
Child nutrition	323	**323**	329
Cocurricular activities	431	**431**	459
General administration	447	**447**	404
Facilities maintenance, security and monitoring, and data processing	869	**869**	857
Community services	3	**3**	2
Debt services	-	**-**	-
Capital outlay	-	**-**	-
Contracted instructional service	198	**198**	45
Payments related to shared services arrangements	35	**35**	39
Other intergovernmental charges	159	**159**	156
Total Expenses	7,702	**7,702**	7,497
Increase(decrease) in net position	587	**587**	(392)
Net Position at Beginning of Year	10,928	**10,928**	11,320
Net Position at End of Year	$ 11,515	**$ 11,515**	$ 10,928

The District's total revenues increased by 16.66% ($1.18 million). The total cost of all programs and services was $7.70 million due to increased costs.

The following took place this year to compensate for some increases in cost:

- The District limited and monitored expenditures in all areas.

The cost of all governmental activities this year was $7.70 million compared to $7.50 million last year. However, as shown in the Statement of Activities on page 14, the amount that our taxpayers ultimately financed for these activities through District taxes was only $6.56 million because some of the costs were paid by those who directly benefited from the programs ($0.09 million), and by other governments and organizations that subsidized certain programs with grants and contributions ($1.06 million).

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 15) reported a combined fund balance of $3.59 million, which is more than last year's total of $3.48 million. Included in this year's total change in fund balance is an increase of $0.12 million in the District's General Fund. The primary reasons for the General Fund's increase mirror the governmental activities analysis highlighted on page 14.

Over the course of the year, the Board of Trustees amended the District's budget. These budget amendments fall into two categories. The first includes amendments and supplemental appropriations that were approved during the year. The second category involved amendments moving funds from programs that did not need all the resources originally appropriated to them to programs with resource needs.

The District's General Fund balance of $3.54 million reported on page 15 differs from the General Fund's budgetary fund balance of $2.92 million reported in the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund on page 54. This is principally due to cost savings and increased revenue.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2017, the District had $9.53 million invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. This amount represents a net increase of just over $1.55 million, or 19.40%, more than last year.

This year's major additions included (in thousands):

Buildings and improvements	$ 880
Furniture and equipment	1,096
Total	$ 1,976

The District's fiscal year 2018 capital budget calls for $0.08 million additional expenditures for various improvements and equipment. More detailed information about the District's capital assets is presented in Note III. G. to the financial statements.

Debt

At year-end, the District had loans outstanding of $0.99 million at August 31, 2017.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the fiscal year 2018 budget and tax rates. One of those factors is the economy. The District's population has slightly increased from the previous year.

This indicator was taken into account when adopting the General Fund budget for 2018. Amounts available for appropriation in the General Fund budget are $6.54 million, a decrease of 13.12% over the final 2017 budget of $7.53 million. State program revenues account for 26.98% of the budgeted revenue. The District will use its revenues to finance programs currently offered. Budgeted expenditures are expected to decrease nearly 20.13% to $7.21 million from $9.03 million in 2017 for the General Fund. The District has added no major new programs or initiatives to the 2018 budget.

If these estimates are realized, the District's budgetary General Fund balance is expected to decrease $0.67 million by the close of 2018.

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's business office at Stratford Independent School District, 503 North 8th, Stratford, Texas, 79084.

BASIC FINANCIAL STATEMENTS

STRATFORD INDEPENDENT SCHOOL DISTRICT
Statement of Net Position
August 31, 2017

Data Control Codes		Primary Government: Governmental Activities
	ASSETS	
1110	Cash and Cash Equivalents	$ 2,758,851
1220	Property Taxes Receivable (Delinquent)	176,216
1230	Allowance for Uncollectible Taxes	(17,622)
1240	Due from Other Governments	935,431
1290	Other Receivables, Net	184,340
1300	Inventories	6,662
	Capital Assets:	
1510	Land	191,689
1520	Buildings and Improvements, Net	7,762,105
1530	Furniture and Equipment, Net	1,286,787
1540	Vehicles, Net	291,297
1000	Total Assets	13,575,756
	DEFERRED OUTFLOWS OF RESOURCES	
1705	Deferred Outflow Related to TRS	580,359
1700	Total Deferred Outflows of Resources	580,359
	LIABILITIES	
2110	Accounts Payable	19,439
2160	Accrued Wages Payable	280,812
	Noncurrent Liabilities	
2501	Due Within One Year	50,833
2502	Due in More Than One Year	939,167
2540	Net Pension Liability (District's Share)	1,246,838
2000	Total Liabilities	2,537,089
	DEFERRED INFLOWS OF RESOURCES	
2605	Deferred Inflow Related to TRS	104,493
2600	Total Deferred Inflows of Resources	104,493
	NET POSITION	
3200	Net Investment in Capital Assets	8,541,878
3820	Restricted for Federal and State Programs	33,993
3900	Unrestricted	2,938,662
3000	Total Net Position	$ 11,514,533

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

STRATFORD INDEPENDENT SCHOOL DISTRICT
Statement of Activities
For the Year Ended August 31, 2017

Data Control Codes		1	Program Revenues 3	4	Net (Expense) Revenue and Changes in Net Position 6
		Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
Primary Government:					
	GOVERNMENTAL ACTIVITIES:				
11	Instruction	$ 4,340,911	$ -	$ 752,596	$ (3,588,315)
12	Instructional Resources and Media Services	98,220	-	3,513	(94,707)
13	Curriculum and Staff Development	24,264	-	-	(24,264)
21	Instructional Leadership	7,942	-	454	(7,488)
23	School Leadership	370,132	-	18,220	(351,912)
31	Guidance, Counseling and Evaluation Services	92,613	-	4,998	(87,615)
33	Health Services	51,170	-	-	(51,170)
34	Student (Pupil) Transportation	252,819	-	5,411	(247,408)
35	Food Services	323,090	61,153	228,879	(33,058)
36	Extracurricular Activities	431,307	25,547	7,299	(398,461)
41	General Administration	446,803	-	18,825	(427,978)
51	Facilities Maintenance and Operations	735,665	-	13,804	(721,861)
52	Security and Monitoring Services	21,919	-	-	(21,919)
53	Data Processing Services	111,011	-	5,497	(105,514)
61	Community Services	2,620	-	-	(2,620)
91	Contracted Instructional Services Between Schools	197,886	-	-	(197,886)
93	Payments related to Shared Services Arrangements	35,442	-	-	(35,442)
99	Other Intergovernmental Charges	158,664	-	-	(158,664)
[TP]	TOTAL PRIMARY GOVERNMENT:	$ 7,702,478	$ 86,700	$ 1,059,496	(6,556,282)

Data Control Codes		
	General Revenues:	
	Taxes:	
MT	Property Taxes, Levied for General Purposes	4,747,305
GC	Grants and Contributions not Restricted	1,423,874
IE	Investment Earnings	16,081
MI	Miscellaneous Local and Intermediate Revenue	955,626
TR	Total General Revenues	7,142,886
CN	Change in Net Position	586,604
NB	Net Position - Beginning	10,927,929
NE	Net Position--Ending	$ 11,514,533

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

STRATFORD INDEPENDENT SCHOOL DISTRICT
Balance Sheet
Governmental Funds
August 31, 2017

Data Control Codes		10 General Fund	Other Funds	Total Governmental Funds
	ASSETS			
1110	Cash and Cash Equivalents	$ 2,725,077	$ 33,774	$ 2,758,851
1220	Property Taxes - Delinquent	176,216	-	176,216
1230	Allowance for Uncollectible Taxes (Credit)	(17,622)	-	(17,622)
1240	Receivables from Other Governments	919,548	15,883	935,431
1260	Due from Other Funds	334	-	334
1290	Other Receivables	184,340	-	184,340
1300	Inventories	-	6,662	6,662
1000	Total Assets	$ 3,987,893	$ 56,319	$ 4,044,212
	LIABILITIES			
2110	Accounts Payable	$ 19,340	$ 99	$ 19,439
2160	Accrued Wages Payable	265,581	15,231	280,812
2170	Due to Other Funds	-	334	334
2000	Total Liabilities	284,921	15,664	300,585
	DEFERRED INFLOWS OF RESOURCES			
2601	Unavailable Revenue - Property Taxes	158,594	-	158,594
2600	Total Deferred Inflows of Resources	158,594	-	158,594
	FUND BALANCES			
	Nonspendable Fund Balance:			
3410	Inventories	-	6,662	6,662
	Restricted Fund Balance:			
3450	Federal or State Funds Grant Restriction	-	33,993	33,993
	Committed Fund Balance:			
3510	Construction	2,750,000	-	2,750,000
3600	Unassigned Fund Balance	794,378	-	794,378
3000	Total Fund Balances	3,544,378	40,655	3,585,033
4000	Total Liabilities, Deferred Inflows & Fund Balances	$ 3,987,893	$ 56,319	$ 4,044,212

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

STRATFORD INDEPENDENT SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
August 31, 2017

	Total Fund Balances - Governmental Funds	$	3,585,033
1	Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was $15,738,487 and the accumulated depreciation was $7,754,081. In addition, long-term liabilities are not due and payable in the current period and therefore, are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.		6,703,229
2	Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of including the 2017 capital outlays is to increase net position.		1,975,777
3	Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB Statement No. 68. The net position related to TRS included a deferred resource outflow in the amount of $580,359, a deferred resource inflow in the amount of $104,493, and a net pension liability in the amount of $1,246,838. This resulted in a decrease in net position.		(770,972)
4	The 2017 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(428,305)
5	Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, proceeds from loans, and recognizing the liabilities associated with maturing long-term debt. The net effect of these reclassifications and recognitions is to increase net position.		449,771
19	**Net Position of Governmental Activities**	$	11,514,533

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

EXHIBIT C-3

STRATFORD INDEPENDENT SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended August 31, 2017

Data Control Codes		10 General Fund	Other Funds	Total Governmental Funds
	REVENUES:			
5700	Total Local and Intermediate Sources	$ 5,718,332	$ 61,291	$ 5,779,623
5800	State Program Revenues	1,935,313	46,352	1,981,665
5900	Federal Program Revenues	61,944	390,038	451,982
5020	Total Revenues	7,715,589	497,681	8,213,270
	EXPENDITURES:			
	Current:			
0011	Instruction	3,820,807	207,511	4,028,318
0012	Instructional Resources and Media Services	80,314	-	80,314
0013	Curriculum and Instructional Staff Development	24,264	-	24,264
0021	Instructional Leadership	7,779	-	7,779
0023	School Leadership	360,387	-	360,387
0031	Guidance, Counseling and Evaluation Services	90,164	-	90,164
0033	Health Services	51,170	-	51,170
0034	Student (Pupil) Transportation	182,673	-	182,673
0035	Food Services	-	310,430	310,430
0036	Extracurricular Activities	342,583	-	342,583
0041	General Administration	437,094	-	437,094
0051	Facilities Maintenance and Operations	741,801	-	741,801
0052	Security and Monitoring Services	21,919	-	21,919
0053	Data Processing Services	108,755	-	108,755
0061	Community Services	2,620	-	2,620
	Capital Outlay:			
0081	Facilities Acquisition and Construction	1,920,779	-	1,920,779
	Intergovernmental:			
0091	Contracted Instructional Services Between Schools	197,886	-	197,886
0093	Payments to Fiscal Agent/Member Districts of SSA	35,442	-	35,442
0099	Other Intergovernmental Charges	158,664	-	158,664
6030	Total Expenditures	8,585,101	517,941	9,103,042
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(869,512)	(20,260)	(889,772)
	OTHER FINANCING SOURCES (USES):			
7914	Non-Current Loans	990,000	-	990,000
7915	Transfers In	-	1,147	1,147
8911	Transfers Out (Use)	(1,147)	-	(1,147)
7080	Total Other Financing Sources (Uses)	988,853	1,147	990,000
1200	Net Change in Fund Balances	119,341	(19,113)	100,228
0100	Fund Balance - September 1 (Beginning)	3,425,037	59,768	3,484,805
3000	Fund Balance - August 31 (Ending)	$ 3,544,378	$ 40,655	$ 3,585,033

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

STRATFORD INDEPENDENT SCHOOL DISTRICT
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,
and Changes in Fund Balances to the Statement of Activities
For the Year Ended August 31, 2017

Total Net Change in Fund Balances - Governmental Funds	$	100,228
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of removing the 2017 capital outlay is to increase net position.		1,975,777
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.		(428,305)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, reclassifying loan proceeds, and recognizing the liabilities associated with maturing long-term debt. The net effect of these reclassifications and recognitions is to decrease net position.		(963,911)
GASB Statement No. 68 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by $110,621. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability. This caused a decrease in net position totaling $104,834. Finally, the proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense decreased the change in net position by $102,972. The net result is a decrease in the change in net position.		(97,185)
Change in Net Position of Governmental Activities	$	586,604

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

EXHIBIT E-1

STRATFORD INDEPENDENT SCHOOL DISTRICT
Statement of Net Position
Fiduciary Funds
August 31, 2017

	Private Purpose Trust Fund	Agency Funds
ASSETS		
Cash and Cash Equivalents	$ 50,129	$ 60,184
Land	65,600	-
Total Assets	115,729	$ 60,184
LIABILITIES		
Due to Student Groups	-	$ 60,184
Total Liabilities	-	$ 60,184
NET POSITION		
Restricted for Scholarships	115,729	
Total Net Position	$ 115,729	

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

EXHIBIT E-2

STRATFORD INDEPENDENT SCHOOL DISTRICT
Statement of Changes in Net Position
Fiduciary Funds
For the Year Ended August 31, 2017

	Private Purpose Trust Fund
ADDITIONS:	
Local and Intermediate Sources	$ 50
Contributed Capital	115,679
Total Additions	115,729
Change in Net Position	115,729
Total Net Position - September 1 (Beginning)	-
Total Net Position - August 31 (Ending)	$ 115,729

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

STRATFORD INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements
August 31, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Stratford 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 District prepares its basic financial statements in conformity with generally accepted accounting principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in **GASB Statement No. 56**, 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.

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.

A. Reporting Entity

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. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "*The Financial Reporting Entity.*" There are no component units included within the reporting entity.

B. Basis of Presentation, Basis of Accounting

Basis of Presentation

Government-wide Statements: The Statement of Net Position and the Statement of Activities include the financial activities of the overall government. Eliminations have been made to minimize the over-reporting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the

B. Basis of Presentation, Basis of Accounting (continued)

Statement of Activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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

The District reports the following major governmental fund:

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

Additionally, the District reports the following fund type(s):

Governmental Funds:

1. **Special Revenue Funds** - These funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal financial assistance generally is accounted for in a special revenue fund. Except for the food service fund, any unused balances are returned to the grantor at the close of specific project periods. The Food Service Fund is the only required budgeted special revenue fund. For all other funds in this fund type, project accounting is employed to maintain integrity for the various sources of funds.

Fiduciary Funds:

1. **Agency Funds** - The District accounts for resources held for others in a custodial capacity in agency funds. The District's agency funds are the Activity or Class Funds.

2. **Private Purpose Trust Funds** – These funds are used to account for resources legally held in trust for scholarships.

C. Measurement Focus, Basis of Accounting

Government-wide Financial Statements: These financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange,

C. Measurement Focus, Basis of Accounting (continued)

include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, the revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received.

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

Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims, and judgments, which are recognized as expenditures to the extent they have matured. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds from general long-term debt and acquisitions under capital leases are reported as other financing sources.

The 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.

D. Fund Balance Classification

Non-spendable: This classification includes amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

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. Debt service resources are to be used for future servicing of bonds and are restricted by State statute. Capital projects are restricted by State statute and are legally segregated for funding of capital improvements.

D. Fund Balance Classification (continued)

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Trustees. These amounts cannot be used for any other purpose unless the Board of Trustees removes or changes the specified use by taking the same type of action (resolution) that was employed when the funds were initially committed.

Assigned: This classification includes amounts that do not meet the criteria to be classified as Restricted or Committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the superintendent may assign for specific purposes.

Unassigned: This classification includes the residual fund balance for the General Fund.

The District would typically use Restricted fund balances first, followed by Committed resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

E. Financial Statement Amounts

1. 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.

   State statutes authorize the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and State Treasurer's Investment Pools.

   Investments for the District are reported at fair value.

2. Property Taxes

   Property taxes are levied by October 1st on assessed value listed as of the prior January 1st for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1st of the year following the year in which imposed. On January 31st of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

E. Financial Statement Amounts (continued)

2. Property Taxes (continued)

Allowances for uncollectible tax receivables are based upon historical experience in collecting property taxes. As of August 31, 2017, the amount deemed uncollectible by this estimate was $17,622. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

The District held an election on September 10, 2016, for the purpose of approving a Tax Ratification Election to increase the ad valorem tax rate to $1.17 per $100 valuation for the 2016 taxes. This rate is $0.13 higher per $100 valuation than rollback rate.

3. Inventories and Prepaid Items

The District records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory in accordance with the Resource Guide. Certain payments to vendors reflect the cost applicable to future periods and are recorded as prepaid items. The District reports inventories of supplies at weighted average cost including food supplies. Supplies are recorded as expenditures when they are consumed. Inventories of food commodities are recorded at market value supplied by the Texas Health and Human Services Commission. The food supplies inventories including commodities, at August 31, 2017, were $6,662 for the Child Nutrition Fund.

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the governmental activities column in the government-wide financial statements. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair market value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the assets' lives are not capitalized. A capitalization threshold of $5,000 is used.

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

Asset Class	Estimated Useful Lives
Infrastructure	50
Buildings and improvements	35-50
Vehicles	5-10
Office equipment and furniture	5-10
Computer equipment	3-10

E. Financial Statement Amounts (continued)

5. Interfund Activity

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

6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. 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 premiums or discounts.

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

7. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of administration's estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

8. Data Control Codes

Data Control Codes appear in the rows and above the columns of certain financial statements. The Texas Education Agency requires the display of 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.

E. Financial Statement Amounts (continued)

9. Contingent Liability

Upon retirement, the District pays any accrued leave in a lump sum cash payment as follows:

a. For each day of the first 30 days of accrued leave, the employee is paid $30.

b. For each day of accrued leave beyond 30 days, the employee is paid $15, not to exceed an additional 30 days.

Vacation leave does not accumulate and is not payable upon termination or retirement.

The total for the payments of employees who were eligible for retirement at August 31, 2017, but had not yet retired, was $35,508 and is reported as a contingent liability, since it is contingent on their retirement.

10. Group Self-Insurance Pool

The District participated in a group self-insurance pool authorized by Chapter 172, Local Government Code. All risks and liabilities are not shared by Stratford Independent School District and are the liability of TRS Active Care.

11. Chapter 41 District

The District was a Chapter 41 District for the school year 2016-2017. Chapter 41 of the Texas Education Code implicitly defines a high wealth district as a district with a tax base that exceeds the equalized wealth level of $319,500 in property value per student in weighted average daily attendance. The District had $197,886 Chapter 41 costs for the 2016-2017 year.

12. New Financial Accounting Standards

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures* (GASB 77). The requirements of this Statement improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition. This Statement is effective for fiscal years beginning after December 15, 2015. Administration has evaluated the impact of this Statement on the District's financial statements and believes it has no impact.

E. Financial Statement Amounts (continued)

12. New Financial Accounting Standards (continued)

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants* (GASB 79). This Statement will enhance comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. Those criteria will provide qualifying external investment pools and participants in those pools with consistent application of an amortized cost-based measurement for financial reporting purposes. That measurement approximates fair value and mirrors the operations of external investment pools that transact with participants at a stable net asset value per share. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Administration is currently evaluating the impact of this Statement on the District's financial statements.

In March 2016, the GASB issued Statement 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73* (GASB 82). The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* Specifically, this Statement addresses issues regarding (1) the presentation of payroll related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement will improve financial reporting by enhancing consistency in the application of financial reporting requirements to certain pension issues. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Administration is currently evaluating the impact of this Statement on the District's financial statements.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Data

The Board of Trustees adopts an "appropriated budget" for the General Fund and Food Service Fund of the special revenue funds. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1 and the other report is in Exhibit J-2.

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

1. Prior to August 20th, the District prepares a budget for the next succeeding fiscal year beginning September 1st. 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 ten days public notice of the meeting must be given. The District complied with the ten days public notice for the 2016-2017 proposed budget.

3. Prior to September 1st, 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 are 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, and the following significant amendment was necessary during the year:

0081	Facilities Acquisition and Construction	$ 1,928,396

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. A reconciliation of fund balances for both appropriated budget and nonappropriated budget special revenue funds is as follows:

	August 31, 2017 Fund Balance
Appropriated Budget Funds - Food Service Special Revenue Fund	$ 6,936
Nonappropriated Budget Funds	-
All Special Revenue Funds	$ 6,936

B. Finance-Related Legal and Contractual Provisions

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

Violation	Action Taken
None Reported	Not Applicable

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Cash, Cash Equivalents, and Investments

Cash and Cash Equivalents

District Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits

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

During the year, the District's deposits were covered by depository insurance and collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name. At August 31, 2017, the District's deposits were covered with depository insurance in the amount of $250,000 and collateralized with securities held by the pledging financial institution's trust department or agent in the District's name in the amount of $6,476,074.

Foreign Currency Risk

The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit by limiting all deposits denominated in a foreign currency. The District was not exposed to any foreign currency risk at August 31, 2017.

A. Cash, Cash Equivalents, and Investments (continued)

As of August 31, 2017, the following are the District's cash and cash equivalents with respective maturities and credit rating:

	Fair Value	Percent	Maturity in Less than 1 Year	Maturity in 1-10 Years	Maturity in Over 10 Years	Credit Rating
Type of Deposit						
Cash	$ 105	100%	$ 105	$ -	$ -	N/A
FDIC Insured Accounts	2,758,746	100%	2,758,746	-	-	N/A
Total Cash and Cash Equivalents	$ 2,758,851	100%	$ 2,758,851	$ -	$ -	

Investments

District Policies and Legal and Contractual Provisions Governing Investments

Compliance with the Public Funds Investment Act
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 a governmental entity 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 and its agencies; (2) guaranteed or secured certificates of deposit issued by state and national banks domiciled in Texas; (3) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality not less than an "A"; (4) no load money market funds with a weighted average maturity of 90 days or less; (5) fully collateralized repurchase agreements; (6) commercial paper having a stated maturity of 270 days or less from the date of issuance and is not rated less than A-1 or P-1 by two nationally recognized credit rating agencies OR one nationally recognized credit agency and is fully secured by an irrevocable letter of credit; (7) secured corporate bonds rated not lower than "AA-"or the equivalent; (8) public funds investment pools; and (9) guaranteed investment contracts for bond proceeds investment only, with a defined termination date and secured by U.S. Government direct or agency obligations approved by the Texas Public Funds Investment Act in an amount equal to the bond proceeds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by

A. Cash, Cash Equivalents, and Investments (continued)

the Act. Stratford Independent School District is in substantial compliance with the requirements of the Act and with local policies.

Additional policies and contractual provisions governing investments for Stratford Independent School District are specified below:

Credit Risk

To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations, the District limits investments that comply with the Public Funds Investment Act and all federal, state, and local statutes, rules, or regulations. As of August 31, 2017, the District had no investments.

Custodial Credit Risk for Investments

To limit the risk that, in the event of the failure of the counterparty to a transaction, the District will not be able to recover the value of investment or collateral securities that are in possession of an outside party, the District requires counterparties to register the securities in the name of the District and hand them over to the District or its designated agent. This includes securities in securities lending transactions. The District had no investments at August 31, 2017.

Concentration of Credit Risk

To limit the risk of loss attributed to the magnitude of the District's investment in a single issuer, the District's investment policy emphasizes safety of principal and liquidity. The policy requires prudence with respect to single investments. The District was not exposed to any concentration of credit risk for the year ended August 31, 2017.

Interest Rate Risk

To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District requires that internally created pool fund groups have a maximum dollar weighted maturity of 180 days and other investments shall not exceed one year from time of purchase unless specifically authorized by the Board for a given investment. The District was not exposed to any investment rate risk at August 31, 2017.

Foreign Currency Risk for Investments

The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment by not investing in foreign investments. The District was not exposed to any foreign currency risk for investments at August 31, 2017.

A. Cash, Cash Equivalents, and Investments (continued)

Other Credit Risk Exposure

The District had no other known credit risk exposure at August 31, 2017.

Defaults and Recovery of Prior Period Losses

The District had no defaults or prior period losses for the year ended August 31, 2017.

The District categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy. In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurement in their entirety are categorized based on the lowest level input that is significant to the valuation. The District's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

As of August 31, 2017, Stratford Independent School District had no investments subject to the fair value measurement.

B. Property Taxes

Property taxes are levied by October 1st on the assessed value listed as of the prior January 1st 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 1st of the year following the year in which imposed. On January 31st of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year. The tax rate assessed for the year ended August 31, 2017, to finance general fund operations was $1.17 per $100 valuation. At August 1, 2016, the assessed value of the property tax roll was $437,650,000 which was subsequently decreased to a year-end assessed value of $415,139,658.

C. Delinquent Taxes Receivable

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. All property tax receivables are shown net of an allowance for uncollectibles. The property tax receivable allowance for uncollectible taxes is calculated by the District equal to 10% of outstanding property taxes at August 31, 2017.

D. Interfund Balances and Transfers

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

Transfer In from General Fund:	
Nonmajor Governmental Funds	$ 1,147

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

Due to General Fund from:	
Nonmajor Governmental Funds	$ 334

The purpose of these interfund balances and interfund transfers is to allow for ease of funding of the daily operations of the District. These interfund balances are expected to be repaid in the next fiscal year.

E. Disaggregation of Receivables and Payables

Receivables at August 31, 2017, were as follows:

	Property Taxes (Net)	Other Governments	Due From Other Funds	Other	Total Receivables
Governmental Activities:					
General Fund	$ 158,594	$ 919,548	$ 334	$ 184,340	$ 1,262,816
Nonmajor Governmental Funds	-	15,883	-	-	15,883
Total - Governmental Activities	$ 158,594	$ 935,431	$ 334	$ 184,340	$ 1,278,699
Amounts not scheduled for collection during the subsequent year	$ -	$ -	$ -	$ -	$ -

E. Disaggregation of Receivables and Payables (continued)

	General Fund	Nonmajor Governmental Funds	Total
Property Taxes (Net):			
Delinquent taxes receivable (ad valorem)	$ 176,216	$ -	$ 176,216
Less allowance for uncollectible taxes	(17,622)	-	(17,622)
Total Property Taxes (Net)	$ 158,594	$ -	$ 158,594

The allowance for uncollectible taxes is calculated by the District at 10% of the delinquent taxes receivable.

	General Fund	Nonmajor Governmental Funds	Total
Receivable - Other Governments:			
Receivable - Region 16 Service Center	$ -	$ 1,030	$ 1,030
Receivable - Appraisal District (ad valorem taxes)	12,719	-	12,719
Receivable - Texas Education Agency	906,829	14,853	921,682
Total Receivable - Other Governments	$ 919,548	$ 15,883	$ 935,431
Other Receivables:			
Receivable - insurance proceeds	$ 180,215	$ -	$ 180,215
Receivable - workers' compensation	4,125	-	4,125
Total Other Receivables	$ 184,340	$ -	$ 184,340

All receivables (net) are expected to be collected within one year.

Aged receivables at August 31, 2017, were as follows:

	0-30 Days	31-60 Days	61-90 Days	Over 90 Days	Total Aged Receivables
Aged Receivables:					
Property taxes (net)	$ -	$ -	$ -	$ 158,594	$ 158,594
Due from other governments	935,431	-	-	-	935,431
Due from other funds	-	-	-	334	334
Other receivables	184,340	-	-	-	184,340
Total Aged Receivables	$ 1,119,771	$ -	$ -	$ 158,928	$ 1,278,699

E. Disaggregation of Receivables and Payables (continued)

Payables at August 31, 2017, were as follows:

	Accounts Payable	Loans, Leases, and Bonds Payable - Current Year	Salaries and Benefits	Due to Other Funds	Due to Other Governments	Other	Total Payables
Governmental Activities:							
General Fund	$ 19,340	$ -	$ 265,581	$ -	$ -	$ -	$ 284,921
Other Nonmajor Funds	99	-	15,231	334	-	-	15,664
Total - Governmental Activities	$ 19,439	$ -	$ 280,812	$ 334	$ -	$ -	$ 300,585
Amounts not scheduled for payment during the subsequent year	$ -	$ -	$ -	$ -	$ -	$ -	$ -

F. Deferred Outflows of Resources

In addition to assets, the Statement of Net 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, therefore, will *not* be recognized as an outflow of resources (expenditure/expense) until that time. The District has only one type of item, which arises only under a full accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *Deferred Outflows Related to TRS*, is reported only in the Government-wide Statement of Net Position. The Government-wide Statement of Net Position reports the District's share of the unrecognized plan deferred outflows of resources which TRS uses in calculating the end net pension liability, as well as the District's contributions to TRS in the current fiscal year. These amounts are deferred and recognized as an outflow of resources in the period that the amounts become available.

G. Capital Asset Activity

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

	Primary Government				
	Beginning Balance	Additions	Retirements	Other Reclassifications	Ending Balance
Governmental Activities:					
Land	$ 191,689	$ -	$ -	$ -	$ 191,689
Total Assets Not Being Depreciated	191,689	-	-	-	191,689
Buildings and improvements	13,578,272	879,977	-	-	14,458,249
Vehicles	1,079,581	-	192,288	-	887,293
Furniture and equipment	872,417	1,095,800	-	-	1,968,217
Furniture and equipment - Federal funds	16,528	-	-	-	16,528
Construction in progress	-	-	-	-	-
Total Assets Being Depreciated	15,546,798	1,975,777	192,288	-	17,330,287
Totals at Historical Cost	15,738,487	1,975,777	192,288	-	17,521,976
Less Accumulated Depreciation for:					
Buildings and improvements	6,419,654	276,490	-	-	6,696,144
Vehicles	700,662	87,622	192,288	-	595,996
Furniture and equipment	633,568	61,832	-	-	695,400
Furniture and equipment - Federal funds	197	2,361	-	-	2,558
Total Accumulated Depreciation	7,754,081	428,305	192,288	-	7,990,098
Governmental Activities Capital Assets, Net	$ 7,984,406	$ 1,547,472	$ -	$ -	$ 9,531,878

There was no construction in progress at August 31, 2017.

Depreciation expense was charged to functions in the General Fund as follows:

Data Control Codes	Expense	Amount
0010	Instruction and instructional - related services	$ 225,014
0020	Instructional and school leadership	231
0030	Support services - student (pupil)	157,563
0030	Support services - student (pupil) - Federal funds	2,361
0050	Support services - nonstudent based	43,136
	Total Depreciation Expense	$ 428,305

H. Short-Term Debt Payable

The District accounts for short-term debts for maintenance purposes through the General Fund. Short-term debts include notes made in accordance with the provisions of the Texas Education Code Section 45.108. The proceeds from loans are shown in the financial statements as Other Sources and principal payments are shown as Other Uses. The District had no short-term loans payable at August 31, 2017.

I. Deferred Inflows of Resources

In addition to liabilities, both the Governmental Funds Balance Sheet and the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources,* represents an acquisition of net position that applies to 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 items that qualify for reporting in this category. One item, which arises only under a modified accrual basis of accounting, is *unavailable revenue*. Unavailable revenue is reported only in the Governmental Funds Balance Sheet. The governmental funds report unavailable revenue from property taxes. The next item is *Deferred Inflows Related to TRS,* which arises only under a full accrual basis of accounting, and is reported only in the Government-wide Statement of Net Position. The Government-wide Statement of Net Position reports the District's share of unrecognized plan deferred inflows of resources, which TRS uses in calculating the ending net pension liability. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

J. Long-Term Debt Payable

Long-term debt includes loans and net pension liability for unfunded defined benefit retirement obligation. Current requirements for expenditures are accounted for in the General Fund.

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

Governmental Activities Description	Interest Rate Payable	Amounts Original Issue	Interest Current Year	Amounts Outstanding 9/1/16	Issued	Retired/Other	Amounts Outstanding 8/31/17	
Loan - Public Property Finance Act Contract	3.7%	$ 990,000	$ -	$ -	$ 990,000	$ -	$ 990,000	
Net Pension Liability (District's Share)- Unfunded Defined Benefit Retirement Plan Obligation	N/A	658,580	N/A	1,281,177	70,495	104,834	1,246,838	
Total Obligations of the District				$ 1,281,177	$ 1,060,495	$ 104,834	$ 2,236,838	#

J. Long-Term Debt Payable (continued)

The District entered into a Public Property Finance Act Contract (No. 7766) dated April 18, 2017, between Government Capital Corporation, a Texas corporation, and the District. The purpose of the loan is to finance the HVAC Energy Conservation Project. The maturity date of the contract is May 2032. The contract requires fifteen annual payments of $87,158 including principal and interest beginning May 2018. The interest rate is 3.70%. The current year interest paid is $-0-.

The District provides retirement, disability, and death benefits for all its full-time employees though a defined benefit plan. The unfunded status of the plan as of August 31, 2017, was $1,246,838. At the time of the audit, the latest information available from the actuaries was as of August 31, 2016. The unfunded liability is reported as a long-term liability in the Statement of Net Position (Exhibit A-1).

K. Commitments Under Operating Leases

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

Year Ending August 31,	
2018	$ 65,341
2019	98,824
2020	15,336
2021	7,608
2022	174
Totals	$ 187,283

Rental expenditures in fiscal year 2017 were $66,027.

The imputed interest on the leases is approximately 5%.

The District had no capital leases.

L. Debt Service Requirements – Long-Term Debt

Debt service requirements for loans and other long-term debt are as follows:

Loans and Other Long-Term Debt			
Year Ending August 31,	Principal	Interest	Total Requirements
2018	$ 50,833	$ 36,325	$ 87,158
2019	52,409	34,749	87,158
2020	54,348	32,810	87,158
2021	56,359	30,799	87,158
2022	58,444	28,714	87,158
Thereafter	1,964,445	153,973	2,118,418
Total	$ 2,236,838	$ 317,370	$ 2,554,208

M. Accumulated Unpaid Vacation and Sick Leave Benefits

Upon retirement, the District pays any accrued leave in a lump cash payment to employees. Paid leave may be accumulated up to 60 days; vacation leave does not accumulate. The accumulated leave liability for fiscal year ended August 31, 2017, was $35,508, which is reported as a contingent liability because it is contingent on the retirement of an employee. There is no liability accrued for vacation leave.

N. Defined Benefit Pension Plan

Plan Description

Stratford Independent School District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). It is a defined benefit pension plan established and administered in accordance with the Texas Constitution, Article XVI, 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.

N. Defined Benefit Pension Plan (continued)

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 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code Section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

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

N. Defined Benefit Pension Plan (continued)

Contribution Rates

	2016	2017
Member	7.2%	7.7%
Non-Employer Contributing Entity (State)	6.7%	6.8%
Employers	6.8%	6.8%

District's FY 2017 Employer Contributions	$	110,621
District's FY 2017 Member Contributions	$	332,197
District's 2016 Measurement Year NECE On-Behalf Contributions	$	235,071

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

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

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

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

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

N. Defined Benefit Pension Plan (continued)

Actuarial Assumptions

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

Valuation Date	August 31, 2016
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Inflation	2.50%
Salary Increases Including Inflation	3.50% to 9.50%
Payroll Growth Rate	2.50%
Benefit Changes During the Year	None
Ad Hoc Post Employment Benefit Changes	None

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

Discount Rate

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8.0%. 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 as followed:

N. Defined Benefit Pension Plan (continued)

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

**The Expected Contribution to Returns incorporates the volatility drag resulting from the conversion between Arithmetic and Geometric mean returns.*

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1.0% less than and 1.0% greater than the discount rate that was used (8.0%) in measuring the 2016 Net Pension Liability.

	1.0% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1.0% Increase in Discount Rate (9.0%)
Stratford Independent School District's proportionate share of the Net Pension Liability:	$ 1,929,686	$ 1,246,838	$ 667,646

N. Defined Benefit Pension Plan (continued)

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

At August 31, 2017, Stratford Independent School District reported a liability of $1,246,838 for its proportionate share of the TRS' net pension liability. This liability reflects a reduction for State pension support provided to Stratford Independent School District. The amount recognized by Stratford Independent School 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 Stratford Independent School District were as follows:

Stratford ISD's proportionate share of the collective net pension liability	$	1,246,838
State's proportionate share that is associated with the District		2,790,258
Total	$	4,037,096

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 of September 1, 2015, through August 31, 2016.

At August 31, 2016, the employer's proportion of the collective net pension liability was 0.0032995%, which was a decrease of 0.0003249% 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, Stratford Independent School District recognized pension expense of $289,562 and revenue of $289,562 for support provided by the State in the Government-wide Statement of Activities.

N. Defined Benefit Pension Plan (continued)

At August 31, 2017, Stratford Independent School District reported its proportionate share of the TRS' deferred outflows of resources and deferred inflows of resources related to pensions from the following sources: (The amounts shown below will be the cumulative layers from the current and prior years combined.)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experience	$ 19,550	$ 37,230
Changes in actuarial assumptions	38,001	34,561
Difference between projected and actual investment earnings	105,579	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	306,608	32,702
Contributions paid to TRS subsequent to the measurement date	110,621	-
Total	$ 580,359	$ 104,493

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	$ 66,655
2019	66,655
2020	133,999
2021	61,482
2022	39,410
Thereafter	(2,956)

O. On-Behalf Payments – Teacher Retirement/ TRS-Care

The revenues from "On-Behalf" payments of matching teacher retirement for active members of the District is in accordance with GASB. The District contributes matching funds for personnel funded from federal sources and, if applicable, statutory minimum funds for qualifying personnel. The State provides the matching funds on behalf of the members. The District's on-behalf payments for the fiscal years ended August 31, 2017, 2016, and 2015 were $301,773, $281,405, and $269,072, respectively. On-Behalf payments are reported as state revenue in the financial statements.

P. Medicare Part D – On-Behalf Payments

Federal Government Retiree Drug Subsidy – Medicare Part D allows for the TRS-Care to receive retiree drug subsidy payments from the federal government to offset certain drug expenditures for eligible TRS-Care participants. On-behalf payments must be recognized as equal revenues and expenditures/expenses by each reporting entity. Payments made on-behalf of the District for the years ended August 31, 2017, 2016, and 2015 were $22,790, $13,072, and $17,506, respectively.

Q. Health Care Coverage

During the year ended August 31, 2017, the employees of the District were covered by a health insurance plan (the Plan) with TRS Active Care. The District contributed premiums of $295 per month per employee to the Plan and employees, at their option, authorized payroll withholdings to pay premiums for dependents. All contracts were paid to a third party administrator acting on behalf of the self-funded pool. The Plan was authorized by Section 21.922, Texas Education Code. The contract between Stratford Independent School District and the third party administrator is automatically renewed each year and terms of coverage and contribution costs are included in the contractual provisions. The District is only a participant in the self-funded pool and does not share in the risks and liabilities of the pool.

Because the District is only a participant, stop-loss coverage and unpaid claims do not apply to the District. Latest financial statements for the health insurance plan are available for the year ended August 31, 2017, and have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

R. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions/ Other	Reductions/ Other	Ending Balance	Due Within One Year
Governmental Activities:					
Other Liabilities:					
Loans - Public Finance Contract	$ -	$ 990,000	$ -	$ 990,000	$ 50,833
Unfunded defined benefit retirement obligation	1,281,177	70,495	104,834	1,246,838	-
Total Governmental Activities Long-Term Liabilities	$ 1,281,177	$ 1,060,495	$ 104,834	2,236,838	$ 50,833
Due within one year				(50,833)	
Total Long-Term Liabilities Due in More Than One Year				$ 2,186,005	

S. Fund Balances

As of August 31, 2017, fund balances of the governmental funds are classified as follows:

Non-spendable - amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions, charter requirements or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed - amounts that can be used only for specific purposes determined by a formal action of the District's Board of Trustees. The District's Board of Trustees is the highest level of decision making authority for the District. Commitments may be established, modified, or rescinded only through ordinances for resolutions approved by the District's Board of Trustees.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the Superintendent may assign amounts for specific purposes.

Unassigned - all other spendable amounts.

S. Fund Balances (continued)

As of August 31, 2017, fund balances are composed of the following:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:			
Inventories	$ -	$ 6,662	$ 6,662
Restricted:			
Federal or state fund grants	-	33,993	33,993
Committed:			
Construction	2,750,000	-	2,750,000
Unassigned funds	794,378	-	794,378
Total Fund Balances	$ 3,544,378	$ 40,655	$ 3,585,033

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the District's Board of Trustees has provided otherwise in its commitment or assignment actions.

T. Revenue From Local and Intermediate Sources

During the current year, revenues from local and intermediate sources consisted of the following:

	General Fund	Other Nonmajor Funds	Total
Property taxes	$ 4,721,216	$ -	$ 4,721,216
Penalties, interest, and other tax-related income	37,300	-	37,300
Investment income	15,943	138	16,081
Food sales	-	61,153	61,153
Cocurricular student activities	25,547	-	25,547
Other	918,326	-	918,326
Total	$ 5,718,332	$ 61,291	$ 5,779,623

U. General Fund Federal Source Revenues

Federally financed programs are generally accounted for in Special Revenue Funds of the District, except for School Health and Related Services (SHARS); which is accounted for in the General Fund. The District recognized in the General Fund federal revenues for the year ended August 31, 2017, as follows:

	CFDA Number	Amount
School Health and Related Services (not considered federal financial assistance for inclusion in the Schedule of Expenditures of Federal Awards)	None	$ 61,944

V. Joint Venture - Shared Services Arrangements

The District participates in a shared services arrangement for Migrant Co-op with the Region 16 Education Service Center with 29 other school districts. Although 4.9% of the activity of the shared services arrangement is attributable to the District's participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District has neither a joint ownership interest in fixed assets purchased by the fiscal agent, Region 16 Education Service Center, 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 Stratford Independent School District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. Presented are the revenues and expenditures attributable to the District's participation:

Special Revenue Funds	
Revenues	
5952 Shared Services Arrangements - Federal Revenues from Fiscal Agent	$ 19,370
Total Revenues	$ 19,370
Expenditures	
6100 Payroll Costs	$ 19,370
Total Expenditures	$ 19,370

The District participates in a shared services arrangement for Special Education with the Northwest Texas Education Services Cooperative with six other school districts. Although 25.50% of the activity of the shared services arrangement is attributable to the District's participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District has neither a joint ownership interest

V. Joint Venture - Shared Services Arrangements (continued)

in fixed assets purchased by the fiscal agent, Northwest Texas Education Services Cooperative, 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 Stratford Independent School District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. Presented are the revenues and expenditures attributable to the District's participation:

		General Fund	Other Funds	Total
93-6492	Payments to Fiscal Agent of Shared Services Arrangement	$ 35,442	$ -	$ 35,442

W. Insurance Recoveries

Stratford Independent School District had the following insurance recoveries:

1. Texas Farm Bureau Insurance -

   On January 25, 2017, a 2011 Micro Bird School bus was involved in a collision. On February 7, 2017, $12,338 was received. The vehicle was purchased in 2011 at a cost of $57,790. The book value at the time of the collision was $-0-, and the economic loss was $-0-. There was no impairment of this asset as of August 31, 2017. The bus was traded in for another bus. The insurance proceeds were reported as other local revenue.

2. Texas Farm Bureau Insurance -

   On May 10, 2017, a 2015 Chevrolet Malibu LS was involved in a collision. On May 26, 2017, $6,793 was received. The vehicle was purchased in 2014 at a cost of $18,545. The book value at the time of the collision was $12,827, and the economic loss was $-0-. The vehicle was fully repaired and there was no impairment of this asset as of August 31, 2017. The insurance proceeds were reported as other local revenue.

3. Texas Farm Bureau Insurance -

   Various buildings of the District were damaged by hail on January 4, 2017. The District received $846,631. The cost of the buildings was $879,977. The book value at the time of the loss was $872,444. The economic loss was $-0-. The necessary repairs were made in the year the damage was incurred, and there was no impairment of these assets as of August 31, 2017. The insurance proceeds are reported as other local revenue.

X. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the fiscal year ended August 31, 2017, the District purchased insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

Y. Commitments and Contingencies

The District participates in state and federal grant programs which are governed by 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 District's opinion, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded for such contingencies.

Z. Debt Issuances and Defeased Debt

The District had new debt issued for the fiscal year ended August 31, 2017, that included a loan from Public Property Finance Act Contract No. 7766 dated April 18, 2017, in the amount of $990,000. (See Note III. J. for further details).

The District had no defeased debt.

AA. Workers' Compensation

The District participates in the Public Workers' Compensation Program (the Program) self-insurance fund for workers' compensation insurance. The District, as a member of the Program, pays a contribution for the fund year to cover the servicing costs of program administration, claims handling, loss control, and stop-loss coverage, as well as all claims expenses. The District's required contribution for the year ended August 31, 2017, was $35,564 and was recorded as an insurance expenditure.

The Public Workers' Compensation Program purchases aggregate excess and specific excess reinsurance for protection against losses in excess of applicable retentions. The Program carries the following excess coverage: (a) aggregate excess reinsurance - when total net losses exceed the established attachment point of $3,109,591, the maximum coverage of $2,000,000 takes effect; (b) specific excess reinsurance - when losses from an individual occurrence exceed the attachment point of $450,000, the Program has purchased specific excess reinsurance coverage to pay further losses. Both aggregate excess and specific excess reinsurance is provided by Safety National Casualty Corporation. All risks and liabilities are not shared by Stratford Independent School District; they are the liability of the Public Workers' Compensation Program.

BB. Property/Casualty Insurance

During the year ended August 31, 2017, the District participated in the DFB Insurance Group for property/casualty insurance.

Based on the information we have available as of today, for the year ended August 31, 2017, the District will have no additional liability beyond the contractual obligations for payment of contributions.

CC. Litigation

This District was not a defendant in any lawsuits at August 31, 2017.

DD. Subsequent Events

The District has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were available to be issued (November 7, 2017), and there was the following material subsequent event required to be disclosed:

The District will have a bond election on November 7, 2017, for the construction, acquisition of school buildings, purchase of necessary sites for school buildings, and purchase of new school buses. The bond election will have the following four propositions for the voters to vote on:

1. Proposition No. 1 - $2,920,000 for the construction, acquisition, and equipment of school buildings in the District including the rehabilitation, renovation, expansion, and improvement for restroom renovations; special education room renovations, and science lab renovations at the Middle School; and new science labs and renovations at the High School.

2. Proposition No. 2 - $3,215,000 for the construction, acquisition, and equipment of school buildings including renovations to the vocational – agricultural facility at the High School.

3. Proposition No. 3 - $1,345,000 for the construction, acquisition, and equipment of school buildings including improvements for a secure entrance, music room, and renovation of the administration; and clinic and P.E. spaces in Mary Allen Elementary School.

4. Proposition No. 4 - $4,820,000 for the construction, acquisition, and equipment of school buildings including improvements for a performance hall.

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT G-1

STRATFORD INDEPENDENT SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended August 31, 2017

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	REVENUES:				
5700	Total Local and Intermediate Sources	$ 4,881,342	$ 5,746,342	$ 5,718,332	$ (28,010)
5800	State Program Revenues	1,779,659	1,779,659	1,935,313	155,654
5900	Federal Program Revenues	4,000	4,000	61,944	57,944
5020	Total Revenues	6,665,001	7,530,001	7,715,589	185,588
	EXPENDITURES:				
	Current:				
0011	Instruction	4,036,048	3,976,748	3,820,807	155,941
0012	Instructional Resources and Media Services	81,142	81,142	80,314	828
0013	Curriculum and Instructional Staff Development	30,359	30,359	24,264	6,095
0021	Instructional Leadership	7,560	7,810	7,779	31
0023	School Leadership	379,719	379,719	360,387	19,332
0031	Guidance, Counseling and Evaluation Services	95,191	95,191	90,164	5,027
0033	Health Services	52,895	52,895	51,170	1,725
0034	Student (Pupil) Transportation	307,326	248,326	182,673	65,653
0036	Extracurricular Activities	379,013	379,013	342,583	36,430
0041	General Administration	378,047	437,097	437,094	3
0051	Facilities Maintenance and Operations	825,679	825,679	741,801	83,878
0052	Security and Monitoring Services	63,900	63,900	21,919	41,981
0053	Data Processing Services	113,356	113,356	108,755	4,601
0061	Community Services	3,300	3,300	2,620	680
	Capital Outlay:				
0081	Facilities Acquisition and Construction	-	1,928,396	1,920,779	7,617
	Intergovernmental:				
0091	Contracted Instructional Services Between Schools	208,000	208,000	197,886	10,114
0093	Payments to Fiscal Agent/Member Districts of SSA	35,442	35,442	35,442	-
0099	Other Intergovernmental Charges	161,100	161,100	158,664	2,436
6030	Total Expenditures	7,158,077	9,027,473	8,585,101	442,372
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(493,076)	(1,497,472)	(869,512)	627,960
	OTHER FINANCING SOURCES (USES):				
7914	Non-Current Loans	-	990,000	990,000	-
8911	Transfers Out (Use)	-	-	(1,147)	(1,147)
7080	Total Other Financing Sources (Uses)	-	990,000	988,853	(1,147)
1200	Net Change in Fund Balances	(493,076)	(507,472)	119,341	626,813
0100	Fund Balance - September 1 (Beginning)	3,425,037	3,425,037	3,425,037	-
3000	Fund Balance - August 31 (Ending)	$ 2,931,961	$ 2,917,565	$ 3,544,378	$ 626,813

EXHIBIT G-2

STRATFORD INDEPENDENT SCHOOL DISTRICT

Schedule of the District's Proportionate Share of the Net Pension Liability

Teacher Retirement System of Texas

For the Year Ended August 31, 2017

	2017	2016	2015
District's Proportion of the Net Pension Liability (Asset)	0.0032995%	0.0036244%	0.0020079%
District's Proportionate Share of Net Pension Liability (Asset)	$ 1,246,838	$ 1,281,177	$ 536,337
State's Proportionate Share of the Net Pension Liability (Asset) associated with the District	2,790,258	2,649,881	2,365,469
Total	$ 4,037,096	$ 3,931,058	$ 2,901,806
District's Covered-Employee Payroll	$ 4,146,312	$ 4,049,897	$ 4,009,326
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	30.07%	31.63%	13.38%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.00%	78.43%	83.25%

Note: GASB 68, Paragraph 81 requires that the information on this schedule be data from the period corresponding with the periods covered as of the measurement dates of August 31, 2016 for Year 2017, August 31, 2015 for Year 2016 and August 31, 2014 for 2015.

Note: In accordance with GASB 68, Paragraph 138, only three years of data are presented this reporting period. "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."

EXHIBIT G-3

STRATFORD INDEPENDENT SCHOOL DISTRICT

Schedule of District Contributions

Teacher Retirement System of Texas

For the Fiscal Year 2017

	2017	2016	2015
Contractually Required Contribution	$ 110,621	$ 104,834	$ 107,319
Contribution in Relation to the Contractually Required Contribution	(110,621)	(104,834)	(107,319)
Contribution Deficiency (Excess)	$ -0-	$ -0-	$ -0-
District's Covered-Employee Payroll	$ 4,314,257	$ 4,146,312	$ 4,049,897
Contributions as a Percentage of Covered-Employee Payroll	2.56%	2.53%	2.65%

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31 for the respective fiscal years.

Note: In accordance with GASB 68, Paragraph 138, the years of data presented this reporting period are those for which data is available. "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."

STRATFORD INDEPENDENT SCHOOL DISTRICT
Notes to the Required Supplementary Information
For the Year Ended August 31, 2017

Changes of benefit terms.

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

Changes of assumptions.

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

REQUIRED TEA SCHEDULES

STRATFORD INDEPENDENT SCHOOL DISTRICT
Schedule of Delinquent Taxes Receivable
Fiscal Year Ended August 31, 2017

Last 10 Years Ended August 31		(1) Tax Rates Maintenance	(2) Tax Rates Debt Service	(3) Assessed/Appraised Value for School Tax Purposes
2008	and prior years	Various	Various	$ Various
2009		1.040000	0.053680	462,394,942
2010		1.040000	0.049240	487,848,775
2011		1.040000	0.050522	476,705,685
2012		1.040000	0.048528	413,061,492
2013		1.040000	0.044355	486,113,127
2014		1.040000	0.047870	455,986,777
2015		1.040000	0.046660	479,994,663
2016		1.040000	0.000000	469,837,981
2017	(School year under audit)	1.170000	0.000000	415,139,658
1000	TOTALS			

Dallam and Sherman County Appraisal District's October 1st tax roll current year adjustments must be applied to the tax levy after October 1st due to taxpayer protests and valuation adjustments. Tax rates are per $100 of assessed valuation. No payment to tax increment zone under Chapter 313.

(10) Beginning Balance 9/1/2016	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2017
$ 33,817	$ -	$ 3,230	$ -	$ (99)	$ 30,488
3,991	-	255	-	62	3,798
6,986	-	650	-	-	6,336
9,824	-	1,746	-	-	8,078
9,746	-	1,374	-	-	8,372
3,189	-	709	-	-	2,480
7,432	-	2,548	-	(27)	4,857
31,828	-	10,013	-	-	21,815
40,415	-	16,104	-	-	24,311
-	4,857,134	4,684,587	-	(106,866)	65,681
$ 147,228	$ 4,857,134	$ 4,721,216	$ -	$ (106,930)	$ 176,216

EXHIBIT J-2

STRATFORD INDEPENDENT SCHOOL DISTRICT
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - Child Nutrition Program
For the Year Ended August 31, 2017

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	REVENUES:				
5700	Total Local and Intermediate Sources	$ 70,500	$ 70,500	$ 61,291	$ (9,209)
5800	State Program Revenues	2,000	2,000	1,826	(174)
5900	Federal Program Revenues	224,000	224,000	218,915	(5,085)
5020	Total Revenues	296,500	296,500	282,032	(14,468)
	EXPENDITURES:				
0035	Food Services	321,250	321,250	305,833	15,417
6030	Total Expenditures	321,250	321,250	305,833	15,417
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(24,750)	(24,750)	(23,801)	949
	OTHER FINANCING SOURCES (USES):				
7915	Transfers In	-	-	1,147	1,147
1200	Net Change in Fund Balances	(24,750)	(24,750)	(22,654)	2,096
0100	Fund Balance - September 1 (Beginning)	29,590	29,590	29,590	-
3000	Fund Balance - August 31 (Ending)	$ 4,840	$ 4,840	$ 6,936	$ 2,096

REPORTS ON INTERNAL CONTROL AND

ON COMPLIANCE AND OTHER MATTERS

COY BARTON, C.P.A.

CERTIFIED PUBLIC ACCOUNTANT

116 EAST SEVENTH
P.O. BOX 800 – TELEPHONE 806-935-4188

DUMAS, TEXAS 79029

MEMBER OF

THE AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

THE AICPA'S PRIVATE COMPANIES
PRACTICE SECTION

TEXAS SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Trustees
Stratford Independent School District
503 North 8th
Stratford, Texas

Members of the Board:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Stratford Independent School District as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise Stratford Independent School District's basic financial statements, and have issued our report thereon dated November 7, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Stratford 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 Stratford Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Stratford Independent School District's internal control.

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

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

Compliance and Other Matters

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

Coy Barton, CPA
Dumas, Texas

November 7, 2017

STRATFORD INDEPENDENT SCHOOL DISTRICT
Schedule of Findings and Responses
For the Year Ended August 31, 2017

FINDINGS	RESPONSES
None	None

STRATFORD INDEPENDENT SCHOOL DISTRICT
Schedule of Status of Prior Audit Findings
For the Year Ended August 31, 2017

FINDING	STATUS OF PRIOR YEAR'S FINDING/NONCOMPLIANCE
None	None

STRATFORD INDEPENDENT SCHOOL DISTRICT
Corrective Action Plan
For the Year Ended August 31, 2017

FINDING	CORRECTIVE ACTION PLAN
None	None

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

March 15, 2018

Stratford Independent School District
Unlimited Tax School Building Bonds, Series 2018

(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Stratford Independent School District (the "District") in connection with the issuance of $7,220,000 aggregate principal amount of bonds designated as "Stratford Independent School District Unlimited Tax School Building Bonds, Series 2018" (the "Bonds"). The Bonds are authorized by an order adopted by the Board of Trustees of the District (the "Board") on February 22, 2018 (the "Order"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Order.

In such connection, we have reviewed the Order, the tax certificate of the District dated the date hereof (the "Tax Certificate"), certificates of the District, and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Order and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Order and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against issuers in the State of Texas. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions

contained in the foregoing documents. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

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

1. The Bonds constitute the valid and binding obligations of the District.

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

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

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP