

**TRANSCRIPT OF PROCEEDINGS
RELATING TO**

**LITTLE ELM INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BONDS
SERIES 2018A**

Dated: July 15, 2018

BRACEWELL

**BRACEWELL LLP
1445 ROSS AVENUE, SUITE 3800
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LITTLE ELM INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BONDS
SERIES 2018A

TABLE OF DOCUMENTS

Document	Tab Number
Certified Order Authorizing the Issuance of the Bonds	1
Pricing Certificate	2
Bond Purchase Contract	3
Preliminary Official Statement	4
Official Statement	5
Paying Agent/Registrar Agreement	6
General and No-Litigation Certificate	7
Instruction Letter to Attorney General and Comptroller of Public Accounts	8
Permanent School Fund Guarantee	9
Rating Letters	10
Instruction Letter to Paying Agent Registrar	11
Specimen Bonds	12
Federal Tax Certificate	13
Form 8038-G and Evidence of Transmittal	14
Receipt of Paying Agent/Registrar	15
Closing Certificate Pursuant to Bond Purchase Contract	16
Opinion of Attorney General and Comptroller's Registration Certificate	17
Opinion of Counsel to Underwriter	18
Supplemental Opinion of Bond Counsel	19
Opinion of Bond Counsel	20

CERTIFICATE FOR ORDER

THE STATE OF TEXAS §
COUNTY OF DENTON §

We, the undersigned officers of the Board of Trustees of Little Elm Independent School District, hereby certify as follows:

1. The Board of Trustees of Little Elm Independent School District convened in a regular meeting on the 18th day of June, 2018, at the regular meeting place thereof, within said District, and the roll was called of the duly constituted officers and members of said Board, to wit:

Melissa Myers	President
David Montemayor	Vice President
Jason Olson	Secretary
LeAnna Harding	Trustee
Alex Flores	Trustee
Dan Blackwood	Trustee
DeLeon English	Trustee

and all of said persons were present except DeLeon English, thus constituting a quorum. Whereupon, among other business, the following was transacted at said meeting: a written

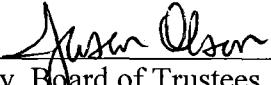
AN ORDER AUTHORIZING THE ISSUANCE OF LITTLE ELM INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018A IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$25,000,000; LEVYING A TAX AND PROVIDING FOR THE SECURITY AND PAYMENT THEREOF; PROVIDING FOR THE AWARD OF THE SALE THEREOF IN ACCORDANCE WITH SPECIFIED PARAMETERS; AUTHORIZING THE EXECUTION AND DELIVERY OF PURCHASE CONTRACT AND A PAYING AGENT/REGISTRAR AGREEMENT; APPROVING THE PREPARATION OF AN OFFICIAL STATEMENT; AND ENACTING OTHER PROVISIONS RELATING TO THE SUBJECT AND PURPOSES OF THIS ORDER

was duly introduced for the consideration of said Board and read in full. It was then duly moved and seconded that said order be adopted; and, after due discussion, said motion, carrying with it the adoption of said order, prevailed and carried by the following vote:

6 Member(s) shown present above voted "Aye."
0 Member(s) shown present above voted "No."

2. A true, full and correct copy of the aforesaid order adopted at the meeting described in the above and foregoing paragraph is attached to and follows this certificate; that said order has been duly recorded in said Board's minutes of said meeting; that the above and foregoing paragraph is a true, full and correct excerpt from said Board's minutes of said meeting pertaining to the adoption of said order; that the persons named in the above and foregoing paragraph are the duly chosen, qualified and acting officers and members of said Board as indicated therein; that each of the officers and members of said Board was duly and sufficiently notified officially and personally, in advance, of the date, hour, place and purpose of the aforesaid meeting, and that said order would be introduced and considered for adoption at said meeting, and each of said officers and members consented, in advance, to the holding of said meeting for such purpose; that said meeting was open to the public as required by law; and that public notice of the date, hour, place and subject of said meeting was given as required by the Chapter 551, Texas Government Code.

SIGNED AND SEALED this June 19, 2018.



Secretary, Board of Trustees
Little Elm Independent School District

[SEAL]

ORDER
AUTHORIZING THE ISSUANCE OF

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018A

Adopted: June 18, 2018

TABLE OF CONTENTS

Page

ARTICLE I DEFINITIONS AND OTHER PRELIMINARY MATTERS

Section 1.01. Definitions.....	2
Section 1.02. Other Definitions	5
Section 1.03. Findings.....	5
Section 1.04. Table of Contents, Titles and Headings.....	5
Section 1.05. Interpretation.....	5

ARTICLE II SECURITY FOR THE BONDS

Section 2.01. Tax Levy	5
------------------------------	---

ARTICLE III AUTHORIZATION; GENERAL TERMS AND PROVISIONS REGARDING THE BONDS

Section 3.01. Authorization	6
Section 3.02. Date, Denomination, Maturities, and Interest.....	7
Section 3.03. Medium, Method and Place of Payment.....	7
Section 3.04. Execution and Registration of Bonds	8
Section 3.05. Ownership	9
Section 3.06. Registration, Transfer and Exchange.....	9
Section 3.07. Cancellation	10
Section 3.08. Temporary Bonds.....	10
Section 3.09. Replacement Bonds	11
Section 3.10. Book-Entry Only System	11
Section 3.11. Successor Securities Depository; Transfer Outside Book-Entry Only System.....	12
Section 3.12. Payments to Cede & Co.....	13

ARTICLE IV REDEMPTION OF BONDS BEFORE MATURITY

Section 4.01. Limitation on Redemption	13
Section 4.02. Optional Redemption	13
Section 4.03. Mandatory Sinking Fund Redemption.....	13
Section 4.04. Partial Redemption.....	13
Section 4.05. Notice of Redemption to Owners	14
Section 4.06. Payment Upon Redemption	14
Section 4.07. Effect of Redemption.....	15
Section 4.08. Lapse of Payment.....	15

ARTICLE V
PAYING AGENT/REGISTRAR

Section 5.01.	Appointment of Initial Paying Agent/Registrar	15
Section 5.02.	Qualifications	15
Section 5.03.	Maintaining Paying Agent/Registrar	15
Section 5.04.	Termination.....	15
Section 5.05.	Notice of Change to Owners.....	16
Section 5.06.	Agreement to Perform Duties and Functions.....	16
Section 5.07.	Delivery of Records to Successor	16

ARTICLE VI
FORM OF THE BONDS

Section 6.01.	Form Generally	16
Section 6.02.	CUSIP Registration.....	23
Section 6.03.	Legal Opinion	23

ARTICLE VII
SALE AND DELIVERY OF BONDS; DEPOSIT OF PROCEEDS

Section 7.01.	Sale of Bonds, Official Statement.....	23
Section 7.02.	Control and Delivery of Bonds	25
Section 7.03.	Deposit of Proceeds	25

ARTICLE VIII
CREATION OF FUNDS AND ACCOUNTS;
DEPOSIT OF PROCEEDS; INVESTMENTS

Section 8.01.	Creation of Interest and Sinking Fund	25
Section 8.02.	Interest and Sinking Fund	26
Section 8.03.	Security of Funds	26

ARTICLE IX
INVESTMENTS

Section 9.01.	Investments	26
Section 9.02.	Investment Income	26

ARTICLE X
PARTICULAR REPRESENTATIONS AND COVENANTS

Section 10.01.	Payment of the Bonds	26
Section 10.02.	Other Representations and Covenants	26
Section 10.03.	Federal Income Tax Exclusion	27

ARTICLE XI
DEFAULT AND REMEDIES

Section 11.01. Events of Default	29
Section 11.02. Remedies for Default	29
Section 11.03. Remedies Not Exclusive	29

ARTICLE XII
DISCHARGE

Section 12.01. Discharge	30
--------------------------------	----

ARTICLE XIII
CONTINUING DISCLOSURE UNDERTAKING

Section 13.01. Annual Reports	30
Section 13.02. Material Event Notices	31
Section 13.03. Limitations, Disclaimers and Amendments	32

ARTICLE XIV
PERMANENT SCHOOL FUND GUARANTEE

Section 14.01. Permanent School Fund Guarantee.....	33
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ARTICLE XV
MISCELLANEOUS

Section 15.01. Changes to Order	34
Section 15.02. Partial Invalidity.....	34
Section 15.03. No Personal Liability	34

AN ORDER AUTHORIZING THE ISSUANCE OF LITTLE ELM INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018A IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$25,000,000; LEVYING A TAX AND PROVIDING FOR THE SECURITY AND PAYMENT THEREOF; PROVIDING FOR THE AWARD OF THE SALE THEREOF IN ACCORDANCE WITH SPECIFIED PARAMETERS; AUTHORIZING THE EXECUTION AND DELIVERY OF PURCHASE CONTRACT AND A PAYING AGENT/REGISTRAR AGREEMENT; APPROVING THE PREPARATION OF AN OFFICIAL STATEMENT; AND ENACTING OTHER PROVISIONS RELATING TO THE SUBJECT AND PURPOSES OF THIS ORDER

WHEREAS, Little Elm Independent School District (the "District") intends to issue school building bonds to finance school building improvements which the Board of Trustees (the "Board") of the District determines to be necessary within the District; and

WHEREAS, the voters of the District have approved school building bonds voted pursuant to the Constitution and the laws of the state of Texas, including particularly Chapter 45 of the Texas Education Code, as amended, ("Chapter 45") and at an election held within the District on November 7, 2017 (the "Election"); and

WHEREAS, at said Election, the voters authorized the amount of school building bonds set forth below in the following schedule; and

<u>Election</u>	<u>Amount Voted</u>	<u>Amount Previously Issued</u>	<u>Authorized but Unissued Balance</u>
November 7, 2017	\$235,000,000	\$150,000,000	\$85,000,000

WHEREAS the Board does hereby determine that the school building bonds in an amount not to exceed \$25,000,000, including any premium allocated against voted authority, should be issued out of the school building bonds voted at the Election; and

WHEREAS, the actual amount issued therefrom pursuant to this Order and the balance that remains after the issuance of the school building bonds authorized in this Order shall be indicated in the Pricing Certificate for Bonds; and

WHEREAS, the Board has found and determined that it is necessary and in the best interest of the District and its citizens that it authorize by this Order the issuance and delivery of such bonds for constructing, improving, renovating and equipping school buildings of the District, and the purchase of necessary sites therefor and paying the costs of issuing the Bonds at this time; and

WHEREAS, the Board hereby finds and determines that it is necessary and in the best interest of the District and its citizens that it authorize by this Order the issuance and delivery of its bonds at this time, and

WHEREAS, the District has a principal amount of at least \$100,000,000 in a combination of outstanding long-term indebtedness and long-term indebtedness proposed to be issued, and some amount of such long-term indebtedness is rated in one of the four highest rating categories for long-term debt instruments by a nationally recognized rating agency for municipal securities without regard to the effect of any credit agreement or other form of credit enhancement entered into in connection with the obligation, and therefore qualifies as an "Issuer" under Chapter 1371, Texas Government Code, as amended ("Chapter 1371"); and

WHEREAS, pursuant to Chapter 1371, the District desires to delegate the authority to effect the sale of the Bonds from time to time to the Authorized Officer; and

WHEREAS, the meeting at which this Order is being considered is open to the public as required by law, and the public notice of the time, place and purpose of said meeting was given as required by Chapter 551, Texas Government Code; NOW, THEREFORE

BE IT ORDERED BY THE BOARD OF TRUSTEES OF LITTLE ELM INDEPENDENT SCHOOL DISTRICT:

ARTICLE I

DEFINITIONS AND OTHER PRELIMINARY MATTERS

Section 1.01. Definitions. Unless otherwise expressly provided or unless the context clearly requires otherwise in this Order, the following terms shall have the meanings specified below:

"Authorized Officer" means the Superintendent or the Associate Superintendent and Chief Financial Officer of the District.

"Board" means the Board of Trustees of the District.

"Bond" means any of the Bonds.

"Bond Date" means the date designated as the date of the Bonds in the Pricing Certificate.

"Bonds" means one of the District's bonds authorized to be issued by Section 3.01.

"Business Day" means a day that is not a Saturday, Sunday, legal holiday or other day on which banking institutions in the city where the Designated Payment/Transfer Office is located are required or authorized by law or executive order to close.

"Closing Date" means the date of the initial delivery of and payment for the Bonds.

“Code” means the Internal Revenue Code of 1986, as amended, and, with respect to a specific section thereof, such reference shall be deemed to include (a) the Regulations promulgated under such section, (b) any successor provision of similar import hereafter enacted, (c) any corresponding provision of any subsequent Internal Revenue Code and (d) the regulations promulgated under the provisions described in (b) and (c).

“Debt Service” means, collectively, all amounts due and payable with respect to the Bonds representing the principal of the Bonds and the interest thereon, in each case payable at the times and in the manner provided herein and in the Pricing Certificate.

“Designated Payment/Transfer Office” means (i) with respect to the initial Paying Agent/Registrar named in this Order, the Designated Payment/Transfer Office as designated in the Paying Agent/Registrar Agreement, or at such other location as may be designated in the Pricing Certificate or such other location designated by the Paying Agent/Registrar, and (ii) with respect to any successor Paying Agent/Registrar, the office of such successor designated and located as may be agreed upon by the District and such successor.

“DTC” shall mean The Depository Trust Company of New York, New York, or any successor securities depository.

“DTC Participant” shall mean brokers and dealers, banks, trust companies, clearing corporations and certain other organizations on whose behalf DTC was created to hold securities to facilitate the clearance and settlement of securities transactions among DTC Participants.

“EMMA” means the Electronic Municipal Market Access System.

“Event of Default” means any event of default as defined in Section 10.01.

“Initial Bond” means the Initial Bond authorized by Section 3.02.

“Interest and Sinking Fund” means the interest and sinking fund established by Section 8.02.

“Interest Payment Date” means the date or dates on which interest on the principal thereof is scheduled to be paid, as designated in the Pricing Certificate.

“Maturity” means the date on which the principal of the Bonds becomes due and payable according to the terms thereof, whether at Stated Maturity or by proceedings for prior redemption.

“MSRB” means the Municipal Securities Rulemaking Board.

“Order” means this Order.

“Owner” means the person who is the registered owner of a Bond or Bonds, as shown in the Register.

“Paying Agent/Registrar” means Paying Agent/Registrar designated in the Pricing Certificate, or any successor thereto.

“Paying Agent Registrar Agreement” means the Paying Agent/Registrar Agreement between the Paying Agent/Registrar and the District relating to the Bonds.

“Permanent School Fund Guarantee” or “PSF” shall mean that certain fund, created by Article VII, Section 5 of the Texas Constitution, pursuant to which the payment of principal and interest on the Bonds has been guaranteed.

“Pricing Certificate” means a certificate or certificates to be signed by the Authorized Officer.

“Purchase Contract” means, if the Bonds are sold in a negotiated sale, the purchase agreement between the District and the Underwriters providing for the sale of the Bonds to the Underwriters.

“Purchaser” means, if the Bonds are sold in a competitive sale, the initial purchaser of the Bonds designated in the Pricing Certificate.

“Record Date” means the close of business on the last Business Day of the month next preceding an Interest Payment Date or such other date as specified in the Pricing Certificate.

“Register” means the Bond register required by Section 3.06(a).

“Regulations” means the applicable proposed, temporary or final Treasury Regulations promulgated under the Code or, to the extent applicable to the Code, under the Internal Revenue Code of 1954, as such regulations may be amended or supplemented from time to time.

“Representation Letter” means the Blanket Letter of Representations between the District and DTC.

“Representative” means the representative of the Underwriters, if any, designated in the Purchase Contract.

“Rule” means SEC Rule 15c2-12, as amended from time to time.

“SEC” means the United States Securities and Exchange Commission.

“Special Payment Date” means the date that is fifteen (15) days after the Special Record Date, as described in Section 3.03(e).

“Special Record Date” means the new record date for interest payment established in the event of a nonpayment of interest on a scheduled payment date, and for thirty (30) days thereafter, as described in Section 3.03(e).

“State” means the State of Texas.

“Stated Maturity” means the respective stated maturity dates of the Bonds specified in the Pricing Certificate.

“Unclaimed Payments” means money deposited with the Paying Agent/Registrar for the payment of Debt Service or money set aside for the payment of Bonds duly called for redemption prior to Stated Maturity and remaining unclaimed by the Owners of such Bonds for 90 days after the applicable payment or redemption date.

“Underwriters” means, if the Bonds are sold in negotiated sale, the underwriters designated in the Pricing Certificate.

Section 1.02. Other Definitions. The capitalized terms defined in the preamble to this Order shall have the meanings assigned to them in the preamble of this Order.

Section 1.03. Findings. The declarations, determinations and findings declared, made and found in the preamble to this Order are hereby adopted, restated and made a part of the operative provisions hereof.

Section 1.04. Table of Contents, Titles and Headings. The table of contents, titles and headings of the Articles and Sections of this Order have been inserted for convenience of reference only and are not to be considered a part hereof and shall not in any way modify or restrict any of the terms or provisions hereof and shall never be considered or given any effect in construing this Order or any provision hereof or in ascertaining intent, if any question of intent should arise.

Section 1.05. Interpretation. (a) Unless the context requires otherwise, words of the masculine gender shall be construed to include correlative words of the feminine and neuter genders and vice versa, and words of the singular number shall be construed to include correlative words of the plural number and vice versa.

(b) This Order and all the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein to sustain the validity of this Order.

(c) All article and section references shall mean references to the respective articles and sections of this Order unless designated otherwise.

ARTICLE II

SECURITY FOR THE BONDS

Section 2.01. Tax Levy. (a) Pursuant to the authority granted by the Constitution and laws of the State, there is hereby levied for the current year and for each succeeding year hereafter while any of the Bonds or any interest thereon is outstanding and unpaid, an ad valorem tax on each one hundred dollars valuation of taxable property within the District, at a rate sufficient, without limit as to rate or amount, to pay Debt Service when due and payable, full allowance being made for delinquencies and costs of collection.

(b) The ad valorem tax thus levied shall be assessed and collected each year against all property appearing on the tax rolls of the District most recently approved in accordance with law and the money thus collected shall be deposited as collected to the Interest and Sinking Fund.

(c) Said ad valorem tax, the collections therefrom, and all amounts on deposit in or required hereby to be deposited to the Interest and Sinking Fund are hereby pledged and committed irrevocably to the payment of Debt Service when due and as payable in accordance with the terms of the Bonds and this Order.

(d) Any money received by the District with respect to the Bonds as state assistance pursuant to the instructional allotment or as state assistance with existing debt, each as authorized by Chapter 46, Texas Education Code, shall be deposited in the interest and sinking fund as required by Sections 46.009 and 46.035, Texas Education Code, respectively. The District will take into account the balance in the Interest and Sinking Fund when it sets its debt service tax rate each year.

(e) To the extent required, and for so long as required, the District covenants to comply with the provisions of Section 45.0031 and to not set a tax rate for a year until the District has credited to the account of the Interest and Sinking Fund the amount of State assistance received or to be received in accordance with the terms of Section 45.0031.

(f) To the extent the District has available funds which may be lawfully used to pay Debt Service and such funds are on deposit in the Interest and Sinking Fund in advance of the time when the Board is scheduled to set a tax rate for any year, then such tax rate which otherwise would be required to be established pursuant to subsection (a) of this Section may be reduced to the extent and by the amount of such funds then on deposit in the Interest and Sinking Fund.

(g) If the lien and provisions of this Order shall be released in a manner permitted by Article XII hereof, then the collection of such ad valorem tax may be suspended or appropriately reduced, as the facts may permit, and further deposits to the Interest and Sinking Fund may be suspended or appropriately reduced, as the facts may permit. In determining the aggregate principal amount of outstanding Bonds, there shall be subtracted the amount of any Bonds that have been duly called for redemption and for which money has been deposited with the Paying Agent/Registrar for such redemption.

ARTICLE III

AUTHORIZATION; GENERAL TERMS AND PROVISIONS REGARDING THE BONDS

Section 3.01. Authorization. The District's bonds to be designated "Little Elm Independent School District Unlimited Tax School Building Bonds, Series 2018A," unless designated as a different series in the Pricing Certificate, are hereby authorized to be issued and delivered in accordance with the Constitution and laws of the State of Texas, including particularly Chapter 45, Texas Education Code, as amended, Chapter 1371, Texas Government

Code, as amended and the Election. The Bonds shall be issued in an aggregate principal amount of not to exceed \$25,000,000 as provided in the Pricing Certificate (i) the construction, improvement, renovation and equipment of school buildings in the District and acquiring real property therefor, and the purchase of new school buses, and (ii) for paying for the costs of issuing the Bonds.

Section 3.02. Date, Denomination, Maturities, and Interest. (a) The Bonds shall be dated the date set forth in the Pricing Certificate, and shall be in fully registered form, without coupons.

(b) The Bonds shall be in the aggregate principal amount designated in the Pricing Certificate, shall be in the denomination of \$5,000 principal amount or any integral multiple thereof and shall be numbered separately from one upward, except the Initial Bond, which shall be numbered T-1.

(c) The Bonds shall mature on the dates and in the principal amounts and shall bear interest at the per annum rates set forth in the Pricing Certificate.

(d) Interest shall accrue and be paid on each Bonds, respectively, until the principal amount thereof has been paid or provision for such payment has been made, from the later of (i) the Bond Date, unless otherwise provided in the Pricing Certificate, or (ii) the most recent Interest Payment Date to which interest has been paid or provided for at the rate per annum for each respective maturity specified in the Pricing Certificate. Such interest shall be payable on each Interest Payment Date and shall be computed on the basis of a 360-day year of twelve 30-day months.

Section 3.03. Medium, Method and Place of Payment. (a) Debt Service shall be paid in lawful money of the United States of America.

(b) Interest on each Bond shall be payable to each Owner as shown in the Register at the close of business on the Record Date; provided, however, in the event of nonpayment of interest on a scheduled Interest Payment Date and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") shall be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "Special Payment Date," which shall be 15 days after the Special Record Date) shall be sent at least five Business Days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each Owner of a Bonds appearing on the Register at the close of business on the last Business Day next preceding the date of mailing of such notice.

(c) Interest on each Bond shall be paid by check dated as of the Interest Payment Date, and sent first class United States mail, postage prepaid, by the Paying Agent/Registrar to each Owner, as shown in the Register at the close of business on the Record Date, at the address of each such Owner as such appears in the Register or by such other customary banking arrangements acceptable to the Paying Agent/Registrar and the person to whom interest is to be paid; provided, however, that such person shall bear all risk and expense of such other customary banking arrangements. At the option of an Owner of at least \$1,000,000 principal amount of the

Bonds, interest may be paid by wire transfer to the bank account of such Owner on file with the Paying Agent/Registrar.

(d) The principal of each Bond shall be paid to the Owner thereof at Maturity upon presentation and surrender of such Bond at the Designated Payment/Transfer Office of the Paying Agent/Registrar.

(e) If the date for the payment of Debt Service is not a Business Day, the date for such payment shall be the next succeeding Business Day, and payment on such date shall for all purposes be deemed to have been made on the due date thereof as specified in this Section.

(f) Unclaimed Payments shall be segregated in a special account and held in trust, uninvested by the Paying Agent/Registrar, for the account of the Owner of the Bonds to which the Unclaimed Payments pertain. Subject to Title 6, Texas Property Code, Unclaimed Payments remaining unclaimed by the Owners entitled thereto for three (3) years after the applicable payment or redemption date shall be applied to the next payment or payments on the Bonds thereafter coming due and, to the extent any such money remains after the retirement of all outstanding Bonds, shall be paid to the District to be used for any lawful purpose. Thereafter, neither the District, the Paying Agent/Registrar nor any other person shall be liable or responsible to any holders of such Bonds for any further payment of such unclaimed moneys or on account of any such Bonds, subject to Title 6, Texas Property Code.

Section 3.04. Execution and Registration of Bonds. (a) The Bonds shall be executed on behalf of the District by the President or Vice President and the Secretary of the Board, by their manual or facsimile signatures, and the official seal of the District shall be impressed or placed in facsimile thereon. Such facsimile signatures on the Bonds shall have the same effect as if each of the Bonds had been signed manually and in person by each of said officers, and such facsimile seal on the Bonds shall have the same effect as if the official seal of the District had been manually impressed upon each of the Bonds.

(b) In the event any officer of the District whose manual or facsimile signature appears on the Bonds ceases to be such officer before the authentication of such Bonds or before the delivery thereof, such facsimile signature nevertheless shall be valid and sufficient for all purposes as if such officer had remained in such office.

(c) Except as provided below, no Bond shall be valid or obligatory for any purpose or be entitled to any security or benefit of this Order unless and until there appears thereon the Certificate of Paying Agent/Registrar substantially in the form provided herein, duly authenticated by manual execution by an officer or duly authorized signatory of the Paying Agent/Registrar. It shall not be required that the same officer or authorized signatory of the Paying Agent/Registrar sign the Certificate of Paying Agent/Registrar on all of the Bonds. In lieu of the executed Certificate of Paying Agent/Registrar described above, the Initial Bond delivered at the Closing Date shall have attached thereto the Comptroller's Registration Certificate substantially in the form provided herein, manually executed by the Comptroller of Public Accounts of the State of Texas, or by his duly authorized agent, which certificate shall be evidence that the Initial Bond have been duly approved by the Attorney General of the State of

Texas and that they are valid and binding obligations of the District, and have been registered by the Comptroller of Public Accounts of the State of Texas.

(d) On the Closing Date, one initial bond (the "Initial Bond"), being a single Initial Bond representing the entire principal amount of the Bonds designated in the Pricing Certificate, such Initial Bond to be payable in stated installments to the Purchaser or Underwriters, as applicable, or their designee, such Initial Bond to be executed by manual or facsimile signature of the President or Vice President and Secretary of the Board, approved by the Attorney General, and registered and manually signed by the Comptroller of Public Accounts, will be delivered to the Purchaser or Underwriters, as applicable, or their designee. Upon payment for the Initial Bond, the Paying Agent/Registrar shall cancel the Initial Bond and deliver registered definitive Bonds to DTC in accordance with Section 3.10. To the extent the Paying Agent/Registrar is eligible to participate in DTC's FAST System, as evidenced by agreement between the Paying Agent/Registrar and DTC, the Paying Agent/Registrar shall hold the definitive Bonds in safekeeping for DTC.

Section 3.05. Ownership. (a) The District, the Paying Agent/Registrar and any other person may treat the Owner as the absolute owner of such Bond for the purpose of making and receiving payment of the principal thereof, for the further purpose of making and receiving payment of the interest thereon (subject to the provisions herein that for the Bonds interest is to be paid to the person in whose name the Bond is registered on the Record Date), and for all other purposes, whether or not such Bond is overdue, and neither the District nor the Paying Agent/Registrar shall be bound by any notice or knowledge to the contrary.

(b) All payments made to the Owner of a Bond shall be valid and effectual and shall discharge the liability of the District and the Paying Agent/Registrar upon such Bond to the extent of the sums paid.

Section 3.06. Registration, Transfer and Exchange. (a) So long as any Bonds remain outstanding, the District shall cause the Paying Agent/Registrar to keep at its Designated Payment/Transfer Office a bond register in which, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of Bonds in accordance with this Order.

(b) The ownership of a Bond may be transferred only upon the presentation and surrender of the Bond to the Paying Agent/Registrar at the Designated Payment/Transfer Office with such endorsement or other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. No transfer of any Bond shall be effective until entered in the Register.

(c) The Bonds shall be exchangeable upon the presentation and surrender thereof at the Designated Payment/Transfer Office for a Bond or Bonds of the same maturity and interest rate and in any denomination or denominations of any integral multiple of \$5,000 and in an aggregate principal amount equal to the unpaid principal amount of the Bonds presented for exchange.

(d) The Paying Agent/Registrar is hereby authorized to authenticate and deliver Bonds transferred or exchanged in accordance with this Section. A new Bond or Bonds will be

delivered by the Paying Agent/Registrar, in lieu of the Bond being transferred or exchanged, at the Designated Payment/Transfer, or sent by United States mail, first class, postage prepaid, to the Owner or his designee. Each exchange Bond delivered by the Paying Agent/Registrar in accordance with this Section shall constitute an original contractual obligation of the District and shall be entitled to the benefits and security of this Order to the same extent as the Bond or Bonds in lieu of which such Bond is delivered.

(e) No service charge shall be made to the Owner for the initial registration, any subsequent transfer, or exchange for a different denomination of any of the Bonds. The Paying Agent/Registrar, however, may require the Owner to pay a sum sufficient to cover any tax or other governmental charge that is authorized to be imposed in connection with the registration, transfer or exchange of a Bond.

(f) Neither the District nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond called for redemption within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

Section 3.07. Cancellation. All Bonds paid or redeemed before Stated Maturity in accordance with this Order, and all Bonds in lieu of which exchange Bonds or replacement Bonds are authenticated and delivered in accordance with this Order, shall be cancelled upon the making of proper records regarding such payment, exchange or replacement. The Paying Agent/Registrar shall then return such cancelled Bonds to the District or may, in accordance with law, destroy such cancelled Bonds and periodically furnish the District with certificates of destruction of such Bonds.

Section 3.08. Temporary Bonds. (a) Following the delivery and registration of the Initial Bond and pending the preparation of definitive Bonds, the proper officers of the District may execute and, upon the District's request, the Paying Agent/Registrar shall authenticate and deliver, one or more temporary Bonds that are printed, lithographed, typewritten, mimeographed or otherwise produced, in any denomination, substantially of the tenor of the definitive Bonds in lieu of which they are delivered, without coupons, and with such appropriate insertions, omissions, substitutions and other variations as the officers of the District executing such temporary Bonds may determine, as evidenced by their signing of such temporary Bonds.

(b) Until exchanged for Bonds in definitive form, such Bonds in temporary form shall be entitled to the benefit and security of this Order.

(c) The District, without unreasonable delay, shall prepare, execute and deliver to the Paying Agent/Registrar the Bonds in definitive form; thereupon, upon the presentation and surrender of the Bond or Bonds in temporary form to the Paying Agent/Registrar, the Paying Agent/Registrar shall cancel the Bonds in temporary form and authenticate and deliver in exchange therefor a Bond or Bonds of the same maturity and series, in definitive form, in the authorized denomination, and in the same aggregate principal amount, as the Bond or Bonds in temporary form surrendered. Such exchange shall be made without the making of any charge therefor to any Owner.

Section 3.09. Replacement Bonds. (a) Upon the presentation and surrender to the Paying Agent/Registrar of a mutilated Bond, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor a replacement Bond of like tenor and principal amount, bearing a number not contemporaneously outstanding. The District or the Paying Agent/Registrar may require the Owner of such Bond to pay a sum sufficient to cover any tax or other governmental charge that is authorized to be imposed in connection therewith and any other expenses connected therewith.

(b) In the event that any Bond is lost, apparently destroyed or wrongfully taken, the Paying Agent/Registrar, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, shall authenticate and deliver a replacement Bond of like tenor and principal amount, bearing a number not contemporaneously outstanding, provided that the Owner first complies with the following requirements:

(i) furnishes to the Paying Agent/Registrar satisfactory evidence of his or her ownership of and the circumstances of the loss, destruction or theft of such Bond;

(ii) furnishes such security or indemnity as may be required by the Paying Agent/Registrar to save it and the District harmless;

(iii) pays all expenses and charges in connection therewith, including, but not limited to, printing costs, legal fees, fees of the Paying Agent/Registrar and any tax or other governmental charge that is authorized to be imposed; and

(iv) satisfies any other reasonable requirements imposed by the District and the Paying Agent/Registrar.

(c) If, after the delivery of such replacement Bond, a bona fide purchaser of the original Bond in lieu of which such replacement Bond was issued presents for payment such original Bond, the District and the Paying Agent/Registrar shall be entitled to recover such replacement Bond from the person to whom it was delivered or any person taking therefrom, except a bona fide purchaser, and shall be entitled to recover upon the security or indemnity provided therefor to the extent of any loss, damage, cost or expense incurred by the District or the Paying Agent/Registrar in connection therewith.

(d) In the event that any such mutilated, lost, apparently destroyed or wrongfully taken Bond has become or is about to become due and payable, the Paying Agent/Registrar, in its discretion, instead of issuing a replacement Bond, may pay such Bond if it has become due and payable or may pay such Bond when it becomes due and payable.

(e) Each replacement Bond delivered in accordance with this Section shall constitute an original additional contractual obligation of the District and shall be entitled to the benefits and security of this Order to the same extent as the Bond or Bonds in lieu of which such replacement Bond is delivered.

Section 3.10. Book-Entry Only System. (a) To the extent so designated in the Pricing Certificate, the definitive Bonds shall be initially issued in the form of a single fully registered Bond and for each of the maturities thereof. Upon initial issuance, the ownership of each such

Bond shall be registered in the name of Cede & Co., as nominee of DTC, and except as provided in Section 3.11 hereof, all of the outstanding Bonds shall be registered in the name of Cede & Co., as nominee of DTC.

(b) With respect to Bonds registered in the name of Cede & Co., as nominee of DTC, the District and the Paying Agent/Registrar shall have no responsibility or obligation to any DTC Participant or to any person on behalf of whom such a DTC Participant holds an interest in the Bonds, except as provided in this Order. Without limiting the immediately preceding sentence, the District and the Paying Agent/Registrar shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co. or any DTC Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any DTC Participant or any other person, other than an Owner, of any notice with respect to the Bonds, including any notice of redemption, or (iii) the payment to any DTC Participant or any other person, other than an Owner, of any amount with respect to Debt Service. Notwithstanding any other provision of this Order to the contrary, the District and the Paying Agent/Registrar shall be entitled to treat and consider the person in whose name each Bond is registered in the Register as the absolute owner of such Bond for the purpose of payment of principal of, premium, if any, and interest on such Bonds, for the purpose of all matters with respect to such Bond, for the purpose of registering transfer with respect to such Bond, and for all other purposes whatsoever. The Paying Agent/Registrar shall pay all Debt Service only to or upon the order of the respective Owners, as provided in this Order, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the District's obligations with respect to payment of, Debt Service to the extent of the sum or sums so paid. No person other than an Owner, shall receive a Bond certificate evidencing the obligation of the District to make payments of amounts due pursuant to this Order. Upon delivery by DTC to the Paying Agent/Registrar of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the provisions in this Order with respect to interest checks being mailed to the registered Owner at the close of business on the Record Date, the word "Cede & Co." in this Order shall refer to such new nominee of DTC.

Section 3.11. Successor Securities Depository; Transfer Outside Book-Entry Only System. In the event that the District or the Paying Agent/Registrar determines that DTC is incapable of discharging its responsibilities described herein and in the Representation Letter, and that it is in the best interest of the beneficial owners of the Bonds that they be able to obtain certificated Bonds, or in the event DTC discontinues the services described herein, the District or the Paying Agent/ Registrar shall (i) appoint a successor securities depository, qualified to act as such under Section 17(a) of the Securities and Exchange Act of 1934, as amended, notify DTC and DTC Participants, as identified by DTC, of the appointment of such successor securities depository and transfer one or more separate Bonds to such successor securities depository or (ii) notify DTC and DTC Participants, as identified by DTC, of the availability through DTC of Bonds and transfer one or more separate Bonds to DTC Participants having Bonds credited to their DTC accounts, as identified by DTC. In such event, the Bonds shall no longer be restricted to being registered in the Register in the name of Cede & Co., as nominee of DTC, but may be registered in the name of the successor securities depository, or its nominee, or in whatever name or names Owners transferring or exchanging Bonds shall designate, as applicable, in accordance with the provisions of this Order.

Section 3.12. Payments to Cede & Co. Notwithstanding any other provision of this Order to the contrary, so long as any Bonds are registered in the name of Cede & Co., as nominee of DTC, all payments of Debt Service on such Bonds, and all notices with respect to such Bonds, shall be made and given, respectively, in the manner provided in the Representation Letter.

ARTICLE IV

REDEMPTION OF BONDS BEFORE MATURITY

Section 4.01. Limitation on Redemption. The Bonds shall be subject to redemption before Stated Maturity only as provided in this Article IV and in the Pricing Certificate.

Section 4.02. Optional Redemption. The Bonds shall be subject to redemption at the option of the District at such times, in such amounts, in such manner and at such redemption prices as may be designated and provided for in the Pricing Certificate.

Section 4.03. Mandatory Sinking Fund Redemption. (a) The Bonds designated as "Term Bonds" in the Pricing Certificate ("Term Bonds"), if any, are subject to scheduled mandatory redemption and will be redeemed by the District, in part, at a price equal to the principal amount thereof, without premium, plus accrued interest to the redemption date, out of moneys available for such purpose in the interest and sinking fund, on the dates and in the respective principal amounts as set forth in the Pricing Certificate.

(b) Prior to each scheduled mandatory redemption date, the Paying Agent/Registrar shall select on a pro rata basis in accordance with the operational arrangements of DTC, a principal amount of Term Bonds equal to the aggregate principal amount of such Term Bonds to be redeemed, shall call such Term Bonds for redemption on such scheduled mandatory redemption date, and shall give notice of such redemption, as provided in Section 4.05.

(c) The principal amount of the Term Bonds required to be redeemed on any redemption date pursuant to subparagraph (a) of this Section 4.03 shall be reduced, at the option of the District, by the principal amount of any Term Bonds which, at least 45 days prior to the mandatory sinking fund redemption date (i) shall have been acquired by the District at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, or (ii) shall have been redeemed pursuant to the optional redemption provisions hereof and not previously credited to a mandatory sinking fund redemption.

Section 4.04. Partial Redemption. (a) If less than all of the Bonds are to be redeemed pursuant to Section 4.02, the District shall determine the maturities and the principal amount thereof to be redeemed and shall direct the Paying Agent/Registrar to select, on a pro rata basis in accordance with the operational arrangements of DTC, and call such Bonds for redemption.

(b) A portion of a single Bond of a denomination greater than \$5,000 may be redeemed, but only in a principal amount equal to \$5,000 or any integral multiple thereof. The Paying Agent/Registrar shall treat each \$5,000 portion of such Bond as though it were a single Bond for purposes of selection for redemption.

(c) Upon surrender of any Bond for redemption in part, the Paying Agent/Registrar, in accordance with Section 3.06 of this Order, shall authenticate and deliver exchange Bonds in an aggregate principal amount equal to the unredeemed principal amount of the Bond so surrendered, such exchange being without charge.

Section 4.05. Notice of Redemption to Owners. (a) The Paying Agent/Registrar shall give notice of any redemption of Bonds by sending notice by United States mail, first class, postage prepaid, not less than 30 days before the date fixed for redemption, to the Owner of each Bond (or part thereof) to be redeemed, at the address shown in the Register at the close of business on the Business Day next preceding the date of mailing such notice.

(b) The notice shall state the redemption date, the redemption price, the place at which the Bonds are to be surrendered for payment, and, if less than all the Bonds outstanding are to be redeemed, an identification of the Bonds or portions thereof to be redeemed.

(c) The District reserves the right to give notice of its election or direction to redeem Bonds under Section 4.02 conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date or (ii) that the District retains the right to rescind such notice at any time prior to the scheduled redemption date if the District delivers a certificate of the District to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any Bonds subject to conditional redemption where redemption has been rescinded shall remain Outstanding, and the rescission shall not constitute an Event of Default. Further, in the case of a conditional redemption, the failure of the District to make moneys and/or authorized securities available in part or in whole on or before the redemption date shall not constitute an Event of Default.

(d) Any notice given as provided in this Section shall be conclusively presumed to have been duly given, whether or not the Owner receives such notice.

Section 4.06. Payment Upon Redemption. (a) Before or on each redemption date, the District shall deposit with the Paying Agent/Registrar money sufficient to pay all amounts due on the redemption date and the Paying Agent/Registrar shall make provision for the payment of the Bonds to be redeemed on such date by setting aside and holding in trust an amount from the Interest and Sinking Fund or otherwise received by the Paying Agent/Registrar from the District and shall use such funds solely for the purpose of paying the principal of, redemption premium, if any, and accrued interest on the Bonds being redeemed.

(b) Upon presentation and surrender of any Bond called for redemption at the Designated Payment/Transfer Office on or after the date fixed for redemption, the Paying Agent/Registrar shall pay the principal of, redemption premium, if any, and accrued interest on such Bond to the date of redemption from the money set aside for such purpose.

Section 4.07. Effect of Redemption. (a) Notice of redemption having been given as provided in Section 4.05 of this Order and subject, in the case of an optional redemption under Section 4.02, to any conditions or rights reserved by the District under Section 4.05, the Bonds or portions thereof called for redemption shall become due and payable on the date fixed for redemption and, unless the District defaults in its obligation to make provision for the payment of the principal thereof, redemption premium, if any, or accrued interest thereon, such Bonds or portions thereof shall cease to bear interest from and after the date fixed for redemption, whether or not such Bonds are presented and surrendered for payment on such date.

(b) If the District shall fail to make provision for payment of all sums due on a redemption date, then any Bond or portion thereof called for redemption shall continue to bear interest at the rate stated on the Bond until due provision is made for the payment of same.

Section 4.08. Lapse of Payment. Money set aside for the redemption of the Bonds and remaining unclaimed by the Owners thereof shall be subject to the provisions of Section 3.03(f) hereof.

ARTICLE V

PAYING AGENT/REGISTRAR

Section 5.01. Appointment of Initial Paying Agent/Registrar. (a) The Authorized Officer is hereby authorized to select and appoint the initial Paying Agent/Registrar for the Bonds, and the initial Paying Agent/Registrar shall be designated in the Pricing Certificate.

(b) The Authorized Officer is hereby authorized and directed to execute and deliver or cause the execution and delivery by the President and Secretary of the Board, a Paying Agent/Registrar Agreement, specifying the duties and responsibilities of the District and the Paying Agent/Registrar. The Board hereby approves the form of Paying Agent/Registrar Agreement.

Section 5.02. Qualifications. Each Paying Agent/Registrar shall be a commercial bank, a trust company organized under the laws of the State of Texas, or any other entity duly qualified and legally authorized to serve as and perform the duties and services of paying agent and registrar for the Bonds.

Section 5.03. Maintaining Paying Agent/Registrar. (a) At all times while any Bonds are outstanding, the District will maintain a Paying Agent/Registrar that is qualified under Section 5.02 of this Order.

(b) If the Paying Agent/Registrar resigns or otherwise ceases to serve as such, the District will promptly appoint a replacement.

Section 5.04. Termination. The District reserves the right to terminate the appointment of any Paying Agent/Registrar by delivering to the entity whose appointment is to be terminated (i) 45 days written notice of the termination of the appointment and of the Paying Agent/Registrar Agreement, stating the effective date of such termination, and (ii) appointing a

successor Paying Agent/Registrar; provided, that, no such termination shall be effective until a successor paying agent/registrar has assumed the duties of paying agent/registrar for the Bonds.

Section 5.05. Notice of Change to Owners. Promptly upon each change in the entity serving as Paying Agent/Registrar, the District will cause notice of the change to be sent to each Owner by first class United States mail, postage prepaid, at the address in the Register, stating the effective date of the change and the name and mailing address of the replacement Paying Agent/Registrar.

Section 5.06. Agreement to Perform Duties and Functions. By accepting the appointment as Paying Agent/Registrar, the Paying Agent/Registrar is deemed to have agreed to the provisions of this Order and that it will perform the duties and functions of Paying Agent/Registrar prescribed hereby.

Section 5.07. Delivery of Records to Successor. If a Paying Agent/Registrar is replaced, such Paying Agent/Registrar, promptly upon the appointment of the successor, will deliver the Register (or a copy thereof) and all other pertinent books and records relating to the Bonds to the successor Paying Agent/Registrar.

ARTICLE VI

FORM OF THE BONDS

Section 6.01. Form Generally. (a) The Bonds, including the Registration Certificate of the Comptroller of Public Accounts of the State of Texas, the Certificate of the Paying Agent/Registrar, and the Assignment form to appear on each of the Bonds (i) shall be substantially in the form set forth in the Pricing Certificate, with such appropriate insertions, omissions, substitutions, and other variations as are permitted or required by this Order and the Pricing Certificate, and (ii) may have such letters, numbers, or other marks of identification (including identifying numbers and letters of the Committee on Uniform Securities Identification Procedures of the American Bankers Association) and such legends and endorsements (including any reproduction of an opinion of counsel) thereon as, consistently herewith, may be determined by the District or by the officers executing such Bonds, as evidenced by their execution thereof.

(b) Any portion of the text of any Bonds may be set forth on the reverse side thereof, with an appropriate reference thereto on the face of the Bonds.

(c) The definitive Bonds shall be typewritten, photocopied, printed, lithographed, or engraved, and may be produced by any combination of these methods or produced in any other similar manner, all as determined by the officers executing such Bonds, as evidenced by their execution thereof.

(d) The Initial Bond submitted to the Attorney General of the State of Texas may be typewritten and photocopied or otherwise reproduced.

(e) Form of Bond.

REGISTERED

No. _____

REGISTERED

\$ _____

United States of America
State of Texas

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BONDS,
SERIES 2018A⁽¹⁾

<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>CLOSING DATE</u>	<u>CUSIP NUMBER</u>
	_____, 15, 20__	_____, 2018 ⁽²⁾	

Little Elm Independent School District (the "District"), in Denton County, State of Texas, for value received, hereby promises to pay to

_____ or registered assigns, on the Maturity Date specified above, the sum of

_____ DOLLARS

unless the payment of the principal hereof shall have been paid or provided for, and to pay interest on such principal amount from the later of the Closing Date specified above or the most recent interest payment date to which interest has been paid or provided for until payment of such principal amount has been paid or provided for, at the per annum rate of interest specified above, computed on the basis of a 360-day year of twelve 30-day months, such interest to be paid semiannually on February 15 and August 15 of each year, commencing _____⁽³⁾.

The principal of this Bond shall be payable without exchange or collection charges in lawful money of the United States of America upon presentation and surrender of this Bond at the corporate trust office in _____,⁽⁴⁾ or such other location designated by the Paying Agent/Registrar (the "Designated Payment/Transfer Office"), of _____,⁽⁵⁾ as initial Paying Agent/Registrar, or, with respect to a successor paying agent/registrar, at the Designated Payment/Transfer Office of such successor. Interest on this Bond is payable by check dated as of the interest payment date, mailed by the Paying Agent/Registrar to the registered owner at the address shown on the registration books kept by the Paying Agent/Registrar, or by such other customary banking arrangements acceptable to the Paying Agent/Registrar and the person to whom interest is to be paid; provided, however, that such person shall bear all risk and expense of such other customary banking arrangements. For the purpose of the payment of

(1) Complete title to be designed in Pricing Certificate.

(2) Insert based on Pricing Certificate.

(3) Insert based on Pricing Certificate.

(4) Insert based on Pricing Certificate.

(5) Insert based on Pricing Certificate.

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

If the date for the payment of the principal of or interest on this Bond shall be a Saturday, Sunday, legal holiday, or day on which banking institutions in the city where the Paying Agent/Registrar is located are required or authorized by law or executive order to close, the date for such payment shall be the next succeeding day which is not a Saturday, Sunday, legal holiday, or day on which banking institutions are required or authorized to close, and payment on such date shall for all purposes be deemed to have been made on the original date payment was due.

This Bond, dated _____⁽⁶⁾, is one of a series of fully registered bonds specified in the title hereof issued in the aggregate principal amount of \$ _____⁽⁷⁾, (herein referred to as the "Bonds"), issued pursuant to a certain order of the District (the "Order") (i) the construction, improvement, renovation and equipment of school buildings in the District and acquiring real property therefor, and the purchase of new school buses, and (ii) for paying for the costs of issuing the Bonds.

The District has reserved the right to redeem the Bonds maturing on and after _____⁽⁸⁾, in whole or in part, in principal amounts of \$5,000, or any integral multiple thereof, before their respective scheduled maturity dates, on _____⁽⁹⁾, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the District shall determine the maturities and the amounts thereof to be redeemed, and shall direct the Paying Agent/Registrar to call by lot the Bonds, or portions thereof, for redemption.

The Term Bonds stated to mature on _____⁽¹⁰⁾, (the "Term Bonds"), are subject to scheduled mandatory redemption and will be redeemed by the District, at a price equal to the principal amount thereof, without premium, plus accrued interest to the redemption date, out of moneys available for such purpose in the Interest and Sinking Fund, on the dates and in the respective principal amounts as set forth in the following schedule:

⁽⁶⁾ Insert based on Pricing Certificate.

⁽⁷⁾ Insert based on Pricing Certificate.

⁽⁸⁾ Insert based on Pricing Certificate.

⁽⁹⁾ Insert based on Pricing Certificate.

⁽¹⁰⁾ Insert based on Pricing Certificate.

\$ Term Bond Maturing⁽¹¹⁾, 20

<u>Year</u>	<u>Principal Amount</u>
-------------	-----------------------------

At least forty-five (45) days prior to each scheduled mandatory redemption date, the Paying Agent/Registrar shall select for redemption by lot, or by any other customary method that results in a random selection, a principal amount of Term Bonds equal to the aggregate principal amount of such Term Bonds to be redeemed and shall call such Term Bonds for redemption on such scheduled mandatory redemption date.

The principal amount of the Term Bonds required to be redeemed on any mandatory sinking fund redemption date shall be reduced, at the option of the District, by the principal amount of any Term Bonds which, at least 45 days prior to the mandatory sinking fund redemption date (i) shall have been acquired by the District at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof; and delivered to the Paying Agent/Registrar for cancellation, or (ii) shall have been redeemed pursuant to an optional redemption and not previously credited to a mandatory sinking fund redemption.

Not less than thirty (30) days prior to a redemption date for the Bonds, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the Owners of the Bonds to be redeemed at the address of the Owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice.

In the Order, the District reserves the right, in the case of an optional redemption, to give notice of its election or direction to redeem Bonds conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date, or (ii) that the District retains the right to rescind such notice at any time on or prior to the scheduled redemption date if the District delivers a certificate of the District to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any Bonds subject to conditional redemption and such redemption has been rescinded shall remain Outstanding, and the rescission of such redemption shall not constitute an Event of Default. Further, in the case of a conditional redemption, the failure of the District to make moneys and/or authorized securities available in part or in whole on or before the redemption date shall not constitute an Event of Default.

⁽¹¹⁾ Insert based on Pricing Certificate.

Any notice so mailed shall be conclusively presumed to have been duly given, whether or not the registered owner receives such notice. Notice having been so given and subject, in the case of an optional redemption, to any rights or conditions reserved by the District in the notice, the Bonds called for redemption shall become due and payable on the specified redemption date, and notwithstanding that any Bond or portion thereof has not been surrendered for payment, interest on such Bond or portion thereof shall cease to accrue.

As provided in the Order, and subject to certain limitations therein set forth, this Bond is transferable upon surrender of this Bond for transfer at the Designated Payment/Transfer Office with such endorsement or other evidence of transfer as is acceptable to the Paying Agent/Registrar; thereupon, one or more new fully registered Bonds of the same stated maturity, of authorized denominations, bearing the same rate of interest, and for the same aggregate principal amount will be issued to the designated transferee or transferees.

Neither the District nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond called for redemption where such redemption is scheduled to occur within 45 calendar days after the transfer or exchange date; provided, however, such limitation shall not be applicable to an exchange by the registered owner of the uncalled principal balance of a Bond.

The District, the Paying Agent/Registrar, and any other person may treat the person in whose name this Bond is registered as the owner hereof for the purpose of receiving payment as herein provided (except interest shall be paid to the person in whose name this Bond is registered on the Record Date) and for all other purposes, whether or not this Bond be overdue, and neither the District nor the Paying Agent/Registrar shall be affected by notice to the contrary.

IT IS HEREBY CERTIFIED AND RECITED that the issuance of this Bond and the series of which it is a part is duly authorized by law; that all acts, conditions and things required to be done precedent to and for the issuance of the Bonds have been properly done and performed and have happened in regular and due time, form and manner, as required by law; that sufficient and proper provision for the levy and collection of taxes has been made, without limit as to rate or amount, which when collected shall be appropriated exclusively to the timely payment of the principal of and interest on the Bonds; and that the total indebtedness of the District, including the Bonds, does not exceed any constitutional or statutory limitation.

IN WITNESS WHEREOF, the District has caused this Bond to be duly executed under its official seal.

Secretary, Board of Trustees
Little Elm Independent School District

President, Board of Trustees
Little Elm Independent School District

[SEAL]

(i) Form of Comptroller's Registration Certificate.

The following Comptroller's Registration Certificate may be deleted from the definitive Bonds if such certificate on the Initial Bond is fully executed.

OFFICE OF THE COMPTROLLER §
OF PUBLIC ACCOUNTS § REGISTER NO. _____
OF THE STATE OF TEXAS §

I hereby certify that there is on file and of record in my office a certificate of the Attorney General of the State of Texas to the effect that this Bond has been examined by him as required by law, that he finds that it has been issued in conformity with the Constitution and laws of the State of Texas, and that it is a valid and binding obligation of Little Elm Independent School District, and that this Bond has this day been registered by me.

WITNESS MY SIGNATURE AND SEAL this _____.

Comptroller of Public Accounts
of the State of Texas

[SEAL]

(ii) Form of Certificate of Paying Agent/Registrar.

The following Certificate of Paying Agent/Registrar may be deleted from the Initial Bond if the Comptroller's Registration Certificate appears thereon.

CERTIFICATE OF PAYING AGENT/REGISTRAR

The records of the Paying Agent/Registrar show that the Initial Bond of this series of bonds was approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas and that this is one of the Bonds referred to in the within-mentioned Order.

_____,⁽¹²⁾ as
Paying Agent/Registrar

Dated: _____

By: _____
Authorized Signatory

⁽¹²⁾ Insert based on Pricing Certificate.

(iii) Form of Assignment.

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns, and transfers unto

(print or typewrite name, address and Zip Code of transferee): (Social Security or other identifying number: _____) the within Bond and all rights hereunder and hereby irrevocably constitutes and appoints _____ attorney to transfer the within Bond on the books kept for registration hereof, with full power of substitution in the premises.

Dated: _____

Signature Guaranteed By: _____

Authorized Signatory

NOTICE: The signature on this Assignment must correspond with the name of the registered owner as it appears on the face of the within Bond in every particular and must be guaranteed in a manner acceptable to the Paying Agent/Registrar.

(iv) The Initial Bond shall be in the form set forth in paragraphs (a), (b), and (d) of this Section, except for the following alterations:

A. immediately under the name of the Bond, the headings "INTEREST RATE" and "MATURITY DATE" shall both be completed with the words "As Shown Below" and the words "CUSIP NUMBER" deleted; and

B. in the first paragraph:

the words "on the Maturity Date specified above" shall be deleted and the following will be inserted: "on February 15 in the years, in the principal installments and bearing interest at the per annum rates set forth in the following schedule:

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
-------------	-------------------------	----------------------

[Information to be inserted from Pricing Certificate]

- (v) Statement of Permanent School Fund Guarantee, if applicable.

The following statement shall appear on or be attached to each Bond, if applicable:

PSF CERTIFICATE

Under the authority granted by Article 7, Section 5 of the Texas Constitution and Subchapter C of Chapter 45 of the Texas Education Code, the payment, when due, of the principal of and interest on the issuance by the Little Elm Independent School District Unlimited Tax School Building Bonds, Series 2018A, dated _____, in the principal amount of \$_____ is guaranteed by the corpus of the Permanent School Fund of the State pursuant to the bond guarantee program administered by the Texas Education Agency. This guarantee shall be removed in its entirety upon defeasance of such bonds.

Reference is hereby made to the continuing disclosure agreement of the Texas Education Agency, set forth in Section I of the Agency's Investment Procedure Manual and the Agency's commitment letter for the guarantee. Such disclosure agreement has been made with respect to the bond guarantee program, in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission, for the benefit of the holders and beneficial owners of the bonds.

In witness thereof I have caused my signature to be placed in facsimile on this bond.

Commissioner of Education

Section 6.02. CUSIP Registration. The District may secure identification numbers through the CUSIP Service Bureau Division of Standard & Poor's Corporation, New York, New York, and may authorize the printing of such numbers on the face of the Bonds. It is expressly provided, however, that the presence or absence of CUSIP numbers on the Bonds shall be of no significance or effect as regards the legality thereof and neither the District nor bond counsel to the District are to be held responsible for CUSIP numbers incorrectly printed on the Bonds.

Section 6.03. Legal Opinion. The approving legal opinion of Bracewell LLP, Bond Counsel, may be attached to or printed on the reverse side of each definitive Bond over the certification of the Secretary of the Board, which may be executed in facsimile.

ARTICLE VII

SALE AND DELIVERY OF BONDS; DEPOSIT OF PROCEEDS

Section 7.01. Sale of Bonds, Official Statement. (a) The Bonds shall be sold to the Underwriters or Purchaser in accordance with the terms of this Order. As authorized by Chapter 1371, the Authorized Officer is authorized to act on behalf of the District in selling and delivering the Bonds and in carrying out the other procedures specified in this Order, including

determining whether the Bonds will be sold in a negotiated or competitive sale, the price at which each of the Bonds will be sold, the number and designation of each series or subseries of Bonds to be issued, the form in which the Bonds shall be issued, the years and dates on which the Bonds will mature, the principal amount, the aggregate principal amount of the Bonds to be issued by the District, the first interest payment date for the Bonds, the Interest Payment Dates, the dates, prices and terms upon and at which the Bonds shall be subject to redemption prior to maturity at the option of the District and shall be subject to mandatory sinking fund redemption, application for PSF Guarantee, if necessary, the selection of a paying agent/registrars, and all other matters relating to the issuance, sale and delivery of the Bonds, all of which shall be specified in the Pricing Certificate; provided that the following conditions can be satisfied:

- (i) the Bonds shall not bear interest at a true interest cost in excess of 5.000%;
- (ii) the aggregate principal amount of the Bonds, together with any premium generated on the Bonds and allocated to voted authorization from the Election, authorized to be issued for the purposes described in Section 3.01 shall not exceed \$25,000,000;
- (iii) the Pricing Certificate shall indicate the amount of authorized but unissued bonds that remain available to the District from the Election following the issuance of the Bonds approved in the Pricing Certificate; and
- (iv) the Bonds shall mature not later than August 15, 2048.

(b) If the Bonds are sold in a competitive sale, the Authorized Officer is authorized to, in conformity with this Order, approve the terms, conditions and specifications for the sale of the Bonds in the Notice of Sale. The Authorized Officer is further authorized to award the sale of the Bonds to the purchaser submitting a bid form conforming to the specification set forth in the Notice of Sale which produces the lowest true interest cost to the District. If the Bonds are sold in a negotiated sale, the Authorized Officer is hereby authorized and directed to execute and deliver on behalf of the District a Purchase Contract providing for the sale of the Bonds to the Underwriters, in such form as determined by the Authorized Officer. The Authorized Officer is hereby authorized and directed to approve the final terms and provisions of the Purchase Contract in accordance with the terms of the Pricing Certificate and this Order, which final terms shall be determined to be the most advantageous reasonably attainable by the District, such approval and determination being evidenced by its execution thereof by the Authorized Officer.

(c) The authority granted to the Authorized Officer under this Section 7.01 shall expire on a date 180 days from the date of this Order, unless otherwise extended by the Board by separate action.

(d) The District hereby approves the preparation and distribution of a Preliminary Official Statement and a Notice of Sale (if the Bonds are sold in a competitive sale) for use in the initial offering and sale of the Bonds, each in the form and with such addenda, supplements or amendments as may be approved by the Authorized Officer. The Preliminary Official Statement (in the form and with such addenda, supplements or amendments as are approved by the Authorized Officer) is hereby deemed final within the meaning and for the purposes of paragraph (b)(1) of Rule 15c2-12 under the Securities and Exchange Act of 1934. The District hereby

authorizes the preparation of a final Official Statement reflecting the terms of the sale of the Bonds and other relevant information. The use of such final Official Statement by the Underwriters or the Purchaser, as applicable (in the form and with such appropriate variations as shall be approved by the Authorized Officer and the Underwriters or the Purchaser, as applicable) is hereby approved and authorized.

(e) All officers, agents and representatives of the District are hereby authorized to do any and all things necessary or desirable to satisfy the conditions set out therein and to provide for the issuance and delivery of the Bonds. The Bonds shall initially be registered in the name of the Underwriters or Purchaser, as applicable, or such other entity as may be specified in the Pricing Certificate.

(f) The Authorized Officer and all other officers of the District are authorized to execute such documents, certificates and receipts and to take such actions as they may deem appropriate in order to consummate the delivery of the Bonds. Further, in connection with the submission of the record of proceedings for the Bonds to the Attorney General of the State of Texas for examination and approval of such Bonds, the appropriate officer of the District is hereby authorized and directed to issue a check of the District payable to the Attorney General of the State of Texas as a nonrefundable examination fee in the amount required by Chapter 1202, Texas Government Code (such amount not to exceed \$9,500).

(g) The obligation of the Underwriters or Purchaser, as applicable, to accept delivery of the Bonds is subject to, among other conditions specified in the Purchase Contract, the Underwriters or Purchaser, as applicable, being furnished with the final, approving opinion of Bracewell LLP, Bond Counsel for the District, which opinion shall be dated and delivered the Closing Date.

Section 7.02. Control and Delivery of Bonds. (a) The Authorized Officer is hereby authorized to have control of the Initial Bond and all necessary records and proceedings pertaining thereto pending investigation, examination and approval of the Attorney General of the State of Texas, registration by the Comptroller of Public Accounts of the State of Texas, and registration with, and initial exchange or transfer by, the Paying Agent/Registrar.

(b) After registration by the Comptroller of Public Accounts, delivery of the Bonds shall be made to the Representative under and subject to the general supervision and direction of the Authorized Officer, or, in his absence, any officer of the Board, against receipt by the District of all amounts due to the District under the terms of sale.

Section 7.03. Deposit of Proceeds. The proceeds from the sale of the Bonds shall be deposited as set forth in the Pricing Certificate.

ARTICLE VIII

CREATION OF FUNDS AND ACCOUNTS; DEPOSIT OF PROCEEDS; INVESTMENTS

Section 8.01. Creation of Interest and Sinking Fund. The District hereby establishes the "Little Elm Independent School District Unlimited Tax School Building Bonds, Series 2018A

Interest and Sinking Fund” which shall be maintained at the depository bank of the District. The name of such Fund may be modified in the Pricing Certificate as determined by the Authorized Officer.

Section 8.02. Interest and Sinking Fund. (a) The taxes levied under Section 2.01 shall be deposited to the credit of the Interest and Sinking Fund at such times and in such amounts as necessary for the timely payment of Debt Service.

(b) If the amount of money in the Interest and Sinking Fund is at least equal to the aggregate principal amount of the outstanding Bonds plus the aggregate amount of interest due and that will become due and payable on such Bonds, no further deposits to that fund need be made.

(c) Money on deposit in the Interest and Sinking Fund shall be used to pay Debt Service as such becomes due and payable.

Section 8.03. Security of Funds. All moneys on deposit in the Interest and Sinking Fund shall be secured in the manner and to the fullest extent required by the laws of the State of Texas for the security of public funds, and moneys on deposit in such funds shall be used only for the purposes permitted by this Order.

ARTICLE IX

INVESTMENTS

Section 9.01. Investments. (a) Money in the Interest and Sinking Fund created by this Order, at the District’s option, may be invested in such securities or obligations as permitted under applicable law.

(b) Any securities or obligations in which money is so invested shall be kept and held in trust for the benefit of the Owners and shall be sold and the proceeds of sale shall be timely applied to the making of all payments required to be made from the fund from which the investment was made.

Section 9.02. Investment Income. Interest and income derived from investment of the Interest and Sinking Fund shall be credited to such Fund. The investment and application of money in the Escrow Fund, shall be in accordance with the provisions of the Escrow Agreement.

ARTICLE X

PARTICULAR REPRESENTATIONS AND COVENANTS

Section 10.01. Payment of the Bonds. On or before each date on which Debt Service is due on the Bonds, there shall be made available to the Paying Agent/Registrar, out of the interest and sinking fund, money sufficient to pay such Debt Service when due.

Section 10.02. Other Representations and Covenants. (a) The District will faithfully perform at all times any and all covenants, undertakings, stipulations, and provisions contained

in this Order and in each Bond; the District will promptly pay or cause to be paid Debt Service on the dates and at the places and manner prescribed in such Bond; and the District will, at the times and in the manner prescribed by this Order, deposit or cause to be deposited the amounts of money specified by this Order.

(b) The District is duly authorized under the laws of the State of Texas to issue the Bonds; all action on its part for the creation and issuance of the Bonds has been duly and effectively taken; and the Bonds in the hands of the Owners thereof are and will be valid and enforceable obligations of the District in accordance with their terms.

Section 10.03. Federal Income Tax Exclusion. (a) General. The District intends that the interest on the Bonds be excludable from gross income for federal income tax purposes pursuant to Sections 103 and 141 through 150, inclusive, of the Code. The District covenants and agrees not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, would (i) cause the interest on the Bonds to be includable in gross income, as defined in Section 61 of the Code, for federal income tax purposes or (ii) result in the violation of or failure to satisfy any provision of sections 103 and 141 through 150, inclusive, of the Code. In particular, the District covenants and agrees to comply with each requirement of this Section 10.03; provided, however, that the District will not be required to comply with any particular requirement of this Section 10.03, if the District has received an opinion of nationally recognized bond counsel ("Counsel's Opinion") that (i) such noncompliance will not adversely affect the excludability of interest on the Bonds from gross income for federal income tax purposes or (ii) compliance with some other requirement specified in such Counsel's Opinion will satisfy the applicable requirements of the Code and the Regulations, in which case compliance with such other requirement will constitute compliance with the corresponding requirement specified in this Section 10.03.

(b) No Private Use or Payment and No Private Loan Financing. The District covenants and agrees that it will make such use of the proceeds of the Bonds, including interest or other investment income derived from Bond proceeds, regulate the use of property financed, directly or indirectly, with such proceeds, and take such other and further action as may be required so that the Bonds will not be "private activity bonds" within the meaning of section 141 of the Code. Moreover, the District will certify, through an authorized officer, employee or agent, based upon all facts and estimates known or reasonably expected to be in existence on the date the Bonds are delivered, that the proceeds of the Bonds will not be used in a manner that would cause the Bonds to be "private activity bonds" within the meaning of section 141 of the Code.

(c) No Federal Guarantee. The District covenants and agrees not to take any action, or knowingly omit to take any action within its control, that, if taken or omitted, respectively, would cause the Bonds to be "federally guaranteed" within the meaning of section 149(b) of the Code, except as permitted by section 149(b)(3) of the Code.

(d) No Hedge Bonds. The District covenants and agrees not to take any action, or knowingly omit to take any action, within its control, that, if taken or omitted, respectively, would cause the Bonds to be "hedge bonds" within the meaning of section 149(g) of the Code.

(e) No Arbitrage. The District covenants and agrees that it will make such use of the proceeds of the Bonds, including interest or other investment income derived from Bond proceeds, regulate investments of proceeds of the Bonds, and take such other and further action as may be required so that the Bonds will not be "arbitrage bonds" within the meaning of section 148(a) of the Code.

(f) Arbitrage Rebate. If the District does not qualify for an exception to the requirements of Section 148(f) of the Code relating to the required rebate to the United States, the District will take all necessary steps to comply with the requirement that certain amounts earned by the District on the investment of the "gross proceeds" of the Bonds (within the meaning of section 148(f)(6)(B) of the Code), be rebated to the federal government. Specifically, the District will (i) maintain records regarding the investment of the gross proceeds of the Bonds as may be required to calculate the amount earned on the investment of the gross proceeds of the Bonds separately from records of amounts on deposit in the funds and accounts of the District allocable to other bond issues of the District or moneys that do not represent gross proceeds of any bonds of the District, (ii) determine at such times as are required by applicable Regulations, the amount earned from the investment of the gross proceeds of the Bonds that is required to be rebated to the federal government, and (iii) pay, not less often than every fifth anniversary date of the delivery of the Bonds, or on such other dates as may be permitted under the Regulations, all amounts required to be rebated to the federal government. Further, the District will not indirectly pay any amount otherwise payable to the federal government pursuant to the foregoing requirements to any person other than the federal government by entering into any investment arrangement with respect to the gross proceeds of the Bonds that might result in a reduction in the amount required to be paid to the federal government because such arrangement results in a smaller profit or a larger loss than would have resulted if the arrangement had been at arm's length and had the yield on the issue not been relevant to either party.

(g) Information Reporting. The District covenants and agrees to file or cause to be filed with the Secretary of the Treasury, not later than the 15th day of the second calendar month after the close of the calendar quarter in which the Bonds are issued, an information statement concerning the Bonds, all under and in accordance with section 149(e) of the Code.

(h) Record Retention. The District will retain all pertinent and material records relating to the use and expenditure of the proceeds of the Bonds until three years after the last Bond is redeemed or paid at maturity, or such shorter period as authorized by subsequent guidance issued by the Department of Treasury, if applicable. All records will be kept in a manner that ensures their complete access throughout the retention period. For this purpose, it is acceptable that such records are kept either as hardcopy books and records or in an electronic storage and retrieval system, provided that such electronic system includes reasonable controls and quality assurance programs that assure the ability of the District to retrieve and reproduce such books and records in the event of an examination of the Bonds by the Internal Revenue Service.

(i) Registration. The Bonds will be issued in registered form.

(j) Deliberate Actions. The District will not take a deliberate action (as defined in section 1.141-2(d)(3) of the Regulations) that causes the Bonds to fail to meet any requirement of

section 141 of the Code after the issue date of the Bonds unless an appropriate remedial action is permitted by section 1.141-12 of the Regulations, the District takes such remedial action, and a Counsel's Opinion is obtained that such remedial action cures any failure to meet the requirements of section 141 of the Code.

(k) Continuing Obligation. Notwithstanding any other provision of this Order, the District's obligations under the covenants and provisions of this Section 10.03 shall survive the defeasance and discharge of the Bonds for as long as such matters are relevant to the excludability of interest on the Bonds from gross income for federal income tax purposes.

ARTICLE XI

DEFAULT AND REMEDIES

Section 11.01. Events of Default. Each of the following occurrences or events for the purpose of this Order is hereby declared to be an Event of Default:

(i) the failure to make payment of Debt Service when the same becomes due and payable; or

(ii) default in the performance or observance of any other covenant, agreement or obligation of the District, which default materially and adversely affects the rights of the Owners, including, but not limited to, their prospect or ability to be repaid in accordance with this Order, and the continuation thereof for a period of 60 days after notice of such default is given by any Owner to the District.

Section 11.02. Remedies for Default. (a) Upon the happening of any Event of Default, any Owner or an authorized representative thereof, including, but not limited to, a trustee or trustees therefor, may proceed against the District for the purpose of protecting and enforcing the rights of the Owners under this Order, by mandamus or other suit, action or special proceeding in equity or at law, in any court of competent jurisdiction, for any relief permitted by law, including the specific performance of any covenant or agreement contained herein, or thereby to enjoin any act or thing that may be unlawful or in violation of any right of the Owners hereunder or any combination of such remedies.

(b) It is provided that all such proceedings shall be instituted and maintained for the equal benefit of all Owners of Bonds then outstanding.

Section 11.03. Remedies Not Exclusive. (a) No remedy herein conferred or reserved is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or under the Bonds or now or hereafter existing at law or in equity; provided, however, that notwithstanding any other provision of this Order, the right to accelerate the debt evidenced by the Bonds shall not be available as a remedy under this Order.

(b) The exercise of any remedy herein conferred or reserved shall not be deemed a waiver of any other available remedy.

(c) By accepting the delivery of a Bond authorized under this Order, such Owner agrees that the certifications required to effectuate any covenants or representations contained in this Order do not and shall never constitute or give rise to a personal or pecuniary liability or charge against the officers, employees or trustees of the District or the Board.

ARTICLE XII

DISCHARGE

Section 12.01. Discharge. The District reserves the right to defease, refund or discharge the Bonds in any manner permitted by law.

ARTICLE XIII

CONTINUING DISCLOSURE UNDERTAKING

Section 13.01. Annual Reports. (a) The District shall provide annually to the MSRB, (1) within six months after the end of each fiscal year of the District, financial information and operating data with respect to the District of the general type included in the final Official Statement, being information of the type described in the Pricing Certificate, including financial statements of the District if audited financial statements of the District are then available, and (2) if not provided as part such financial information and operating data, audited financial statements of the District within 12 months after the end of each fiscal year, when and if available. Any financial statements so to be provided shall be (i) prepared in accordance with the accounting principles prescribed by the Texas State Board of Education or such other accounting principles as the District may be required to employ, from time to time, by State law or regulation, and (ii) audited, if the District commissions an audit of such statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the District shall file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available.

(b) If the District changes its Fiscal Year, it will notify the MSRB of the change (and of the date of the new Fiscal Year end) prior to the next date by which the District otherwise would be required to provide financial information and operating data pursuant to this Section.

(c) All financial information, operating data, financial statements, and notices required by this Section to be provided to the MSRB shall be provided in an electronic format and be accompanied by identifying information prescribed by the MSRB. Financial information and operating data to be provided pursuant to Section may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document) available to the public on the MSRB's Internet Web site or filed with the SEC.

Section 13.02. Material Event Notices.

(a) The District shall provide the following to the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of ten (10) business days after the occurrence of the event, notice of any of the following events with respect to the Bonds:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults, if material;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
7. Modifications to rights of the 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;

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

authority having supervision or jurisdiction over substantially all of the assets or business of the District.

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 successor or additional paying agent/registrars or the change of name of a paying agent/registrars, if material.

(b) The District shall provide to the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner, notice of a failure by the District to provide required annual financial information and notices of material events in accordance with Section 13.01 and section (a) above. All documents provided to the MSRB pursuant to this section shall be accompanied by identifying information as prescribed by the MSRB.

Section 13.03. Limitations, Disclaimers and Amendments. (a) The District shall be obligated to observe and perform the covenants specified in this Article for so long as, but only for so long as, the District remains an "obligated person" with respect to the Bonds within the meaning of the Rule, except that the District in any event will give notice of any deposit made in accordance with Article XII that causes Bonds no longer to be Outstanding.

(b) The provisions of this Article are for the sole benefit of the Owners and beneficial owners of the Bonds, and nothing in this Article, express or implied, shall give any benefit or any legal or equitable right, remedy, or claim hereunder to any other person. The District undertakes to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide pursuant to this Article and does not hereby undertake to provide any other information that may be relevant or material to a complete presentation of the District's financial results, condition, or prospects or hereby undertake to update any information provided in accordance with this Article or otherwise, except as expressly provided herein. The District does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Bonds at any future date.

UNDER NO CIRCUMSTANCES SHALL THE DISTRICT BE LIABLE TO THE OWNER OR BENEFICIAL OWNER OF ANY BOND OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE DISTRICT, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS ARTICLE, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR MANDAMUS OR SPECIFIC PERFORMANCE.

(c) No default by the District in observing or performing its obligations under this Article shall comprise a breach of or default under the Order for purposes of any other provisions of this Order.

(d) Nothing in this Article is intended or shall act to disclaim, waive, or otherwise limit the duties of the District under federal and state securities laws.

(e) The provisions of this Article 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 of this Article, 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 to the date of such amendment, as well as such changed circumstances, and (2) either (A) the Owners of a majority in aggregate principal amount (or any greater amount required by any other provisions of this Order that authorizes such an amendment) 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 interests of the Owners and beneficial owners of the Bonds. If the District so amends the provisions of this Article, it shall include with any amended financial information or operating data next provided in accordance with Section 13.01 an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information or operating data so provided.

ARTICLE XIV

PERMANENT SCHOOL FUND GUARANTEE

Section 14.01. Permanent School Fund Guarantee.

If available, the District will apply for approval from the Texas Commissioner of Education (the "Commissioner") for payment of the principal of and interest on the Bonds to be guaranteed by the Permanent School Fund of the State of Texas. If approval is received and the Bonds are guaranteed by the Permanent School Fund, and the Bonds are defeased, the guarantee of the Bonds will be removed in its entirety and, in case of default and in accordance with Texas Education Code §45.061, the Comptroller of Public Accounts will withhold the amount paid, plus interest, from the first state money payable to the District in the following order: foundation school fund, available school fund. In connection with the guarantee of the Bonds by the Permanent School Fund, the District, hereby certifies and covenants that:

(a) If the District applies for the Permanent School Fund Guarantee, a certified copy of this Order and copies of the Official Statement shall be furnished to the Division of State Funding, School Facilities and Transportation, within ten (10) calendar days of the execution of the Pricing Certificate;

(b) If approval from the Commissioner is received for the Permanent School Fund Guarantee, following any determination by the District that it is or will be unable to pay maturing or matured principal or interest on the Bonds, the District will take all action required

by Subchapter C of Chapter 45 of the Texas Education Code, as amended, including, but not limited to, the giving of timely notice of such determination to the Commissioner; and

(c) If approval from the Commissioner is received for the Permanent School Fund Guarantee, the District will notify the Division of State Funding in writing within ten (10) calendar days of the defeasance of any guaranteed Bonds.

ARTICLE XV

MISCELLANEOUS

Section 15.01. Changes to Order. The Authorized Officer, in consultation with Bond Counsel, is hereby authorized to make changes to the terms of this Order if necessary or desirable to carry out the purposes hereof or in connection with the approval of the issuance of the Bonds by the Attorney General of Texas.

Section 15.02. Partial Invalidity. If any section, paragraph, clause or provision of this Order shall for any reason be held to be invalid or unenforceable, the invalidity or unenforceability of such section, paragraph, clause or provision shall not affect any of the remaining provisions of this Order.

Section 15.03. No Personal Liability. No recourse shall be had for payment of the principal of or interest on any Bonds or for any claim based thereon, or on this Order, against any official or employee of the District or any person executing any Bonds.

PRESENTED, FINALLY PASSED AND APPROVED, AND EFFECTIVE on the 18th
day of June, 2018 by a vote of 6 ayes and 0 nays at a regular meeting of the Board of
Trustees.

By: Melissa Myers
President, Board of Trustees
Little Elm Independent School District

ATTEST:

Justin Olson
Secretary, Board of Trustees
Little Elm Independent School District

PRICING CERTIFICATE

Re: \$23,885,000 Little Elm Independent School District Unlimited Tax School Building Bonds, Series 2018A (the "Bonds")

I, the undersigned Authorized Officer of the Little Elm Independent School District (the "District"), do hereby make and execute this Pricing Certificate pursuant to an order adopted by the Board of Trustees of the District on June 18, 2018 (the "Order") captioned as follows:

AN ORDER AUTHORIZING THE ISSUANCE OF LITTLE ELM INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018A IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$25,000,000; LEVYING A TAX AND PROVIDING FOR THE SECURITY AND PAYMENT THEREOF; PROVIDING FOR THE AWARD OF THE SALE THEREOF IN ACCORDANCE WITH SPECIFIED PARAMETERS; AUTHORIZING THE EXECUTION AND DELIVERY OF PURCHASE CONTRACT AND A PAYING AGENT/REGISTRAR AGREEMENT; APPROVING THE PREPARATION OF AN OFFICIAL STATEMENT; AND ENACTING OTHER PROVISIONS RELATING TO THE SUBJECT AND PURPOSES OF THIS ORDER

authorizing the issuance of the referenced Bonds. Capitalized terms used in this Pricing Certificate shall have the meanings given such terms in the Order.

Unlimited Tax School Building Bonds, Series 2018A

1. As authorized by Section 7.01 of the Order, I am acting on behalf of the District in selling the Little Elm Independent School District Unlimited Tax School Building Bonds, Series 2018A to Wells Fargo Bank, National Association (the "Representative"), acting on its own behalf and as representative of Piper Jaffray & Co. (collectively, the "Underwriters"), pursuant to the terms of a Purchase Contract (as more specifically described in Section 4 herein), authorized pursuant to Section 7.01 of the Order, for the sum of \$25,113,852.91 (representing a principal amount of \$23,885,000, plus a premium of \$1,366,042.70 and less an underwriting discount of \$137,189.79), and having the following terms, conditions and provisions, all as authorized pursuant to Section 7.01 of the Order:

A. The Bonds shall be issued in the aggregate principal amount of \$23,885,000 and shall be dated as of July 15, 2018 (the "Bond Date").

B. The Bonds shall accrue interest from the Closing Date (as defined herein). The Bonds shall mature on August 15 in the years and in the principal amounts set forth below and shall bear interest payable on February 15 and August 15 of each year, commencing February 15, 2019, at the rates set forth below:

Year	Principal Amount	Interest Rate	Year	Principal Amount	Interest Rate
2019	\$1,440,000	4.000%	2031	\$ 645,000	4.000%
2020	780,000	4.000%	2032	675,000	4.000%
2021	410,000	4.000%	2033	700,000	4.000%
2022	425,000	4.000%	2034	730,000	4.000%
2023	440,000	5.000%	2035	755,000	4.000%
2024	465,000	5.000%	2036	790,000	4.000%
2025	490,000	5.000%	2037	820,000	4.000%
2026	510,000	5.000%	2038	850,000	4.000%
2027	540,000	5.000%	****	****	****
2028	565,000	5.000%	2043	4,795,000	4.000%
2029	595,000	5.000%	****	****	****
2030	625,000	4.000%	2048	5,840,000	4.000%

C. The District reserves the right to redeem the Bonds maturing on and after August 15, 2028, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, before their respective scheduled maturity dates, on August 15, 2027, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the District shall determine the maturities and the amounts thereof to be redeemed, and shall direct the Paying Agent/Registrar to call by lot the Bonds, or portions thereof, for redemption.

D. The Term Bonds maturing on August 15, 2043 and August 15, 2048 (collectively, the "Term Bonds"), are subject to mandatory sinking fund redemption in the amounts and at prices of par plus accrued interest to the redemption date on August 15, in the following years:

\$4,795,000 Term Bond Maturing August 15, 2043

Year	Principal Amount
2039	\$ 885,000
2040	920,000
2041	960,000
2042	995,000
2043 (maturity)	1,035,000

\$5,840,000 Term Bond Maturing August 15, 2048

Year	Principal Amount
2044	\$1,080,000
2045	1,120,000
2046	1,165,000
2047	1,215,000
2048 (maturity)	1,260,000

2. The Bonds have a scheduled closing date of August 16, 2018 (the "Closing Date").

3. In accordance with the parameters contained in Section 7.01 of the Order, the undersigned does hereby find, certify and represent that the foregoing terms of the Bonds satisfy the following requirements and parameters contained within such Section 7.01:

(i) the True Interest Cost on the Bonds is 3.658939% and the net effective interest rate on the Bonds does not exceed the maximum amount permitted by law;

(ii) the aggregate principal amount of the Bonds, together with premium generated on the Bonds in the amount of \$1,115,000 and allocated to voted authorization from the Election, authorized to be issued for the purposes described in Section 3.01 of the Order does not exceed \$25,000,000;

(iii) the final maturity of the Bonds is not later than August 15, 2048;
and

(iv) after the issuance of the Bonds, the balance of bonds authorized by that election held on November 7, 2017 for school buildings and remaining unissued will be \$60,000,000.

4. Proceeds from the sale of the Bonds shall be applied as follows:

A. \$25,000,000 of proceeds of the sale of the Bonds, representing \$23,885,000 of principal and \$1,115,000 of premium on the Bonds allocated to voted authorization, shall be deposited to the construction fund for the purposes set out in Section 3.01 of the Order.

B. Premium in the amount of \$113,852.91 generated on the Bonds shall be used to pay the costs of issuing the Bonds. To the extent any such sum is not used for such purpose, such excess shall be deposited to the Interest and Sinking Fund.

5. The Bonds shall be issued substantially in the form attached hereto as **Exhibit A**.

6. The Bonds authorized and approved by the Order are hereby sold by the District to the Underwriters acting in accordance with the bond purchase agreement (the "Purchase Contract"), dated July 26, 2018, attached hereto as **Exhibit B** and incorporated herein by reference as a part of the Pricing Certificate for all purposes. The terms of the Purchase Contract are hereby determined to be the most advantageous reasonably attainable by the District. The Authorized Officer, as authorized and directed in the Order to execute said Purchase Contract for and on behalf of the District and as the act and deed of the Board of Trustees of the District (the "Board"), has so executed such Purchase Contract as the Board's act and deed. The representations, warranties, and agreements of the District contained therein are true and correct in all material respects and shall be honored and performed by the District.

7. The use of the Preliminary Official Statement by the Underwriter in connection with the public offering and sale of the Bonds is hereby ratified, confirmed and approved in all respects. The final Official Statement, being a modification and amendment of the Preliminary Official Statement to reflect the terms of sale, attached to the Purchase Contract (together with such changes approved by the Superintendent, Chief Financial Officer, President and the Secretary of the Board, or any one or more of said officials), shall be and is hereby in all respects approved and the Underwriter may and shall use and distribute said final Official Statement, dated July 26, 2018, in the reoffering, sale and delivery of the Bonds to the public.

8. In accordance with Section 13.01(a) of the Order, the information to be provided pursuant to the Rule shall include all quantitative financial information and operating data with respect to the District of the general type included in the Official Statement in Tables numbered 1 through 20 and in Appendix D.

10. UMB Bank, N.A. is hereby designated as Paying Agent/Registrar for the Bonds.

Executed this 26th day of July, 2018.

Little Elm Independent School District

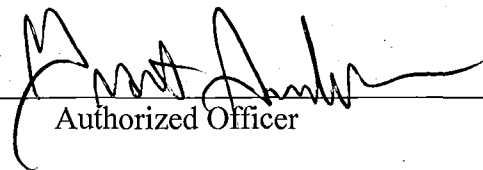
By: 
Authorized Officer

EXHIBIT A
FORM OF BOND

The form of the Bonds, including the forms of the Registration Certificate of the Comptroller of Public Accounts of the State of Texas, the form of Certificate of the Paying Agent/Registrar and the form of Assignment appearing on the Bonds, shall be substantially as follows:

(a) Form of Bond.

REGISTERED
No. _____

REGISTERED
\$ _____

United States of America
State of Texas

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BOND
SERIES 2018A

<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>CLOSING DATE</u>	<u>CUSIP NUMBER</u>
_____%	August 15, 20__	August 16, 2018	_____

Little Elm Independent School District (the "District"), in Denton County, State of Texas, for value received, hereby promises to pay to

or registered assigns, on the Maturity Date specified above, the sum of

_____ DOLLARS

unless the payment of the principal hereof shall have been paid or provided for, and to pay interest on such principal amount from the later of the Closing Date specified above or the most recent interest payment date to which interest has been paid or provided for until payment of such principal amount has been paid or provided for, at the per annum rate of interest specified above, computed on the basis of a 360-day year of twelve 30-day months, such interest to be paid semiannually on February 15 and August 15 of each year, commencing February 15, 2019.

The principal of this Bond shall be payable without exchange or collection charges in lawful money of the United States of America upon presentation and surrender of this Bond at the corporate trust office in Dallas, Texas, or such other location designated by the Paying Agent/Registrar (the "Designated Payment/Transfer Office"), of UMB Bank N.A. as initial Paying Agent/Registrar, or, with respect to a successor paying agent/registrar, at the Designated Payment/Transfer Office of such successor. Interest on this Bond is payable by check dated as of

the interest payment date, mailed by the Paying Agent/Registrar to the registered owner at the address shown on the registration books kept by the Paying Agent/Registrar, or by such other customary banking arrangements acceptable to the Paying Agent/Registrar and the person to whom interest is to be paid; provided, however, that such person shall bear all risk and expense of such other customary banking arrangements. For the purpose of the payment of interest on this Bond, the registered owner shall be the person in whose name this Bond is registered at the close of business on the "Record Date," which shall be the last business day of the month next preceding such interest payment date. In the event of a nonpayment of interest on a scheduled payment date, and for thirty days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the special payment date of the past due interest (the "Special Payment Date," which date shall be fifteen days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each owner of a Bond appearing on the books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

If the date for the payment of the principal of or interest on this Bond shall be a Saturday, Sunday, legal holiday, or day on which banking institutions in the city where the Paying Agent/Registrar is located are required or authorized by law or executive order to close, the date for such payment shall be the next succeeding day which is not a Saturday, Sunday, legal holiday, or day on which banking institutions are required or authorized to close, and payment on such date shall for all purposes be deemed to have been made on the original date payment was due.

This Bond, dated July 15, 2018 is one of a series of fully registered bonds specified in the title hereof issued in the aggregate principal amount of \$23,885,000 (herein referred to as the "Bonds"), issued pursuant to a certain order of the District (the "Order") (i) the construction, improvement, renovation and equipment of school buildings in the District and acquiring real property therefor, and the purchase of new school buses, and (ii) for paying for the costs of issuing the Bonds.

The Bonds and the interest thereon are payable from the levy of an annual ad valorem tax levied without legal limit as to rate or amount, against all taxable property located within the District and as described and provided in the Order.

The District has reserved the right to redeem the Bonds maturing on and after August 15, 2028, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, before their respective scheduled maturity dates, on August 15, 2027, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the District shall determine the maturities and the amounts thereof to be redeemed, and shall direct the Paying Agent/Registrar to call by lot the Bonds, or portions thereof, for redemption.

The Bonds stated to mature on August 15, 2043 and August 15, 2048 (collectively, the "Term Bonds"), are subject to scheduled mandatory redemption and will be redeemed by the District, at a price equal to the principal amount thereof, without premium, plus accrued interest

to the redemption date, out of moneys available for such purpose in the Interest and Sinking Fund, on the dates and in the respective principal amounts as set forth in the following schedule:

\$4,795,000 Term Bond Maturing August 15, 2043

Year	Principal Amount
2039	\$ 885,000
2040	920,000
2041	960,000
2042	995,000
2043 (maturity)	1,035,000

\$5,840,000 Term Bond Maturing August 15, 2048

Year	Principal Amount
2044	\$1,080,000
2045	1,120,000
2046	1,165,000
2047	1,215,000
2048 (maturity)	1,260,000

At least forty-five (45) days prior to each scheduled mandatory redemption date, the Paying Agent/Registrar shall select for redemption by lot, or by any other customary method that results in a random selection, a principal amount of Term Bonds equal to the aggregate principal amount of such Term Bonds to be redeemed and shall call such Term Bonds for redemption on such scheduled mandatory redemption date.

The principal amount of the Term Bonds required to be redeemed on any mandatory sinking fund redemption date shall be reduced, at the option of the District, by the principal amount of any Term Bonds which, at least 45 days prior to the mandatory sinking fund redemption date (i) shall have been acquired by the District at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof; and delivered to the Paying Agent/Registrar for cancellation, or (ii) shall have been redeemed pursuant to an optional redemption and not previously credited to a mandatory sinking fund redemption.

Not less than thirty (30) days prior to a redemption date for the Bonds, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the Owners of the Bonds to be redeemed at the address of the Owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice.

In the Order, the District reserves the right, in the case of an optional redemption, to give notice of its election or direction to redeem Bonds conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit

of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date, or (ii) that the District retains the right to rescind such notice at any time on or prior to the scheduled redemption date if the District delivers a certificate of the District to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any Bonds subject to conditional redemption and such redemption has been rescinded shall remain Outstanding, and the rescission of such redemption shall not constitute an Event of Default. Further, in the case of a conditional redemption, the failure of the District to make moneys and/or authorized securities available in part or in whole on or before the redemption date shall not constitute an Event of Default.

Any notice so mailed shall be conclusively presumed to have been duly given, whether or not the registered owner receives such notice. Notice having been so given and subject, in the case of an optional redemption; to any rights or conditions reserved by the District in the notice, the Bonds called for redemption shall become due and payable on the specified redemption date, and notwithstanding that any Bond or portion thereof has not been surrendered for payment, interest on such Bond or portion thereof shall cease to accrue.

As provided in the Order, and subject to certain limitations therein set forth, this Bond is transferable upon surrender of this Bond for transfer at the Designated Payment/Transfer Office with such endorsement or other evidence of transfer as is acceptable to the Paying Agent/Registrar; thereupon, one or more new fully registered Bonds of the same stated maturity, of authorized denominations, bearing the same rate of interest, and for the same aggregate principal amount will be issued to the designated transferee or transferees.

Neither the District nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond called for redemption where such redemption is scheduled to occur within 45 calendar days after the transfer or exchange date; provided, however, such limitation shall not be applicable to an exchange by the registered owner of the uncalled principal balance of a Bond.

The District, the Paying Agent/Registrar, and any other person may treat the person in whose name this Bond is registered as the owner hereof for the purpose of receiving payment as herein provided (except interest shall be paid to the person in whose name this Bond is registered on the Record Date) and for all other purposes, whether or not this Bond be overdue, and neither the District nor the Paying Agent/Registrar shall be affected by notice to the contrary.

IT IS HEREBY CERTIFIED AND RECITED that the issuance of this Bond and the series of which it is a part is duly authorized by law; that all acts, conditions and things required to be done precedent to and for the issuance of the Bonds have been properly done and performed and have happened in regular and due time, form and manner, as required by law; that sufficient and proper provision for the levy and collection of taxes has been made, without limit as to rate or amount, which when collected shall be appropriated exclusively to the timely payment of the principal and maturity amounts of, and interest on the Bonds; and that the total

indebtedness of the District, including the Bonds, does not exceed any constitutional or statutory limitation.

IN WITNESS WHEREOF, the District has caused this Bond to be duly executed under its official seal.

Secretary, Board of Trustees
Little Elm Independent School District

President, Board of Trustees
Little Elm Independent School District

[SEAL]

(b) Form of Comptroller's Registration Certificate.

The following Comptroller's Registration Certificate may be deleted from the definitive Bonds if such certificate on the Initial Bond is fully executed.

OFFICE OF THE COMPTROLLER	§	
OF PUBLIC ACCOUNTS	§	REGISTER NO. _____
OF THE STATE OF TEXAS	§	

I hereby certify that there is on file and of record in my office an opinion of the Attorney General of the State of Texas to the effect that this Bond has been examined by him as required by law, that he finds that it has been issued in conformity with the Constitution and laws of the State of Texas, and that it is a valid and binding obligation of Little Elm Independent School District, and that this Bond has this day been registered by me.

WITNESS MY SIGNATURE AND SEAL this _____.

Comptroller of Public Accounts
of the State of Texas

[SEAL]

(c) Form of Certificate of Paying Agent/Registrar.

The following Certificate of Paying Agent/Registrar may be deleted from the Initial Bond if the Comptroller's Registration Certificate appears thereon.

CERTIFICATE OF PAYING AGENT/REGISTRAR

The records of the Paying Agent/Registrar show that the Initial Bond of this series of bonds was approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas and that this is one of the Bonds referred to in the within-mentioned Order.

UMB BANK, N.A.
as Paying Agent/Registrar

Dated: _____

By: _____
Authorized Signatory

(d) Form of Assignment.

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns, and transfers unto

(print or typewrite name, address and Zip Code of transferee): (Social Security or other identifying number: _____) the within Bond and all rights hereunder and hereby irrevocably constitutes and appoints _____ attorney to transfer the within Bond on the books kept for registration hereof, with full power of substitution in the premises.

Dated: _____

Signature Guaranteed By:

Authorized Signatory

NOTICE: The signature on this Assignment must correspond with the name of the registered owner as it appears on the face of the within Bond in every particular and must be guaranteed in a manner acceptable to the Paying Agent/Registrar.

(e) The Initial Bond shall be in the form set forth in paragraphs (a), (b), and (d) of this Section, except for the following alterations:

(i) immediately under the name of the Bond, the headings "INTEREST RATE" and "MATURITY DATE" shall both be completed with the words "As Shown Below" and the words "CUSIP NUMBER" deleted; and

(ii) in the first paragraph:

the words "on the Maturity Date specified above" shall be deleted and the following will be inserted: "on August 15 in the years, in the principal installments and bearing interest at the per annum rates set forth in the following schedule:

Year	Principal Amount	Interest Rate
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[Information to be inserted from Pricing Certificate]

(iii) The Bonds shall be in the aggregate principal amount designated in the Pricing Certificate, shall be in the denomination of \$5,000 principal amount or any integral multiple thereof and shall be numbered separately from one upward, except the Initial Bond, which shall be numbered T-1.

(f) Statement of Permanent School Fund Guarantee.

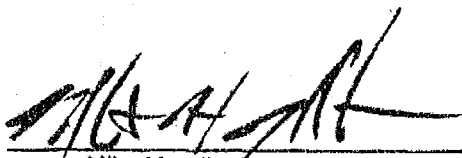
The following statement shall appear on or be attached to each Bond:

PSF CERTIFICATE

Under the authority granted by Article 7, Section 5 of the Texas Constitution and Subchapter C of Chapter 45 of the Texas Education Code, the payment, when due, of the principal of and interest on the issuance by the Little Elm Independent School District of its Unlimited Tax School Building Bonds, Series 2018A, dated July 15, 2018, in the principal amount of \$23,885,000 is guaranteed by the corpus of the Permanent School Fund of the State pursuant to the bond guarantee program administered by the Texas Education Agency. This guarantee shall be removed in its entirety upon defeasance of such bonds.

Reference is hereby made to the continuing disclosure agreement of the Texas Education Agency, set forth in Section I of the Agency's Investment Procedure Manual and the Agency's commitment letter for the guarantee. Such disclosure agreement has been made with respect to the bond guarantee program, in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission, for the benefit of the holders and beneficial owners of the bonds.

In witness thereof I have caused my signature to be placed in facsimile on this bond.



Mike Morath
Commissioner of Education

EXHIBIT B

BOND PURCHASE CONTRACT

(See Attached)

Purchase Contract

\$23,885,000

**Little Elm Independent School District
(Denton County, Texas)
Unlimited Tax School Building Bonds, Series 2018A**

July 26, 2018

**Board of Trustees
Little Elm Independent School District
300 Lobo Lane
Little Elm, Texas 75068**

Ladies and Gentlemen:

The undersigned, Wells Fargo Bank, National Association (the "Representative"), acting on its own behalf and as representative of Piper Jaffray & Co. (collectively, the "Underwriters"), offers to enter into the following agreement with the Little Elm Independent School District (the "Issuer") which, upon the Issuer's written acceptance of this offer (the or this "Contract"), will be binding upon the Issuer and upon the Underwriters. This offer is made subject to the Issuer's written acceptance hereof on or before 10:00 p.m., Central time, on the date hereof, and, if not so accepted, will be subject to withdrawal by the Underwriters upon written notice delivered to the Issuer at any time prior to the acceptance hereof by the Issuer. Terms not otherwise defined in this Contract shall have the same meanings set forth in the Bond Order (as defined herein) or in the Official Statement (as defined herein). The Representative has been duly authorized by the Underwriters to execute this Contract and to act hereunder on behalf of the Underwriters.

1. **Purchase and Sale of the Bonds.** Subject to the terms and conditions and in reliance upon the representations, warranties and agreements set forth herein, the Underwriters hereby agree, jointly and severally, to purchase from the Issuer, and the Issuer hereby agrees to sell and deliver to the Underwriters, all, but not less than all, of the Issuer's \$23,885,000 Unlimited Tax School Building Bonds, Series 2018A (the "Bonds").

The Bonds are to be issued, secured and sold under the provisions of an order (the "Order") adopted by the Board of Trustees of the Issuer on June 18, 2018, and shall have the terms and features, including those with respect to price and interest rate, as set forth in the Pricing Certificate (as defined in the Order)(the Order and the Pricing Certificate are jointly referred to herein as the "Bond Order"). The Pricing Certificate shall be executed on behalf of the Issuer by the representative of the Issuer (the "Pricing Officer") named in the Order and shall be dated the date hereof. The principal amount of the Bonds to be issued, the dated date therefor, the maturities, redemption provisions, initial yields and interest rates per annum are set forth in Schedule I attached hereto.

The purchase price for the Bonds shall be \$25,113,852.91 (representing the principal amount of the Bonds, plus an original issue premium of \$1,366,042.70 and less an underwriters' discount of \$137,189.79).

Delivered to the Issuer herewith as a good faith deposit is a corporate check of the Representative payable to the order of the Issuer in the amount of \$226,950. In the event the

Issuer accepts this Contract, such check shall be held uncashed by the Issuer until the time of Closing (as defined herein), at which time such check shall be returned uncashed to the Representative. In the event that the Issuer does not accept this Contract, such check will be immediately returned to the Representative. Should the Issuer fail to deliver the Bonds at the Closing, or should the Issuer be unable to satisfy the conditions of the obligations of the Underwriters to purchase, accept delivery of and pay for the Bonds, as set forth in this Contract (unless waived by the Representative), or should such obligations of the Underwriters be terminated for any reason permitted by this Contract, such check shall immediately be returned to the Representative. In the event that the Underwriters fail (other than for a reason permitted hereunder) to purchase, accept delivery of and pay for the Bonds at the Closing as herein provided, such check shall be cashed and the amount thereof retained by the Issuer as and for fully liquidated damages for such failure of the Underwriters, and, except as set forth in Sections 4, 8, and 10 hereof, no party shall have any further rights against the other hereunder. The Underwriters and the Issuer understand that in such event the Issuer's actual damages may be greater or may be less than such amount. Accordingly, the Underwriters hereby waive any right to claim that the Issuer's actual damages are less than such amount, and the Issuer's acceptance of this Contract shall constitute a waiver of any right the Issuer may have to additional damages from the Underwriters. The Representative hereby agrees to not stop or cause payment on the check to be stopped unless the Issuer has breached any of the terms of this Contract and the Underwriters have elected to terminate this Contract pursuant to Section 7 hereof. Immediately following the Closing, the Issuer shall return the good faith check to the Representative.

Each of the Underwriters represents and warrants that it is exempt from the requirements of Section 2252.908 of the Texas Government Code, as amended, pursuant to subsection (c)(4) thereof. Accordingly, the Underwriters are not required to file a Certificate of Interested Parties Form 1295.

2. Public Offering and Establishment of Issue Price of the Bonds.

(a) Public Offering. The Underwriters agree to make a bona fide public offering of all of the Bonds and will, at or before Closing, execute and deliver to Bracewell LLP, Dallas, Texas ("Bond Counsel"), an issue price certificate for the Bonds, prepared by Bond Counsel, and in accordance with paragraph (b) below (the "Issue Price Certificate").

(b) Establishment of Issue Price of the Bonds. Notwithstanding any provision of this Contract to the contrary, the following provisions related to the establishment of the issue price of the Bonds apply:

(1) Definitions. For purposes of this Section 2, the following definitions apply:

(i) "Public" means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than a Tax Law Underwriter or a Related Party to a Tax Law Underwriter.

(ii) "Related Party" means any two or more persons who are subject, directly or indirectly, to (A) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another),

(B) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (C) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interest or profits interest of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other).

(iii) "Sale Date" means the date of execution of this Purchase Agreement by all parties.

(iv) "Tax Law Underwriter" means (A) any person that agrees pursuant to a written contract with the Issuer (or with the Representative to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public).

- (2) Issue Price Certificate. The Representative, on behalf of the Underwriters, agrees to assist the Issuer in establishing the issue price of the Bonds and to execute and deliver to the Issuer at Closing an "issue price" or similar certificate, together with the supporting pricing wires or equivalent communications, substantially in the form attached hereto as *Exhibit A*, with such modifications as may be appropriate or necessary, in the reasonable judgment of the Representative, the Issuer and Bond Counsel, to accurately reflect, as applicable, the sales price or prices or the initial offering price or prices to the Public of the Bonds (the "Issue Price Certificate"). All actions to be taken by the Issuer under this Section 2 to establish the issue price of the Bonds may be taken on behalf of the Issuer by the Issuer's municipal advisor identified herein and any notice or report to be provided to the Issuer may be provided to the Issuer's municipal advisor.
- (3) Public Offering. The Representative confirms that, on the Sale Date, the Underwriters offered the Bonds to the Public at the offering price or prices (each, an "Initial Offering Price"), or at the corresponding yield or yields, set forth in *Schedule I* attached hereto.
- (4) 10% Test. Except as otherwise set forth in the Issue Price Certificate, the Issuer will determine the issue price of the Bonds based on the first price at which 10% of each maturity of the Bonds is sold to the Public (the "10% Test") (if different interest rates apply within a maturity, each separate CUSIP number within that maturity will be subject to the 10% Test). The Issue Price Certificate will set forth the maturities, if any, of the Bonds for which the issue price will be the applicable Initial Offering Price because the 10% Test was satisfied as of the Sale Date.
- (5) Hold-The-Offering-Price Rule. The Issue Price Certificate will set forth, the maturities, if any, of the Bonds for which the 10% Test was not satisfied as of the Sale Date and for which the Issuer and the Representative, on behalf of the Underwriters, agree that the restrictions in the next sentence will apply (each such

maturity of the Bonds being referred to as a "Held Maturity"), which will allow the Issuer to treat the Initial Offering Price to the Public of each such Held Maturity as the issue price of that Held Maturity (the "Hold-the-Offering-Price Rule"). For any maturity identified as a Held Maturity, the Underwriters will neither offer nor sell unsold Bonds of such Held Maturity to any person at a price that is higher than the applicable Initial Offering Price of such Held Maturity during the period starting on the Sale Date and ending on the earlier of the following:

- (i) the close of the fifth business day after the Sale Date; or
- (ii) the date on which the Tax Law Underwriters have sold at least 10% of such Held Maturity to the Public at a price that is no higher than the Initial Offering Price of such Held Maturity.

The Representative will promptly advise the Issuer when the Tax Law Underwriters have sold 10% of each such Held Maturity to the Public at a price that is no higher than the applicable Initial Offering Price of such Held Maturity, if that occurs prior to the close of the fifth business day after the Sale Date.

The Issuer acknowledges that, in making the representation that each Underwriter will comply with the Hold-the-Offering Price Rule with respect to any Held Maturity, the Representative is relying on (A) the agreement of each Underwriter to comply with the Hold-the-Offering-Price Rule, as set forth in an agreement among underwriters and the related pricing wires, (B) in the event a selling group has been created in connection with the initial sale of the Bonds to the Public, the agreement of each dealer who is a member of the selling group to comply with the Hold-the-Offering-Price Rule, as set forth in a selling group agreement and the related pricing wires, and (C) in the event that an Underwriter is a party to a retail distribution agreement that was employed in connection with the initial sale of the Bonds to the Public, the agreement of each broker-dealer that is a party to such agreement to comply with the Hold-the-Offering-Price Rule, as set forth in the retail distribution agreement and the related pricing wires. The Issuer further acknowledges that each Tax Law Underwriter will be solely liable for its failure to comply with its agreement regarding the Hold-the-Offering Price Rule and that no Tax Law Underwriter will be liable for the failure of any other Tax Law Underwriter to comply with its corresponding agreement regarding the Hold-the-Offering-Price Rule as applicable to the Bonds.

(6) Matters Relating to Certain Agreements. The Representative confirms that:

- (i) any agreement among underwriters, any selling group agreement and each retail distribution agreement to which the Representative is a party relating to the initial sale of the Bonds to the Public, together with related pricing wires, contains or will contain language obligating each Underwriter, each dealer who is a member of any selling group, and each broker-dealer that is a party to any such retail distribution agreement, as applicable, to (A) report the prices at which it sells to the Public the unsold Bonds of each maturity allotted to it until it is notified by the Representative that either the 10% Test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the Public and (B) comply

with the Hold-the-Offering Price Rule, if applicable, in each case if and for so long as directed by the Representative and as set forth in the related pricing wires; and

(ii) any agreement among underwriters relating to the initial sale of the Bonds to the Public, together with related pricing wires, contains or will contain language obligating each Underwriter that is a party to a retail distribution agreement to be employed in connection with the initial sale of the Bonds to the Public to require each broker-dealer that is a party to such retail distribution agreement to (A) report the prices at which it sells to the Public the unsold Bonds of each maturity allotted to it until it is notified by the Representative or the applicable Underwriter that either the 10% Test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the Public and (B) comply with the Hold-the-Offering Price Rule, if applicable, in each case if and for so long as directed by the Representative or the applicable Underwriter and as set forth in the related pricing wires.

- (7) Sale to Related Party not a Sale to the Public. The Underwriters acknowledge that sales of any Bonds to any person that is a Related Party to a Tax Law Underwriter do not constitute sales to the Public for purposes of this Section 2.

3. The Official Statement.

(a) Preliminary Official Statement. The Issuer previously has delivered, or caused to be delivered, copies of a Preliminary Official Statement, dated July 19, 2018, relating to the Bonds (the "Preliminary Official Statement"), to the Underwriters for their use in determining interest in the Bonds. The Issuer prepared the Preliminary Official Statement for use by the Underwriters in connection with the public offering, sale and distribution of the Bonds. The Issuer hereby ratifies and approves the use by the Underwriters of the Preliminary Official Statement prior to the date hereof, and until the availability of the final Official Statement, in connection with the public offering of the Bonds. The Issuer hereby represents and warrants that the Preliminary Official Statement has been "deemed final", within the meaning of Rule 15c2-12 issued by the United States Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934 (the "Rule"), as of its date, except for the omission of information specified in Section (b)(1) of the Rule, as permitted by Section (b)(1) of the Rule. The Issuer hereby confirms that it does not object to the distribution of the Preliminary Official Statement in electronic form.

(b) Final Official Statement. The Issuer shall prepare and provide, or cause to be provided, to the Underwriters as soon as practicable after the date of the Issuer's acceptance of this Contract (but, in any event, not later than within seven business days after the Issuer's acceptance of this Contract and in sufficient time to accompany any confirmation that requests payment from any customer) a final Official Statement which is complete as of the date of its delivery to the Underwriters, in such quantity and formats as the Representative shall reasonably request, and in any event in a "designated electronic format" (as defined in MSRB Rule G-32), in order for the Underwriters to comply with Section (b)(4) of the Rule and the rules of the Municipal Securities Rulemaking Board (the "MSRB"). Such final Official Statement shall be substantially in form of the Preliminary Official Statement, with only such changes therein as shall have been accepted by the Representative or as shall be permitted by the Rule or the rules of the MSRB. Such final Official Statement, including the cover page, all exhibits, schedules, appendices, maps, pictures, diagrams, reports and statements included or

incorporated therein or attached thereto, and any amendments and supplements thereto that may be authorized for use with respect to the Bonds, is herein referred to as the "Official Statement." The Issuer hereby authorizes the Underwriters to use the Official Statement and the information contained therein in connection with the public offering and the sale of the Bonds. The Issuer hereby confirms that it does not object to the distribution of the Official Statement in electronic form. If, for any reason, the Issuer is unable or otherwise fails to deliver the final Official Statement to the Underwriters in compliance with this paragraph, the Issuer shall deliver the Preliminary Official Statement, including all amendments and supplements thereto, to the Underwriters in a "designated electronic format" at least one business day before the date of the Closing.

(c) If, after the date of this Contract to and including the date the Underwriters are no longer required to provide an Official Statement to potential customers who request the same pursuant to the Rule (the earlier of (i) 90 days from the "end of the underwriting period", as defined in the Rule, and (ii) the time when the Official Statement is available to any person from the MSRB, but in no case less than 25 days after the "end of the underwriting period" for the Bonds), the Issuer becomes aware of any fact or event which might or would cause the Official Statement, as then supplemented or amended, to contain any untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, or if it is necessary to amend or supplement the Official Statement to comply with law, the Issuer will notify the Representative (and for the purposes of this clause provide the Underwriters with such information as the Representative may from time to time reasonably request), and if, in the reasonable opinion of the Representative, such fact or event requires preparation and publication of a supplement or amendment to the Official Statement, the Issuer will prepare and furnish, at the Issuer's sole expense, in such quantity and in formats as the Representative shall reasonably request, and in a "designated electronic format", in order for the Underwriters to comply with Section (b)(4) of the Rule and the rules of the MSRB, copies of either amendments or supplements to the Official Statement so that the statements in the Official Statement as so amended and supplemented will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading or so that the Official Statement will comply with law; provided, however, that for all purposes of this Contract and any certificate delivered by the Issuer in accordance herewith, the Issuer makes no representations with respect to the descriptions in the Preliminary Official Statement or the Official Statement of The Depository Trust Company, New York, New York ("DTC"), or its book-entry-only system, or the information provided by the Texas Education Agency (the "TEA") under the caption therein entitled "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM". If such notification shall be subsequent to the Closing, the Issuer shall furnish such legal opinions, certificates, instruments and other documents as the Representative may reasonably request to evidence the truth and accuracy of such supplement or amendment to the Official Statement.

(d) The Representative hereby agrees to timely file, or cause to be filed, in a format prescribed by the MSRB, the Official Statement (and any amendment or supplement to the Official Statement prepared in accordance with Section 3(c) above) with the MSRB or its designee (including the MSRB's Electronic Municipal Market Access System). Unless otherwise notified in writing by the Representative, the Issuer can assume that the "end of the underwriter period" for purposes of the Rule is the date of Closing.

4. Representations, Warranties, and Covenants of the Issuer. The Issuer hereby represents and warrants to and covenants with the Underwriters that:

(a) The Issuer is a duly organized independent school district and body corporate and politic of the State of Texas (the "State"), and is duly created, organized and existing under the laws of the State, is in good standing with and is duly accredited by the TEA, and has full legal right, power, and authority pursuant to the Constitution and general laws of the State, including Chapter 45 of Texas Education Code, as amended, and Chapter 1371 of the Texas Government Code, as amended (collectively, the "Act"), and at the date of the Closing will continue to have full legal right, power and authority under the Act (i) to adopt the Order and to make the delegations set forth therein and take the actions authorized thereby, (ii) to enter into, execute and deliver the Pricing Certificate, this Contract, and all documents required hereunder and thereunder to be executed and delivered by the Issuer (this Contract and the Bond Order, which contains the Undertaking, as defined in Section 6(i)(2) hereof, are hereinafter referred to as the "Issuer Documents"), (iii) to sell, issue and deliver the Bonds to the Underwriters as provided herein, and (iv) to carry out and consummate the transactions described in the Issuer Documents and the Official Statement, and the Issuer has complied, and will at the Closing be in compliance, in all material respects with the terms of the Act and the Issuer Documents as they pertain to such transactions;

(b) By all necessary official action of the Issuer prior to or concurrently with the acceptance of this Contract, the Issuer has duly authorized all necessary action to be taken by it for the (i) adoption of the Order and the issuance and sale of the Bonds, (ii) approval of the Preliminary Official Statement and the Official Statement, (iii) approval, execution and delivery of, and the performance by the Issuer of the obligations on its part contained in the Bonds and the Issuer Documents and (iv) consummation by the Issuer of all other transactions described in the Official Statement, the Issuer Documents and any and all such other agreements and documents as may be required to be executed, delivered and/or received by the Issuer in order to carry out, give effect to, and consummate the transactions described herein and in the Official Statement, and the Pricing Officer shall have executed and delivered the Pricing Certificate in accordance with the Order and the Act;

(c) The Issuer Documents constitute legal, valid and binding obligations of the Issuer, enforceable in accordance with their respective terms, subject to principles of sovereign immunity of political subdivisions, bankruptcy, insolvency, reorganization, moratorium and other similar laws and principles of equity relating to or affecting the enforcement of creditors' rights. The Bonds, when issued, delivered and paid for, in accordance with the Bond Order and this Contract, will constitute legal, valid and binding obligations of the Issuer entitled to the benefits of the Bond Order and enforceable in accordance with their terms, subject to principles of sovereign immunity of political subdivisions, bankruptcy, insolvency, reorganization, moratorium and other similar laws, and principles of equity relating to or affecting the enforcement of creditors' rights. Upon the issuance, authentication and delivery of the Bonds as aforesaid, the Bond Order will provide, for the benefit of the holders of the Bonds, from time to time, for the levy and collection of an annual ad valorem tax, levied without limit as to rate or amount, for the payment of the Bonds;

(d) To its knowledge, on the date hereof, the Issuer is not, and on the date of Closing the Issuer will not be, in breach of or default in any material respect under any

applicable constitutional provision, law or administrative regulation of the State or the United States or any applicable judgment or decree or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Issuer is a party or to which the Issuer is, or any of its property or assets are, otherwise subject, and no event has occurred and is continuing which constitutes or with the passage of time or the giving of notice, or both, would constitute a default or event of default in any material respect by the Issuer under any of the foregoing; and the execution and delivery of the Bonds and the Issuer Documents and the adoption of the Order and compliance with the provisions on the Issuer's part contained therein and in the Issuer Documents, will not conflict with or constitute a breach of or default in any material respect under any constitutional provision, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Issuer is a party or to which the Issuer is, or to which any of its property or assets are, otherwise subject, nor will any such execution, delivery, adoption or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the property or assets of the Issuer to be pledged to secure the Bonds or under the terms of any such law, regulation or instrument, except as provided by the Bonds and the Bond Order;

(e) All authorizations, approvals, licenses, permits, consents and orders of any governmental authority, legislative body, board, agency or commission having jurisdiction over the matters which are required for the due authorization of, which would constitute a condition precedent to, or the absence of which would materially adversely affect the due performance by the Issuer of its obligations under the Issuer Documents and the Bonds, have been duly obtained or will be duly obtained prior to Closing, except for such approvals, consents and orders as may be required under the Blue Sky or securities laws of any jurisdiction in connection with the offering and sale of the Bonds;

(f) The Bonds and the Bond Order conform to the descriptions thereof contained in the Official Statement under the caption "THE BONDS"; the proceeds of the sale of the Bonds will be applied generally as described in the Official Statement under the subcaption "THE BONDS – Sources and Uses of Funds" and will be used for the purposes described in the Official Statement under the subcaption "THE BONDS – Authorization and Purpose"; and the Undertaking (as defined in Section 6(i)(2) hereof) conforms to the description thereof contained in the Official Statement under the caption "CONTINUING DISCLOSURE OF INFORMATION";

(g) Except as may be disclosed in the Official Statement, there is no litigation, action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, pending or, to the knowledge of the Issuer, threatened against the Issuer, (i) contesting the due organization and valid corporate existence of the Issuer or the titles of its officers to their respective offices, (ii) affecting or seeking to prohibit, restrain or enjoin the sale, issuance or delivery of the Bonds or the levy, assessment and/or collection of taxes pledged to the payment of principal of and interest on the Bonds pursuant to the Bond Order, (iii) contesting or affecting the validity or enforceability of the Bonds or the Issuer Documents, (iv) contesting the exclusion from gross income of interest on the Bonds for federal income tax purposes, (v) contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto, or (vi) contesting the powers of the Issuer or any authority for the issuance of the Bonds, the

adoption of the Order or the execution and delivery of the Issuer Documents, nor, to the knowledge of the Issuer, is there any basis therefor, wherein an unfavorable decision, ruling or finding would materially adversely affect the validity or enforceability of the Bonds or the Issuer Documents;

(h) As of the date thereof, the Preliminary Official Statement did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(i) At the time of the Issuer's acceptance hereof and (unless the Official Statement is amended or supplemented pursuant to Section 3(c) of this Contract) at all times subsequent thereto during the period up to and including the date of Closing, the Official Statement does not and will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(j) If the Official Statement is supplemented or amended pursuant to Section 3(c) of this Contract, at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such paragraph) at all times subsequent thereto during the period up to and including the date of Closing, the Official Statement as so supplemented or amended will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(k) The Issuer will apply, or cause to be applied, the proceeds from the sale of the Bonds as provided in and subject to all of the terms and provisions of the Bond Order and will not take or omit to take any action within its control which action or omission will adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Bonds;

(l) The Issuer will furnish such information and execute such instruments and take such action in cooperation with the Underwriters as the Representative may reasonably request, at no expense to the Issuer, (A) to (y) qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions in the United States as the Representative may designate and (z) determine the eligibility of the Bonds for investment under the laws of such states and other jurisdictions and (B) to continue such qualifications in effect so long as required for the distribution of the Bonds (provided, however, that the Issuer will not be required to qualify as a foreign corporation or to file any general or special consents to service of process under the laws of any jurisdiction) and will advise the Representative immediately of receipt by the Issuer of any notification with respect to the suspension of the qualification of the Bonds for sale in any jurisdiction or the initiation or threat of any proceeding for that purpose;

(m) The financial statements of, and other financial information regarding, the Issuer contained in the Official Statement fairly present the financial position of the Issuer as of the dates and for the periods therein set forth, the audited financial statements have been prepared in accordance with generally accepted accounting

principles consistently applied, and the other financial information has been determined on a basis substantially consistent with that of the Issuer's audited financial statements included in the Official Statement. Prior to the Closing, the Issuer will not take any action within or under its control that will cause an adverse change of a material nature in such financial position, results of operations or condition, financial or otherwise, of the Issuer from that described in the Official Statement. Except as may be described in the Official Statement, the Issuer is not a party to any litigation or other proceeding pending or, to its knowledge, threatened which, if decided adversely to the Issuer, would have a materially adverse effect on the financial condition of the Issuer;

(n) Prior to the Closing, the Issuer will not offer or issue any bonds, notes or other obligations for borrowed money or take action to incur any material liabilities (except in the ordinary course of business), direct or contingent, payable from or secured by any of the ad valorem taxes which will secure the Bonds without the prior approval of the Representative, such approval not to be unreasonably withheld;

(o) Any certificate, signed by any official of the Issuer authorized to do so in connection with the transactions described in this Contract, shall be deemed a representation and warranty by the Issuer to the Underwriters as to the statements made therein;

(p) The Issuer, to the extent heretofore requested by the Representative in writing, has delivered to the Underwriters true, correct, complete and legible copies of all information, applications, reports or other documents of any nature whatsoever submitted to any rating agency for the purpose of obtaining a rating for the Bonds and, in each instance, true, correct, complete and legible copies of all correspondence or other written communications relating thereto;

(q) The Issuer covenants that between the date hereof and the Closing it will take no action which will cause the representations and warranties made in this Section to be materially untrue as of the date of Closing; and

(r) To the knowledge and belief of the Issuer, the Official Statement contains information, including financial information and operating data, as required by the Rule. Except as may be disclosed in the Official Statement, during the last five years, the Issuer has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

5. Closing.

(a) At 10:00 a.m. Central time, on August 16, 2018, or at such other time and date as shall have been mutually agreed upon by the Issuer and the Representative (the "Closing"), the Issuer will, subject to the terms and conditions hereof, deliver the initial Bond to UMB Bank N.A., Dallas, Texas (the "Paying Agent/Registrar"), as the entity appointed by the Issuer and agreed to by the Underwriters to make delivery of the Bonds, duly executed and authenticated, together with the other documents hereinafter mentioned, and the Paying Agent/Registrar will, subject to the terms and conditions hereof, accept such delivery and the Underwriters will pay the purchase price of the Bonds as set forth in Section 1 of this Contract in immediately available funds to the order of the Issuer. Payment for the Bonds as aforesaid shall be made at the offices of the Paying Agent/Registrar, or such other place as shall have been mutually agreed upon by the Issuer and the Representative.

(b) Delivery of the Bonds in definitive form shall be made through DTC, utilizing the book-entry-only form of issuance. The definitive Bonds shall be delivered in definitive fully registered form, bearing CUSIP numbers without coupons, with one Bond for each maturity of the Bonds, registered in the name of Cede & Co., all as provided in the Bond Order, and shall be made available to the Underwriters at least one business day before the Closing for purposes of inspection at the offices of DTC or, if the Bonds are to be held in safekeeping for DTC by the Paying Agent/Registrar pursuant to DTC's FAST system, at the designated payment office of the Paying Agent/Registrar. In addition, the Issuer and the Underwriters agree that there shall be a preliminary Closing held at such place as the Issuer and the Representative shall mutually agree, commencing at least 24 hours prior to the Closing; provided, however, that such preliminary Closing shall not be required if Bond Counsel provides a complete transcript of proceedings acceptable to Norton Rose Fulbright US LLP, Dallas, Texas ("Underwriters' Counsel") at least 24 hours prior to the Closing.

6. Closing Conditions. The Underwriters have entered into this Contract in reliance upon the representations, warranties and agreements of the Issuer contained herein, and in reliance upon the representations, warranties and agreements to be contained in the documents and instruments to be delivered at the Closing and upon the performance by the Issuer of its obligations hereunder, both as of the date hereof and as of the date of the Closing. Accordingly, the Underwriters' obligations under this Contract to purchase, to accept delivery of and to pay for the Bonds shall be conditioned upon the performance by the Issuer of its obligations to be performed hereunder and under such documents and instruments at or prior to the Closing, and shall also be subject to the following additional conditions, including the delivery by the Issuer of such documents as are enumerated herein, in form and substance reasonably satisfactory to the Representative, unless waived in writing by the Representative on behalf of the Underwriters:

(a) The representations and warranties of the Issuer contained herein shall be true, complete and correct in all material respects on the date hereof and on and as of the date of the Closing, as if made on the date of the Closing;

(b) The Issuer shall have performed and complied with all agreements and conditions required by this Contract to be performed or complied with by it prior to or at the Closing;

(c) At the time of the Closing, (i) the Issuer Documents and the Bonds shall be in full force and effect and shall not have been amended, modified or supplemented, and the Official Statement shall not have been supplemented or amended, except in any such case as may have been agreed to by the Representative; and (ii) all actions of the Issuer required to be taken by the Issuer shall be performed in order for Bond Counsel and Underwriters' Counsel to deliver their respective opinions referred to hereafter;

(d) At the time of the Closing, all official action of the Issuer relating to the Bonds and the Issuer Documents shall be in full force and effect and shall not have been amended, modified or supplemented;

(e) At or prior to the Closing, the Order shall have been duly adopted by the governing body of the Issuer in accordance with law, the Pricing Officer shall have duly executed and delivered the Pricing Certificate pursuant to the Order and the Issuer shall have duly executed and delivered and the Paying Agent/Registrar shall have duly authenticated the Bonds;

(f) At the time of the Closing, there shall not have occurred any change or any development involving a prospective change in the condition, financial or otherwise, or in the revenues or operations of the Issuer, from that set forth in the Official Statement that, in the reasonable judgment of the Representative, is material and adverse and that makes it, in the reasonable judgment of the Representative, impracticable to market the Bonds on the terms and in the manner described in the Official Statement;

(g) The Issuer shall not currently be in default with respect to the payment of principal or interest when due on any of its outstanding obligations for borrowed money;

(h) All steps to be taken and all instruments and other documents to be executed, and all other legal matters in connection with the transactions described in this Contract shall be reasonably satisfactory in legal form and effect to the Representative, Bond Counsel and Underwriters' Counsel;

(i) At or prior to the Closing, the Representative shall have received at least one copy of each of the following documents:

(1) The Official Statement, approved by the Pricing Officer or other authorized official of the Issuer, and each supplement or amendment thereto, if any, and the reports and audits referred to or appearing in the Official Statement;

(2) The Order and the Pricing Certificate executed thereunder, with such supplements or amendments as may have been agreed to by the Representative, which shall include an undertaking of the Issuer which satisfies the requirements of section (b)(5)(i) of the Rule (the "Undertaking");

(3) The approving opinion of Bond Counsel with respect to the Bonds, in substantially the form and substance attached to the Official Statement as Appendix C;

(4) A supplemental opinion of Bond Counsel addressed to the Underwriters, substantially to the effect that:

(i) the Order has been duly adopted by the Issuer and the Pricing Certificate has been duly executed by the Pricing Officer pursuant to the Order, and both of the foregoing documents are in full force and effect;

(ii) the Bonds are exempted securities under the Securities Act of 1933, as amended (the "1933 Act"), and the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act"), and it is not necessary, in connection with the offering and sale of the Bonds, to register the Bonds under the 1933 Act or to qualify the Bond Order under the Trust Indenture Act; and

(iii) such firm was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the

information in the Official Statement under the captions "THE BONDS" (except under the subcaptions "Payment Record", "Permanent School Fund Guarantee", and "Sources and Uses of Funds"), "REGISTRATION, TRANSFER AND EXCHANGE", "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" (excluding the information under the subcaption "The School Finance System as Applied to the District"), "TAX RATE LIMITATIONS", "LEGAL MATTERS" (except for the last two sentences of the second paragraph thereof), "TAX MATTERS", "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS", "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE", and "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance with Prior Undertakings") and such firm is of the opinion that the information relating to the Bonds and the legal matters contained under such captions and subcaptions is an accurate and fair summary of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Bond Order.

The supplemental opinion of Bond Counsel will also state that the Underwriters are entitled to rely upon the opinion of Bond Counsel delivered in accordance with Section 6(i)(3) of this Contract.

(5) An opinion, dated the date of the Closing and addressed to the Underwriters, of Underwriters' Counsel, to the effect that:

(i) the Bonds are exempted securities under the 1933 Act and the Trust Indenture Act and it is not necessary, in connection with the offering and sale of the Bonds, to register the Bonds under the 1933 Act and the Bond Order need not be qualified under the Trust Indenture Act; and

(ii) based upon their participation at conferences at which the Official Statement was discussed, but without having undertaken to determine independently the accuracy, completeness or fairness of the statements contained in the Official Statement, such counsel has no reason to believe that the Official Statement, as of its date, contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading (except for any financial, forecast, technical and statistical statements and data included in the Official Statement and the information regarding DTC and its book-entry system and information regarding the Permanent School Fund Guaranteed Program, in each case as to which no view need be expressed);

(6) A certificate, dated the date of Closing, of an appropriate official of the Issuer, to the effect that (i) the representations and warranties of the Issuer contained herein are true and correct in all material respects on and as of the date of Closing as if made on the date of Closing; (ii) no litigation or proceeding or tax challenge against the Issuer is pending or, to such person's knowledge,

threatened in any court or administrative body nor, to such person's knowledge, is there a basis for litigation which would (a) contest the right of the members or officials of the Issuer to hold and exercise their respective positions, (b) contest the due organization and valid existence of the Issuer, (c) contest the validity, due authorization and execution of the Bonds or the Issuer Documents, (d) attempt to limit, enjoin or otherwise restrict or prevent the Issuer from functioning, levying and/or collecting ad valorem taxes and making payments on the Bonds pursuant to the Bond Order, or contest the pledge of ad valorem taxes to the payment of the principal of and interest on the Bonds, or (e) contest the accuracy, completeness, or the fairness of the Preliminary Official Statement and the Official Statement; (iii) the Order was duly adopted by the Issuer, is in full force and effect and has not been modified, amended or repealed, and the Pricing Certificate and this Contract have been duly executed and delivered by the Pricing Officer and are in full force and effect and have not been modified, amended or repealed; (iv) to such person's knowledge, no event affecting the Issuer has occurred since the date of the Official Statement which should be disclosed in the Official Statement for the purpose for which it is to be used or which it is necessary to disclose therein in order to make the statements and information therein, in the light of the circumstances under which made, not misleading in any material respect as of the time of Closing, and the information contained in the Official Statement is correct in all material respects and, as of the date of the Official Statement did not, and as of the date of the Closing does not, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading; and (v) there has not been any materially adverse change in the financial condition of the Issuer since August 31, 2017, the latest date as of which audited financial information is available;

(7) A certificate of the Issuer in form and substance reasonably satisfactory to Bond Counsel and Underwriters' Counsel setting forth the facts, estimates and circumstances in existence on the date of the Closing, which establish that it is not expected that the proceeds of the Bonds will be used in a manner that would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"), and any applicable regulations (whether final, temporary or proposed) issued pursuant to the Code;

(8) Any other certificates and opinions required by the Bond Order for the issuance thereunder of the Bonds;

(9) Evidence satisfactory to the Representative that the Bonds have been rated "AAA" by S&P Global Ratings, a division of S&P Global Inc. ("S&P") based upon the Bonds being guaranteed by the Permanent School Fund, and "AA-" or better by S&P without regard to credit enhancement, and that such ratings are in effect as of the date of Closing;

(10) Evidence that the Bonds have been guaranteed by the Permanent School Fund of the State, together with correspondence from the TEA, or other evidence satisfactory to the Representative, of the agreement made by the TEA in accordance with the Rule, and of the entitlement of the Underwriters and other

holders and beneficial owners of the Bonds to rely on the agreement, which agreement is described under the caption "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" in the Preliminary Official Statement and the Official Statement;

(11) An opinion or certificate, dated on or prior to the date of Closing, of the Attorney General of the State, approving the Bonds as required by law, and the registration certificate of the Comptroller of Public Accounts of the State; and

(12) Such additional legal opinions, certificates, instruments and other documents as the Representative or Underwriters' Counsel may reasonably request to evidence the truth and accuracy, as of the date hereof and as of the date of the Closing, of the Issuer's representations and warranties contained herein and of the statements and information contained in the Official Statement and the due performance or satisfaction by the Issuer on or prior to the date of the Closing of all the respective agreements then to be performed and conditions then to be satisfied by the Issuer.

All of the opinions, letters, certificates, instruments and other documents mentioned above or elsewhere in this Contract shall be deemed to be in compliance with the provisions hereof if, but only if, they are in form and substance reasonably satisfactory to the Representative.

If the Issuer shall be unable to satisfy the conditions to the obligations of the Underwriters to purchase, to accept delivery of and to pay for the Bonds contained in this Contract, or if the obligations of the Underwriters to purchase, to accept delivery of and to pay for the Bonds shall be terminated for any reason permitted by this Contract, this Contract shall terminate and neither the Underwriters nor the Issuer shall be under any further obligation hereunder, except that the respective obligations of the Issuer and the Underwriters set forth in Sections 1 (with respect to the good faith check), 4, 8 and 10 hereof shall continue in full force and effect.

7. Termination. The Representative shall have the right to cancel the Underwriters' obligation to purchase the Bonds (as evidenced by a written notice to the Issuer terminating the obligation of the Underwriters to accept delivery of and pay for the Bonds) if, between the date of this Contract and the date of the Closing, the market price or marketability of the Bonds shall be materially adversely affected, in the reasonable judgement of the Representative, by the occurrence of any of the following:

(a) legislation shall be enacted by or introduced in the Congress of the United States or recommended to the Congress for passage by the President of the United States, or the Treasury Department of the United States or the Internal Revenue Service or favorably reported for passage to either House of the Congress by any committee of such House to which such legislation has been referred for consideration, a decision by a court of the United States or of the State or the United States Tax Court shall be rendered, or an order, ruling, regulation (final, temporary or proposed), press release, statement or other form of notice by or on behalf of the Treasury Department of the United States, the Internal Revenue Service or other governmental agency shall be made or proposed, the effect of any or all of which would be to impose, directly or indirectly, federal income taxation upon interest received on obligations of the general

character of the Bonds or the interest on the Bonds as described in the Official Statement, or other action or events shall have transpired which may have the purpose or effect, directly or indirectly, of changing the federal income tax consequences of any of the transactions described herein;

(b) legislation introduced in or enacted (or resolution passed) by the Congress or an order, decree, or injunction issued by any court of competent jurisdiction, or an order, ruling, regulation (final, temporary, or proposed), press release or other form of notice issued or made by or on behalf of the United States Securities and Exchange Commission, or any other governmental agency having jurisdiction over the subject matter, to the effect that obligations of the general character of the Bonds, including any or all underlying arrangements, are not exempt from registration under or other requirements of the 1933 Act, or that the Bond Order is not exempt from qualification under or other requirements of the Trust Indenture Act, or that the issuance, offering, or sale of obligations of the general character of the Bonds, including any or all underlying arrangements, as described herein or in the Official Statement or otherwise, is or would be in violation of the federal securities law as amended and then in effect;

(c) any state blue sky or securities commission or other governmental agency or body in any jurisdiction in which more than ten percent (10%) of the Bonds have been offered and sold shall have withheld registration, exemption or clearance of the offering of the Bonds as described herein, or issued a stop order or similar ruling relating thereto;

(d) a general suspension of trading in securities on the New York Stock Exchange or any other national securities exchange, the establishment of minimum prices on any such exchange, the establishment of material restrictions (not in force as of the date hereof) upon trading securities generally by any governmental authority or any national securities exchange, or a general banking moratorium declared by federal, State of New York, or State officials authorized to do so;

(e) the New York Stock Exchange or other national securities exchange or any governmental authority shall impose, as to the Bonds or as to obligations of the general character of the Bonds, any material restrictions not now in force, or increase materially those now in force, with respect to the extension of credit by, or the charge to the net capital requirements of, the Underwriters, which change is not due to the malfeasance of the Underwriters;

(f) any amendment to the federal or State Constitution or action by any federal or State court, legislative body, regulatory body, or other authority materially adversely affecting the tax status of the Issuer, its property, income, securities (or interest thereon), or the validity or enforceability of the assessment, levy and/or collection of the taxes pledged to pay the principal of and interest on the Bonds;

(g) any event occurring, or information becoming known which, in the reasonable judgment of the Representative, makes untrue in any material respect any statement or information (other than information contained under the caption "UNDERWRITING") contained in the Official Statement, or has the effect that the Official Statement contains any untrue statement of material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(h) there shall have occurred since the date of this Contract any materially adverse change in the affairs or financial condition of the Issuer, except for changes which the Official Statement discloses are expected to occur, if any;

(i) there shall have occurred (whether or not foreseeable) any (a) new material outbreak of hostilities involving the United States (including, without limitation, an act of terrorism) or (b) new material other national or international calamity or crisis including, but not limited to, an escalation of hostilities that existed prior to the date hereof, or (c) material financial crisis or adverse change in the financial or economic conditions affecting the United States government or the securities markets in the United States;

(j) any fact or event shall exist or have existed that, in the Representative's reasonable judgment, requires or has required an amendment of or supplement to the Official Statement (other than information contained under the caption "UNDERWRITING");

(k) there shall have occurred or any published notice shall have been given of any intended review for possible downgrade, downgrading, suspension, withdrawal or negative change in credit watch status by any national rating service to (1) any of the Issuer's outstanding obligations secured in a like manner as the Bonds (including any rating to be accorded the Bonds) or (2) the credit rating of the Permanent School Fund;

(l) the purchase of and payment for the Bonds by the Underwriters, or the resale of the Bonds by the Underwriters, on the terms and conditions herein provided shall be prohibited by any applicable law, governmental authority, board, agency or commission; provided, however, that such prohibition occurs after the date of this Contract and is not caused by the action, or failure to act, of the Underwriters; or

(m) a material disruption in securities settlement, payment or clearance services in the United States shall have occurred and shall be continuing as of the date of Closing.

With respect to the conditions described in subparagraphs (e) and (l) above, the Underwriters are not aware of any current, pending or proposed law or government inquiry or investigation as of the date of execution of this Contract which would permit the Representative to invoke the Underwriters' termination rights hereunder.

8. Expenses.

(a) The Underwriters shall be under no obligation to pay, and the Issuer shall pay, any expenses incident to the performance of the Issuer's obligations hereunder, including, but not limited to, (i) the cost of preparation and printing of the Bonds, the Preliminary Official Statement and the Official Statement; (ii) the fees and disbursements of Bond Counsel and counsel to the Issuer, if any; (iii) the fees and disbursements of the Financial Advisor to the Issuer; (iv) the fees and disbursements of the Paying Agent/Registrar for the Bonds and any engineers, accountants and other experts, consultants or advisers retained by the Issuer, if any; (v) the fees of the TEA and the Attorney General of the State; and (vi) the fees for bond ratings.

(b) The Issuer acknowledges that the Representative will pay from the Underwriters' discount set forth in Section 1 of this Agreement certain expenses including actual expenses incurred or paid for by the Underwriters on behalf of the Issuer in connection with the marketing,

issuance, and delivery of the Bonds, including but not limited to, advertising expenses, fees, and expenses of the Underwriters' Counsel, the costs of any Preliminary and Final Blue Sky Survey, CUSIP fees, and transportation, lodging, and meals for the Issuer's employees and representatives.

(c) The Issuer acknowledges that it has had an opportunity, in consultation with such advisors as it may deem appropriate, if any, to evaluate and consider the fees and expenses being incurred as part of the issuance of the Bonds.

9. Notices. Any notice or other communication to be given to the Issuer under this Contract may be given by delivering the same in writing at its address set forth above, Attention: Mr. Grant Anderson, Associate Superintendent and Chief Financial Officer, and any notice or other communication to be given to the Underwriters under this Contract may be given by delivering the same in writing to Wells Fargo Bank, National Association 1445 Ross Avenue, Suite 2135, Dallas, Texas 75202, Attention: Mr. Richard Matkin.

10. Parties in Interest. This Contract shall constitute the entire agreement between the Issuer and the Underwriters and is made solely for the benefit of the Issuer and the Underwriters (including successors or assigns of the Underwriters) and no other person shall acquire or have any right hereunder or by virtue hereof. This Contract may not be assigned by the Issuer. All of the Issuer's representations and warranties contained in this Contract shall remain operative and in full force and effect, regardless of (i) any investigations made by or on behalf of any of the Underwriters, (ii) delivery of and payment for the Bonds pursuant to this Contract and (iii) any termination of this Contract.

11. Effectiveness. This Contract shall become effective upon the acceptance hereof by the Issuer and shall be valid and binding at the time of such acceptance.

12. Choice of Law. This Contract shall be governed by and construed in accordance with the laws of the State.

13. Severability. If any provision of this Contract shall be held or deemed to be or shall, in fact, be invalid, inoperative or unenforceable as applied in any particular case in any jurisdiction or jurisdictions, or in all jurisdictions because it conflicts with any provisions of any Constitution, statute, rule of public policy, or any other reason, such circumstances shall not have the effect of rendering the provision in question invalid, inoperative or unenforceable in any other case or circumstance, or of rendering any other provision or provisions of this Contract invalid, inoperative or unenforceable to any extent whatever.

14. Business Day. For purposes of this Contract, "business day" means any day on which the New York Stock Exchange is open for trading.

15. Section Headings. Section headings have been inserted in this Contract as a matter of convenience of reference only, and it is agreed that such section headings are not a part of this Contract and will not be used in the interpretation of any provisions of this Contract.

16. Counterparts. This Contract may be executed in several counterparts each of which shall be regarded as an original (with the same effect as if the signatures thereto and hereto were upon the same document) and all of which shall constitute one and the same document.

17. No Personal Liability. None of the members of the Board of Trustees, nor any officer, agent or employee of the Issuer, shall be charged personally by the Underwriters with any liability, or be held liable to the Underwriters under any term or provision of this Contract or any other document relating to the Bonds, or because of execution or attempted execution, or

because of any breach or attempted or alleged breach of this Contract or any other document relating to the Bonds.

18. Status of the Underwriters. (a) The Issuer acknowledges and agrees that (i) the primary role of the Underwriters, as underwriters, is to purchase securities for resale to investors in an arm's length transaction between the Issuer and the Underwriters; (ii) the Underwriters, as underwriters, have financial and other interests that differ from those of the Issuer; (iii) the Underwriters are not acting as a municipal advisor, financial advisor or fiduciary to the Issuer and have not assumed any advisory or fiduciary responsibility to the Issuer with respect to the transaction contemplated hereby and the discussions, undertakings and procedures leading thereto (irrespective of whether the Underwriters have provided or are currently providing other services to the Issuer on other matters); (iv) the only obligations the Underwriters have to the Issuer with respect to the transaction contemplated hereby expressly are set forth in this Contract; (v) the Underwriters have provided to the Issuer prior disclosures under Rule G-17 of the MSRB, which have been received by the Issuer and (vi) the Issuer has consulted its own financial, municipal, legal, accounting, tax and/or other advisors, as applicable, to the extent it deems appropriate. The Issuer has a municipal advisor in this transaction.

(b) To the extent this Contract is a contract for goods or services within the meaning of Section 2270.002 of the Texas Government Code, as amended, the Representative, on behalf of the Underwriters, verifies that the Underwriters (including any wholly owned subsidiary, majority-owned subsidiary, parent company, or affiliate of the Underwriters) do not boycott Israel and will not boycott Israel through the term of this Contract. For purposes of this verification, "boycott Israel" means refusing to deal with, terminating business activities with, or otherwise taking any action that is intended to penalize, inflict economic harm on, or limit contractual relations specifically with Israel, or with a person or entity doing business in Israel or in an Israeli-controlled territory, but does not include an action made for ordinary business purposes.

(c) As of the date hereof, the Representative, on behalf of the Underwriters, represents that, to the extent this Contract constitutes a "governmental contract" within the meaning of Section 2252.151 of the Texas Government Code, as amended, solely for purposes of compliance with Chapter 2252 of the Texas Government Code, and except to the extent otherwise required or permitted by or under applicable federal law, neither any of the Underwriters nor any wholly owned subsidiary, majority-owned subsidiary, parent company or affiliate of the Underwriters is a company listed by the Texas Comptroller of Public Accounts under Sections 2270.0201 or 2252.153 of the Texas Government Code as noted on a list identified in the following link: <https://comptroller.texas.gov/purchasing/publications/divestment.php>.

19. Entire Agreement. This Contract represents the entire agreement between the Issuer and the Underwriters with respect to the preparation of the Preliminary Official Statement and the Official Statement, the conduct of the offering, and the purchase and sale of the Bonds.

If the Issuer agrees with the foregoing, please sign the enclosed counterpart of this Contract and return it to the Representative. This Contract shall become a binding agreement between the Issuer and the Underwriters when at least the counterpart of this Contract shall have been signed by or on behalf of each of the parties hereto.

Very truly yours,

WELLS FARGO BANK, NATIONAL ASSOCIATION and
PIPER JAFFRAY & CO.,

the "Underwriters"

By: WELLS FARGO BANK, NATIONAL ASSOCIATION
as Representative of the Underwriters

By: Richard Math
Authorized Officer

ACCEPTANCE:

ACCEPTED AND AGREED TO at _____ a.m./p.m. Central Time on _____,
2018.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT

By: _____
Pricing Officer

If the Issuer agrees with the foregoing, please sign the enclosed counterpart of this Contract and return it to the Representative. This Contract shall become a binding agreement between the Issuer and the Underwriters when at least the counterpart of this Contract shall have been signed by or on behalf of each of the parties hereto.

Very truly yours,

WELLS FARGO BANK, NATIONAL ASSOCIATION, and
PIPER JAFFRAY & CO.,

the "Underwriters"

By: WELLS FARGO BANK, NATIONAL ASSOCIATION
as Representative of the Underwriters

By: _____
Authorized Officer

ACCEPTANCE:

ACCEPTED AND AGREED TO at 3:40 a.m./p.m. Central Time on July 24,
2018.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT

By: [Signature]
Pricing Officer

Schedule I

\$23,885,000

Little Elm Independent School District
Unlimited Tax School Building Bonds
Series 2018A

Dated Date: July 15, 2018

Delivery Date: August 16, 2018

\$13,250,000 Serial Bonds

(Interest to accrue from the Delivery Date)

Maturity Date (August 15)	Principal Amount (\$)	Interest Rate (%)	Initial Yield (%)
2019	1,440,000	4.00	1.53
2020	780,000	4.00	1.70
2021	410,000	4.00	1.86
2022	425,000	4.00	1.98
2023	440,000	5.00	2.12
2024	465,000	5.00	2.26
2025	490,000	5.00	2.38
2026	510,000	5.00	2.51
2027	540,000	5.00	2.61
2028	565,000	5.00	2.68*
2029	595,000	5.00	2.74*
2030	625,000	4.00	2.94*
2031	645,000	4.00	3.04*
2032	675,000	4.00	3.13*
2033	700,000	4.00	3.21*
2034	730,000	4.00	3.29*
2035	755,000	4.00	3.35*
2036	790,000	4.00	3.41*
2037	820,000	4.00	3.45*
2038	850,000	4.00	3.47*

\$10,635,000 Term Bonds

(Interest to accrue from the Delivery Date)

\$4,795,000 4.00% Term Bonds due August 15, 2043, Priced to Yield 3.65%*

\$5,840,000 4.00% Term Bonds due August 15, 2048, Priced to Yield 3.73%*

* Yield shown is yield to first call date of August 15, 2027.

Optional Redemption. The Issuer reserves the right, at its option, to redeem the Bonds having stated maturities on and after August 15, 2028 in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2027, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

Mandatory Redemption. The Bonds maturing on August 15 in the years 2043 and 2048 (the "Term Bonds") are subject to mandatory sinking fund redemption prior to their stated maturity and shall be redeemed in part at the principal amount thereof plus accrued interest to the date of redemption in the following principal amounts on August 15 in each of the years as set forth below:

**Term Bonds Stated to
Mature on August 15, 2043**

<u>Year</u>	<u>Principal Amount (\$)</u>
2039	885,000
2040	920,000
2041	960,000
2042	995,000
** 2043	1,035,000

**Term Bonds Stated to
Mature on August 15, 2048**

<u>Year</u>	<u>Principal Amount (\$)</u>
2044	1,080,000
2045	1,120,000
2046	1,165,000
2047	1,215,000
** 2048	1,260,000

** Stated Maturity.

EXHIBIT A

ISSUE PRICE CERTIFICATE

WELLS FARGO BANK, NATIONAL ASSOCIATION

I, the undersigned officer of Wells Fargo Bank, National Association (the "Representative"), acting on behalf of itself and Hilltop Securities Inc., Piper Jaffrey & Co., and J.P. Morgan Securities LLC (collectively, the "Underwriting Group"), make this certification in connection with the \$135,160,000 Little Elm Independent School District Unlimited Tax School Building Bonds, Series 2018 (the "Bonds") issued by the Little Elm Independent School District (the "Issuer").

1. I hereby certify as follows in good faith as of the Issue Date of the Bonds:

(a) I am the duly chosen, qualified and acting officer of the Representative for the office shown below my signature; as such, I am familiar with the facts herein certified and I am duly authorized to execute and deliver this certificate on behalf of the Underwriting Group. I am the officer of the Representative charged, along with other officers of the Underwriting Group, with responsibility for the Bonds.

(b) **[IF 10% OF MATURITY SOLD]** For the Bonds maturing in [____], the first price at which at least 10% of each maturity was sold to the Public is the price for each such maturity set forth on the inside cover of the Official Statement prepared in connection with the Bonds (each, an "Actual Sales Price").

(c) **[IF FEWER THAN 10% OF MATURITY SOLD ON SALE DATE]** For the Bonds maturing in [____] (each, a "Held Maturity"), the Underwriting Group on or before the Sale Date offered for purchase each such maturity to the Public at the applicable initial offering price set forth on the inside cover of the Official Statement prepared in connection with the Bonds (each, an "Initial Offering Price"). A copy of the pricing wire evidencing the Initial Offering Prices is attached hereto as Attachment I. In connection with the offering of the Bonds, each member of the Underwriting Group agreed in writing that (i) during the Hold Period, it would neither offer nor sell any Held Maturity to any person at a price higher than the applicable Initial Offering Price (the "Hold-the-Offering-Price Rule") and (ii) any selling group agreement would contain the agreement of each dealer who is a member of the selling group, and any retail distribution agreement would contain the agreement of each broker-dealer who is a party to the retail distribution agreement, that, during the Hold Period, such party would comply with the Hold-the-Offering-Price Rule.

(d) The aggregate of the Actual Sales Prices and the Initial Offering Prices is \$[_____].

2. For purposes of this Issue Price Certificate, the following definitions apply:

(a) "Hold Period" means, with respect to a Held Maturity, the period starting on the Sale Date and ending on the earlier of (i) the close of the fifth business day after the Sale Date or (ii) the date on which the Underwriters have sold at least 10% of such Held Maturity to the Public at a price no higher than the applicable Initial Offering Price.

(b) "Public" means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a Related Party to an Underwriter.

(c) "Related Party" means any two or more persons who are subject, directly or indirectly, to (i) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interest or profits interest of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other).

(d) "Sale Date" means the first day on which there is a binding contract in writing for the sale or exchange of the Bonds. The Sale Date of the Bonds is [____], 2018.

(e) "Underwriter" means (i) any person that agrees pursuant to a written contract with the Issuer (or with the Representative to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this definition to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents the Representative's interpretation of any laws, including specifically sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Federal Tax Certificate and with respect to compliance with the federal income tax rules affecting the Bonds, and by Bracewell LLP in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of Internal Revenue Service Form 8038-G, and other federal income tax advice it may give to the Issuer from time to time relating to the Bonds.

[EXECUTION PAGE FOLLOWS]

EXECUTED as of this _____ day of _____, 2018

WELLS FARGO BANK NATIONAL
ASSOCIATION

By: _____

Name: _____

Title: _____

**ATTACHMENT I TO ISSUE PRICE CERTIFICATE
FINAL PRICING WIRE**

[See Attached]

PRELIMINARY OFFICIAL STATEMENT

Dated: July 19, 2018

NEW ISSUE: BOOK-ENTRY-ONLY

In the opinion of Bond Counsel, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes and the Bonds are not private activity bonds. See "TAX MATTERS" herein for a discussion of the opinion of Bond Counsel.

\$22,695,000*

LITTLE ELM INDEPENDENT SCHOOL DISTRICT

(Denton County, Texas)

UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018A

Dated Date: July 15, 2018

Due: August 15, as shown on page ii

Interest Accrual Date: Date of Delivery

The Little Elm Independent School District (the "District") is issuing its \$22,695,000* Unlimited Tax School Building Bonds, Series 2018A (the "Bonds") in accordance with the Constitution and general laws of the State of Texas, including particularly Chapter 45, Texas Education Code, as amended, and Chapter 1371 ("Chapter 1371"), Texas Government Code, as amended, and an order authorizing the issuance of the Bonds (the "Bond Order"). Additionally, the Bonds are authorized pursuant to an election held within the District on November 7, 2017. In the Bond Order, the Board delegated to officers of the District, pursuant to certain provisions of Chapter 1371, authority to complete the sale of the Bonds. The terms of the sale will be included in a "Pricing Certificate," which will complete the sale of the Bonds (the Bond Order and the Pricing Certificate are collectively referred to as the "Order").

The Bonds constitute direct obligations of the District and are payable as to principal and interest from an annual ad valorem tax levied, without legal limit as to rate or amount, against all taxable property located within the District (see "THE BONDS – Security"). Additionally, the District has received conditional approval for 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 they are initially delivered (the "Delivery Date") to the underwriters named below (the "Underwriters") 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 – General Description").

The District intends to utilize the Book-Entry-Only System of The Depository Trust Company, New York, New York ("DTC"), but reserves the right on its behalf or on behalf of DTC to discontinue such system. The principal of and interest on the Bonds will be payable to Cede & Co., as nominee for DTC, by UMB Bank N.A., Dallas, 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 (see "BOOK-ENTRY-ONLY SYSTEM").

Proceeds from the sale of the Bonds will be used for (i) constructing, improving, renovating, and equipping school buildings in the District and acquiring real property therefor, and the purchase of new school buses and (ii) paying costs of issuance related to the Bonds (see "THE BONDS – Authorization and Purpose").

CUSIP PREFIX: 537096

MATURITY SCHEDULE & 9 DIGIT CUSIP

See Schedule on Page ii

The Bonds are offered when, as and if issued, and accepted by the Underwriters, subject to the approving opinion of the Attorney General of the State of Texas and the opinion of Bracewell LLP, Bond Counsel, Dallas, Texas. Certain legal matters will be passed upon for the Underwriters by their counsel, Norton Rose Fulbright US LLP, Dallas, Texas. The Bonds are expected to be available for initial delivery through the services of DTC on or about August 16, 2018.

Wells Fargo Securities

Piper Jaffray & Co.

* Preliminary, subject to change.

MATURITY SCHEDULE

\$22,695,000*

UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018A

<u>Maturity Date</u> <u>(8/15)</u>	<u>Principal</u> <u>Amount*</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Yield</u>	<u>CUSIP</u> <u>Suffix^(a)</u>
2019	\$1,105,000	%	%	
2020	1,300,000			
2021	355,000			
2022	370,000			
2023	385,000			
2024	400,000			
2025	420,000			
2026	445,000			
2027	465,000			
2028	490,000			
2029	515,000			
2030	540,000			
2031	565,000			
2032	595,000			
2033	625,000			
2034	655,000			
2035	690,000			
2036	720,000			
2037	760,000			
2038	795,000			
2039	835,000			
2040	875,000			
2041	920,000			
2042	965,000			
2043	1,015,000			
2044	1,065,000			
2045	1,120,000			
2046	1,175,000			
2047	1,235,000			
2048	1,295,000			

(Interest to Accrue from the Delivery Date)

Optional Redemption*... The Bonds maturing on and after August 15, 202_ 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 _____ 15, 202_ 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 – Redemption Provisions").

* Preliminary, subject to change.

^(a) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for the convenience of the owners of the Bonds. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. Neither the District, the Financial Advisor nor the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>Name</u>	<u>Term Expires</u>	<u>Occupation</u>
Melissa Myers, President	2020	Implementation Manager, Iron Mountain, Inc.
David Montemayor, Vice President	2019	Sr. Manager of Consulting, Accretive Solutions
Alex Flores, Secretary	2020	Sales & Marketing, TXU Energy
Dan Blackwood, Member	2019	Credit Manager, HD Supply C&I Whitecap
DeLeon English, Member	2021	Engagement Lead, Slalom Consulting
LeAnna Harding, Member	2020	Sr. Human Resources Consultant, HumCap
Jason Olson, Member	2021	Strategic Account Manager, AT&T

CERTAIN DISTRICT OFFICIALS

<u>Name</u>	<u>Position</u>
Daniel Gallagher	Superintendent of Schools
Grant Anderson	Associate Superintendent and Chief Financial Officer

CONSULTANTS AND ADVISORS

Auditors..... Hankins, Eastup, Deaton, Tonn & Seay, P.C.
Denton, Texas

Bond Counsel Bracewell LLP
Dallas, Texas

Financial Advisor.....RBC Capital Markets, LLC
Dallas, Texas

For additional information regarding the District, please contact:

Grant Anderson
Associate Superintendent and Chief Financial Officer
Little Elm Independent School District
300 Lobo Lane
Little Elm, Texas 75068
Phone: (972) 292-1847

Derek Honea
Director
RBC Capital Markets, LLC
200 Crescent Court, Suite 1500
Dallas, Texas 75201
Phone: (214) 989-1660

USE OF INFORMATION IN OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, this document constitutes an Official Statement of the District with respect to the Bonds that has been deemed "final" by the District as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

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

This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any jurisdiction in which such offer or solicitation is not authorized or in which 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 "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM - PSF Continuing Disclosure Undertaking" and "CONTINUING DISCLOSURE OF INFORMATION" for a description of the undertakings of the Texas Education Agency (the "TEA") and the District, respectively, to provide certain information on a continuing basis.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE 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 THE BONDS HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE 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.

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

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

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

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 any purchaser of the Bonds. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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

TABLE OF CONTENTS

ELECTED OFFICIALS	iii	The School Finance System as Applied to the District	17
CERTAIN DISTRICT OFFICIALS	iii	TAX RATE LIMITATIONS.....	18
CONSULTANTS AND ADVISORS.....	iii	RATINGS	19
USE OF INFORMATION IN OFFICIAL STATEMENT	iv	LEGAL MATTERS	19
TABLE OF CONTENTS	v	TAX MATTERS	20
SELECTED DATA FROM THE OFFICIAL STATEMENT	vi	Tax Exemption.....	20
INTRODUCTORY STATEMENT	1	Additional Federal Income Tax Considerations.....	20
THE BONDS.....	1	LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE	
Authorization and Purpose	1	PUBLIC FUNDS IN TEXAS.....	22
General Description.....	1	INVESTMENT AUTHORITY AND INVESTMENT	
Optional Redemption	2	OBJECTIVES OF THE DISTRICT.....	22
Notice of Redemption	2	Current Investments	24
Security	3	THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.....	24
Permanent School Fund Guarantee	3	History and Purpose	25
Legality	3	The Total Return Constitutional Amendment	26
Payment Record	3	Management and Administration of the Fund.....	28
Defeasance of Bonds.....	3	Capacity Limits for the Guarantee Program.....	29
Sources and Uses of Funds.....	4	The School District Bond Guarantee Program.....	30
REGISTERED OWNERS' REMEDIES	4	Charter District Bond Guarantee Program	31
BOOK-ENTRY-ONLY SYSTEM	5	2017 Legislative Changes to the Charter District Bond	
Use of Certain Terms in Other Sections of this Official		Guarantee Program	33
Statement.....	6	Charter District Risk Factors.....	34
REGISTRATION, TRANSFER AND EXCHANGE.....	6	Potential Impact of Hurricane Harvey on the PSF	35
Paying Agent/Registrar	6	Ratings of Bonds Guaranteed Under the Guarantee Program	35
Future Registration.....	7	Valuation of the PSF and Guaranteed Bonds	36
Record Date for Interest Payment	7	Discussion and Analysis Pertaining to Fiscal Year Ended	
Limitation on Transfer of Bonds	7	August 31, 2017	37
Replacement Bonds.....	7	2011 Constitutional Amendment.....	38
AD VALOREM TAX PROCEDURES.....	8	Other Events and Disclosures	39
Property Tax Code and County-Wide Appraisal District.....	8	PSF Continuing Disclosure Undertaking	40
Property Subject to Taxation by the District	8	Annual Reports	40
Valuation of Property for Taxation	9	Material Event Notices.....	40
Residential Homestead Exemption.....	10	Availability of Information	41
District and Taxpayer Remedies	10	Limitations and Amendments	41
Public Hearing and Rollback Tax Rate	11	Compliance with Prior Undertakings	41
Levy and Collection of Taxes.....	11	SEC Exemptive Relief	42
District's Rights in the Event of Tax Delinquencies	11	REGISTRATION AND QUALIFICATION OF BONDS FOR	
THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT ..	12	SALE.....	42
EMPLOYEES' BENEFIT PLANS	13	CONTINUING DISCLOSURE OF INFORMATION.....	42
STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN		Annual Reports	42
TEXAS.....	13	Notice of Certain Events	43
Litigation Relating to the Texas Public School Finance		Limitations and Amendments	43
System.....	13	Compliance with Prior Undertakings	43
Possible Effects of Litigation and Changes in Law on		LITIGATION	44
District Bonds	14	FINANCIAL ADVISOR.....	44
CURRENT PUBLIC SCHOOL FINANCE SYSTEM.....	14	UNDERWRITING	44
Overview.....	14	FORWARD LOOKING STATEMENTS	44
Local Funding for School Districts	15	CONCLUDING STATEMENT	45
State Funding for School Districts	15	MISCELLANEOUS.....	45
2006 Legislation.....	16		
2017 Legislation.....	16		
Wealth Transfer Provisions	17		
FINANCIAL INFORMATION REGARDING THE DISTRICT			APPENDIX A
GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY			APPENDIX B
FORM OF LEGAL OPINION OF BOND COUNSEL			APPENDIX C
AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED AUGUST 31, 2017			APPENDIX D

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

SELECTED DATA FROM THE OFFICIAL STATEMENT

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

The Issuer

Little Elm Independent School District (the "District") is a political subdivision of the State of Texas (the "State") located in Denton County. The District is governed by a seven-member Board of Trustees (the "Board"). Policy making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools, who is the chief administrative officer of the District. Support services are supplied by consultants and advisors. For more information regarding the District, see "APPENDIX A – FINANCIAL INFORMATION REGARDING THE DISTRICT" and "APPENDIX B – GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY."

Authority for Issuance and Use of Proceeds

The District's Unlimited Tax School Building Bonds, Series 2018A (the "Bonds") are being issued pursuant to the Constitution and general laws of the State, including particularly Chapter 45, Texas Education Code, and Chapter 1371, Texas Government Code, as amended, and an order passed by the Board (the "Bond Order"). Additionally, the Bonds are authorized pursuant to an election held within the District on November 7, 2017. In the Bond Order, the Board delegated to officers of the District, pursuant to certain provisions of Chapter 1371, authority to complete the sale of the Bonds. The terms of the sale will be included in a "Pricing Certificate," which will complete the sale of the Bonds (the Bond Order and the Pricing Certificate are collectively referred to as the "Order").

Proceeds from the sale of the Bonds will be used for (i) constructing, improving, renovating, and equipping school buildings in the District and acquiring real property therefor, and the purchase of new school buses and (ii) paying costs of issuance related to the Bonds (see "THE BONDS – Authorization and Purpose").

Payment of Interest

Interest on the Bonds will accrue from the date they are initially delivered to the Underwriters and will be payable on February 15 and August 15 of each year, commencing February 15, 2019, until maturity or prior redemption (see "THE BONDS – General Description").

Paying Agent/Registrar

The initial Paying Agent/Registrar is UMB Bank N.A., Dallas, Texas (see "REGISTRATION, TRANSFER AND EXCHANGE – Paying Agent/Registrar"). Initially, the District intends to use the Book-Entry-Only System of The Depository Trust Company, New York, New York (see "BOOK-ENTRY-ONLY SYSTEM").

Tax Exemption

In the opinion of Bond Counsel, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes and the Bonds are not private activity bonds. See "TAX MATTERS" herein for a discussion of the opinion of Bond Counsel.

Security

The Bonds will constitute direct obligations of the District, payable as to principal and interest from an annual ad valorem tax levied, without legal limit as to rate or amount, against all taxable property located within the District (see "THE BONDS – Security"). Additionally, an application has been filed and the District has received conditional approval for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of Texas (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM"). Also see "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" for a discussion of recent developments in State law affecting the financing of school districts in the State.

Optional Redemption*

The Bonds maturing on and after August 15, 202_ 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 _____ 15, 202_ or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption as further described herein (see "THE BONDS – Redemption Provisions").

* Preliminary, subject to change.

Ratings

S&P Global Ratings ("S&P") has assigned a municipal bond rating of "AAA" to the Bonds based upon the Permanent School Fund Guarantee, as S&P generally rates all bond issues guaranteed by the Permanent School Fund of the State of Texas "AAA" (see "RATINGS" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

The District's underlying rating for the Bonds (without consideration of the Permanent School Fund Guarantee) is "AA-" by S&P (see "RATINGS").

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. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 principal amount or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. The principal and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "BOOK-ENTRY-ONLY SYSTEM").

Continuing Disclosure of Information

Pursuant to the Order, the District is obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events to the Municipal Securities Rulemaking Board (the "MSRB"). Investors will be able to access continuing disclosure information filed with the MSRB free of charge at www.emma.msrb.org (see "CONTINUING DISCLOSURE OF INFORMATION").

Payment Record

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

Legal Opinion

Bracewell LLP, Bond Counsel, Dallas, Texas.

PRELIMINARY OFFICIAL STATEMENT RELATING TO
\$22,695,000*
LITTLE ELM INDEPENDENT SCHOOL DISTRICT
(Denton County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018A

INTRODUCTORY STATEMENT

This Official Statement, including Appendices A and B, has been prepared by the Little Elm Independent School District (the "District") located in Denton County, Texas, in connection with the offering by the District of its Unlimited Tax School Building Bonds, Series 2018A (the "Bonds").

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 "FORWARD LOOKING STATEMENTS").

This Official Statement contains descriptions of the Bonds and the Order (as defined herein), 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 during the offering period, from the District's Financial Advisor, RBC Capital Markets, LLC.

This Official Statement speaks only as of its date and the information contained herein is subject to change. Copies of the final Official Statement will be submitted to the Municipal Securities Rulemaking Board and will be available through its Electronic Municipal Market Access system. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – PSF Continuing Disclosure Undertaking" and "CONTINUING DISCLOSURE OF INFORMATION" for a description of the undertakings of the Texas Education Agency ("TEA") and the District, respectively, to provide certain information on a continuing basis.

THE BONDS

Authorization and Purpose

The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Chapter 45, Texas Education Code, as amended, Chapter 1371 ("Chapter 1371"), Texas Government Code, as amended, and an order authorizing the issuance of the Bonds (the "Bond Order"). Additionally, the Bonds are authorized pursuant to an election held within the District on November 7, 2017. In the Bond Order, the Board delegated to officers of the District, pursuant to certain provisions of Chapter 1371, authority to complete the sale of the Bonds. The terms of the sale will be included in a "Pricing Certificate," which will complete the sale of the Bonds (the Bond Order and the Pricing Certificate are collectively referred to as the "Order"). Capitalized terms used herein and not otherwise defined have the meanings assigned to such terms in the Order.

Proceeds from the sale of the Bonds will be used for (i) constructing, improving, renovating, and equipping school buildings in the District and acquiring real property therefor, and the purchase of new school buses and (ii) paying costs of issuance related to the Bonds (see "THE BONDS – Authorization and Purpose").

General Description

The Bonds shall be dated July 15, 2018 and interest will be calculated on the basis of 360-day year of twelve 30-day months. The paying agent and transfer agent (the "Paying Agent/Registrar") for the Bonds is initially UMB Bank, N.A., Dallas, Texas. The Bonds are to mature on the dates and in the principal amounts shown on page ii hereof. The Bonds will each be issued as fully registered obligations in principal denominations of \$5,000 or any integral multiple thereof within a maturity. Interest on the Bonds will accrue from the date they are initially delivered to the Underwriters and will be payable on February 15 and August 15 of each year, commencing February 15, 2019, until maturity or prior redemption.

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. Principal of 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

* Preliminary, subject to change.

payment to the beneficial owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" below for a more complete description of such system.

Interest on the Bonds shall be payable to the registered owner whose name appears on the bond registration books of the Paying Agent/Registrar at the close of business on the "Record Date" (hereinafter defined) and such accrued interest will be paid by (i) check sent United States mail, first class, postage prepaid, to the address of the registered owner appearing on such registration books of the Paying Agent/Registrar or (ii) such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. The record date (the "Record Date") for the interest payable on any interest payment date is the close of business on the last business day of the month next preceding such interest payment date (see "REGISTRATION, TRANSFER AND EXCHANGE - Record Date for Interest Payment" herein). The principal of the Bonds will be payable only upon presentation of such Bonds at the designated office of the Paying Agent/Registrar upon maturity or prior redemption; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under "BOOK-ENTRY-ONLY SYSTEM" herein.

Optional Redemption*

The Bonds maturing on and after August 15, 202_ 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 _____ 15, 202_ 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 (provided that a portion of a Bond may be redeemed only in an integral multiple of \$5,000 principal amount) 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

Not less than thirty (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 of each Bond to be redeemed at the address shown on the Registration Books at the close of business on the business day next preceding the date of mailing such.

In the Order, the District reserves the right, in the case of an optional redemption, to give notice of its election or direction to redeem Bonds conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date, or (ii) that the District retains the right to rescind such notice at any time prior to the scheduled redemption date if the District delivers a certificate of the District to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any Bonds subject to conditional redemption which redemption notice has been rescinded shall remain Outstanding, and the rescission of such redemption shall not constitute an Event of Default. Further, in the case of a conditional redemption, the failure of the District to make moneys and/or authorized securities available in part or in whole on or before the redemption date shall not constitute an Event of Default.

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN AND SUBJECT, IN THE CASE OF AN OPTIONAL REDEMPTION, TO ANY RIGHTS OR CONDITIONS RESERVED BY THE DISTRICT IN THE NOTICE, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

The Paying Agent/Registrar and the District, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption of Bonds, notice of proposed amendment to the Order or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owner, shall not affect the validity of the redemption of the Bonds called for redemption or any other action premised 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

* Preliminary, subject to change.

by the District or the Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Bonds for redemption. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Security

The Bonds are direct obligations of the District and are payable as to principal and interest from an annual ad valorem tax levied, without limit as to rate or amount, on all taxable property within the District as provided in the Order (see "TAX RATE LIMITATIONS"). Also see "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" for a discussion of recent developments in State law affecting the financing of school districts in the State.

Additionally, the District has received conditional approval for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of Texas (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

Permanent School Fund Guarantee

In connection with the sale of the Bonds, the District has submitted an application to the Texas Education Agency and has received conditional approval from the Commissioner of Education 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. 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 (see "THE BONDS – Defeasance of Bonds").

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 approving legal opinion of Bracewell LLP, Dallas, Texas (see "LEGAL MATTERS" and "APPENDIX C – FORM OF LEGAL OPINION OF BOND COUNSEL").

Payment Record

The District has never defaulted with respect to the payment of its bonded indebtedness.

Defeasance of Bonds

The Order provides that the District may defease, refund or discharge its obligations to the registered Owners of any or all of the Bonds in any manner permitted by law. Under current State law, such discharge may be accomplished: (i) by depositing with the Paying Agent/Registrar or other lawfully authorized entity a sum of money equal to the principal and all interest to accrue on the Bonds or (ii) by depositing with the Paying Agent/Registrar or other lawfully authorized entity amounts sufficient, together with the investment earnings thereon, to provide for the payment and/or redemption of such Bonds; provided that such deposits may be invested and reinvested only in (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the District authorizes the defeasance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that, on the date the District authorizes the defeasance of the Bonds, have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; or (iii) any combination of (i) and (ii) above.

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

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

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

Sources and Uses of Funds

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

Sources:

Principal Amount of the Bonds	\$
Net Original Issue Premium / Discount	
Total Sources of Funds	\$

Uses:

Deposit to Construction Fund	\$
Costs of Issuance and Underwriters' Discount	
Total Uses of Funds	\$

REGISTERED OWNERS' REMEDIES

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

See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, redemption payments and interest on the Bonds are to be paid to and credited by DTC while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book Entry Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District, the Financial Advisor and the Underwriters believe the source of such information to be reliable, but none of the District, the Financial Advisor or the Underwriters take any 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 (as hereinafter defined), or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

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

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices be provided directly to them.

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

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

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on 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. All payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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 Order will be given only to DTC.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

UMB Bank N.A., Dallas, 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 the 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, as applicable, 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 principal corporate trust 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.

Future Registration

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

Record Date for Interest Payment

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

Limitation on Transfer of Bonds

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

Replacement Bonds

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

AD VALOREM TAX PROCEDURES

Property Tax Code and County-Wide Appraisal District

The Texas Tax Code (the "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 Denton Central 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 the Appraisal Review Board (the "Appraisal Review Board"), whose members are appointed by the Appraisal District. Such appraisal rolls, as approved by the Appraisal Review Board, are used by the District in establishing its tax roll and tax rate.

Property Subject to Taxation by the District

Except for certain exemptions provided by 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 nonprofit 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) entitled to an exemption from taxation of the total appraised value of the veteran's residential homestead (the surviving spouse of a totally disabled veteran who died on or before January 1, 2010 and who would have qualified for the full exemption on the homestead's entire value if it had been available at that time, will be entitled to an exemption from ad valorem taxation all or a part of the market value of the residence homestead if the spouse has not remarried); \$25,000 in market value for all residential homesteads (see "Residential Homestead Exemption" below); and certain classes of intangible property. Furthermore, effective January 1, 2012, the surviving spouse of a deceased veteran who had received a disability rating of 100% is entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries. In addition, except for increases attributable to certain improvements, the District is prohibited by State law from increasing the total ad valorem tax 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 or she 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 – Overview"). The school property tax limitation provided by the constitutional amendment and enabling legislation apply to the 2007 and subsequent tax years. Owners of agricultural and open space land, under certain circumstances, may request valuation of such land on the basis of productive capacity rather than market value.

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

Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit" is defined by Section 11.253 of the Tax Code as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. 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. Senate Bill 1, passed by the 82nd Texas Legislature, 1st Called Session, requires again that governmental entities take affirmative action after October 1 of the prior year, but prior to January 1 of the first tax year in which the governing body proposes to tax goods-in-transit to continue its taxation of goods-in-transit in the 2012 tax year and beyond. See "APPENDIX A – FINANCIAL INFORMATION REGARDING THE DISTRICT" and "THE PROPERTY TAX CODE AS APPLIED TO 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. 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 each Appraisal District at least once every three years. The District, at its expense, has the right to obtain from the Appraisal District a current estimate of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimate of appraisal values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the Appraisal District chooses to formally include such values on its appraisal roll.

Residential Homestead Exemption

Under Section 1-b, Article VIII of the Texas Constitution and State law, the governing body of a political subdivision, at its option, may grant an exemption of not less than \$3,000 of market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision. Once authorized, such exemption may be repealed or decreased or increased in amount (i) by the governing body of the political subdivision or (ii) by a favorable vote of a majority of the qualified voters at an election called by the governing body of the political subdivision, which election must be called upon receipt of a petition signed by at least 20% of the number of qualified voters who voted in the preceding election of the political subdivision. In the case of a decrease, the amount of the exemption may not be reduced to less than \$3,000 of the market value. Districts are prohibited from reducing or repealing the amount of their optional homestead exemption that was in place for the 2014 tax year for a period running through December 31, 2019.

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.

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 for less than market value to the veteran by a charitable organization. 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 residence homestead, if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

Following the approval by the voters at a November 7, 2017 statewide election (with an effective date 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 a property tax exemption for all or part of the market value of such surviving spouse's residence homestead, if the surviving spouse has not remarried since the first responder's death and said property was the first responder's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

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.

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

THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT

The Appraisal District has the responsibility for appraising property in the District as well as other taxing units in Denton County. The Appraisal District is governed by a board of directors appointed by voters of the governing bodies of various political subdivisions in Denton County. The District's taxes are collected by the Denton County Tax Assessor-Collector.

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

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

The District grants a state mandated residence homestead exemption for disabled veterans.

The District has not granted a local option, additional exemption for disabled veterans above the amount of the state-mandated exemption.

The District has not granted any part of the local option, additional exemption of up to 20% of the market value of residence homesteads.

The District does not tax non-business personal property.

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

The District does not exempt "freeport property" from taxation.

The District has taken action to continue taxing "goods-in-transit."

The District is not currently a participant in any tax increment financing district.

The District is not currently a participant in any tax abatement agreements.

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

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

After July, the penalty remains at 12%, and interest accrues at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid. A delinquent tax continues to accrue interest as long as the tax remains unpaid, regardless of

whether a judgment for the delinquent tax has been rendered. The purpose of imposing such interest penalty is to compensate the taxing unit for revenue lost because of the delinquency. In addition, an additional penalty of 20% is assessed on July 1 in order to defray attorney collection expenses.

Property within the District is assessed as of January 1 of each year (except business inventories which may be assessed as of September 1 and mineral values which are assessed on the basis of a twelve month average) and taxes become due October 1 of the same year and become delinquent on February 1 of the following year. Split payments of taxes are not permitted. Discounts for the early payment of taxes are not permitted.

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. The District contributes to a retiree health care through the Texas Public School Retired Employees Group Insurance Program ("TRS Care"), a cost sharing multiple-employer defined benefit post employment health care plan administered by TRS. TRS Care provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. In addition to the TRS retirement plan, the District participates in the State health insurance plan to provide health care coverage for its employees. For a discussion of the TRS retirement plan, TRS Care and the District's medical benefit plan, see Notes 10, 11 and 12 to the audited financial statements of the District that are attached hereto as Appendix D.

In June 2012, Government Accounting Standards Board (GASB) Statement No. 68 (Accounting and Financial Reporting for Pensions) was issued to improve accounting and financial reporting by state and local governments regarding pensions. GASB Statement No. 68 requires reporting entities, such as the District, to recognize their proportionate share of the net pension liability and operating statement activity related to changes in collective pension liability. This means that reporting entities, such as the District, that contribute to the TRS pension plan will report a liability on the face of their government-wide financial statements. Such reporting began with the District's fiscal year ending August 31, 2015. GASB Statement No. 68 applies only to pension benefits and does not apply to Other Post-Employment Benefits (OPEB) or TRS-Care related liabilities.

As a result of its participation in the TRS and having no other post-retirement benefit plans, the District has no obligations for other post-employment benefits within the meaning of Governmental Accounting Standards Board Statement 45.

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.

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:

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

Possible Effects of Litigation and Changes in Law on District Bonds

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

Overview

The following language constitutes only a summary of the Finance System as it is currently structured. For a more complete description of school finance and fiscal management in the State, reference is made to Texas 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 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 fund b 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 local referendum, districts may, in general, increase their M&O tax rate up to a maximum M&O tax rate of \$1.17 per \$100 of taxable value and receive State equalization funds for such taxing effort (see "AD VALOREM TAX PROCEDURES – Public Hearing and Rollback Tax Rate" herein). Elections authorizing the levy of M&O taxes held in certain school districts under older laws, however, may subject M&O tax rates in such districts to other limitations (see "TAX RATE LIMITATIONS" herein).

State Funding for School Districts

State funding for school districts is provided through the Foundation School Program, which provides each school district with a minimum level of funding (a "Basic Allotment") for each student in average daily attendance ("ADA"). The Basic Allotment is calculated for each school district using various weights and adjustments based on the number of students in average daily attendance and also varies depending on each district's compressed tax rate. This Basic Allotment formula determines most of the allotments making up a district's basic level of funding, referred to as "Tier One" of the Foundation School Program. The basic level of funding is then "enriched" with additional funds known as "Tier Two" of the Foundation School Program. Tier Two provides a guaranteed level of funding for each cent of local tax effort that exceeds the compressed tax rate (for most districts, M&O tax rates above \$1.00 per \$100 of taxable value). The Finance System also provides an Existing Debt Allotment ("EDA") to subsidize debt service on eligible outstanding school district bonds, an Instructional Facilities Allotment ("IFA") to subsidize debt service on newly issued bonds, and a New Instructional Facilities Allotment ("NIFA") subsidize operational expenses associated with the opening of a new instructional facility. IFA primarily addresses the debt service needs of property-poor school districts. In 2017, the 85th Texas Legislature appropriated funds in the amount of \$1,211,000,000 for the 2018-19 State fiscal biennium for the Basic Allotment, EDA, and NIFA.

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

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

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

Tier Two supplements the basic funding of Tier One and provides two levels of enrichment with different guaranteed yields (i.e., guaranteed levels of funding by the State) depending on the district's local tax effort. The first six cents of tax effort that exceeds the compressed tax rate (for most districts, M&O tax rates ranging from \$1.00 to \$1.06 per \$100 of taxable

value) will, for most districts, generate a guaranteed yield of \$99.41 and \$106.28 per cent per weighted student in average daily attendance ("WADA") in the 2017-18 and 2018-19 State fiscal years, respectively.

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

A district with a compressed tax rate below \$1.00 per \$100 of taxable value (known as a "fractionally funded district") receives a Basic Allotment that is reduced proportionately to the degree that the district's compressed tax rate falls 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 \$31.95 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 IFA program and the 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. 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 estimated to be less than \$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 did appropriate funds in the amount of \$23,750,000 for each of the 2017-18 and 2018-19 State fiscal years for NIFA allotments.

2006 Legislation

Since the enactment of the Reform Legislation in 2006, most school districts in the State have operated with a "target" funding level per student ("Target Revenue") that is based upon the "hold harmless" principles embodied in the Reform Legislation. This system of Target Revenue was superimposed on the Foundation School Program and made existing funding formulas substantially less important for most school districts. The Reform Legislation was intended to lower M&O tax rates in order to give school districts "meaningful discretion" in setting their M&O tax rates, while holding school districts harmless by providing them with the same level of overall funding they received prior to the enactment of the Reform Legislation. To make up for this shortfall, the Reform Legislation authorized Additional State Aid for Tax Reduction ("ASATR") for each school district in an amount equal to the difference between the amount that each district would receive under the Foundation School Program and the amount of each district's Target Revenue funding level. However, in subsequent legislative sessions, the Texas Legislature has gradually reduced the reliance on ASATR by increasing the funding formulas. This phase-out of ASATR began with actions adopted by the 83rd Texas Legislature, and beginning with the 2017-18 school year, the statutes authorizing ASATR are repealed (eliminating revenue targets and ASATR funding).

2017 Legislation

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

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

Wealth Transfer Provisions

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

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

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

The School Finance System as Applied to the District

The District's wealth per student for the 2017-18 school year is approximately \$364,676 which is greater than the equalized wealth value. Accordingly, the District has been required to exercise one of the permitted wealth equalization options. As a district with wealth per student in excess of the equalized wealth value, the District has elected to reduce its wealth per student by purchasing attendance credits from the State.

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 of the financial performance of the annexing district.

The District is unable to predict the future actions of courts and the Texas legislature with respect to funding of the Finance System. Changes made to the Finance System could materially affect the financial condition of the District. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS - Litigation Related to the Texas Public School Finance System."

TAX RATE LIMITATIONS

A school district is authorized to levy maintenance and operation ("M&O") taxes subject to approval of a proposition submitted to district voters under Section 45.003(d) of the Texas Education Code, as amended. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the next succeeding paragraph. The maximum voted M&O tax rate for the District is \$1.50 per \$100 of assessed valuation as approved by the voters at an election held on February 2, 2002 under Chapter 20, Texas Education Code (now codified at Section 45.003, Texas Education Code).

The maximum tax rate per \$100 of assessed valuation that may be adopted by the District may not exceed the lesser of (A) \$1.50 and (B) the sum of (1) the rate of \$0.17, and (2) the product of the "State Compression Percentage" multiplied by \$1.50. The State Compression Percentage has been set, and will remain, at 66.67% for the 2018-19 State fiscal biennium. The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. For a more detailed description of the State Compression Percentage, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Local Funding for School Districts." Furthermore, a school district cannot annually increase its tax rate in excess of the district's "rollback tax rate" without submitting such tax rate to a referendum election and a majority of the voters voting at such election approving the adopted rate. See "AD VALOREM TAX PROCEDURES - Public Hearing and Rollback Tax Rate." On September 5, 2015, voters in the District approved an increase in the District's M&O tax rate by thirteen cents to \$1.17 per \$100 of taxable assessed valuation through a tax ratification election (see "Table 6 - TAX RATE DISTRIBUTION" in Appendix A for details regarding the District's current tax rate).

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

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

RATINGS

S&P Global Ratings ("S&P") has assigned a municipal bond rating of "AAA" to the Bonds based upon the Permanent School Fund Guarantee (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM"), as S&P generally rates all bond issues guaranteed by the Permanent School Fund of the State of Texas "AAA". The District's underlying rating for the Bonds (without consideration of the Permanent School Fund Guarantee) is "AA-" by S&P.

An explanation of the significance of such ratings may be obtained from S&P. The ratings reflect only the view of S&P and the District makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by S&P, if circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

In addition, due to the ongoing uncertainty regarding the economy and debt of the United States of America, including, without limitation, general economic conditions and political developments that may affect the financial condition of the United States government, the United States debt limit, and bond and credit ratings of the United States and its instrumentalities, the ratings of obligations issued by state and local governments, such as the Bonds, could be adversely affected.

LEGAL MATTERS

The District will furnish to the Underwriters a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approving legal opinion of Bracewell LLP, Bond Counsel, with respect to the Bonds being issued in compliance with the provisions of applicable law and the interest on the Bonds being excludable from gross income for purposes of federal income tax. The form of Bond Counsel's opinion is attached hereto as Appendix C.

Though it represents the Financial Advisor and the Underwriters from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the District in connection with the issuance of the Bonds. Except as noted below, Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under captions or subcaptions, "THE BONDS" (except under the subcaptions "Payment Record," "Permanent School Fund Guarantee" and "Sources and Uses of Funds"), "REGISTRATION, TRANSFER AND EXCHANGE," "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" (except under the subcaption "The School Finance System as Applied to the District"), "TAX RATE LIMITATIONS," "LEGAL MATTERS" (except for the last two sentences of the second paragraph thereof), "TAX MATTERS," "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE" and "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance With Prior Undertakings") and such firm is of the opinion that the information relating to the Bonds and legal matters contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. 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, Norton Rose Fulbright US LLP, Dallas, 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.

TAX MATTERS

Tax Exemption

In the opinion of Bracewell LLP, Bond Counsel, under existing law, (i) interest on the Bonds is excludable from gross income for federal income tax purposes and (ii) the Bonds are not "private activity bonds" under the Internal Revenue Code of 1986, as amended (the "Code"), and, as such, interest on the Bonds is not subject to the alternative minimum tax on individuals.

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

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

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

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

Additional Federal Income Tax Considerations

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

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

purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Bond.

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

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

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

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

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

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

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201), the Bonds (i) are negotiable instruments, (ii) are investment securities to which Chapter 8 of the Texas Business and Commerce Code applies, and (iii) 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 at least "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds (see "RATINGS"). 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.

INVESTMENT AUTHORITY AND INVESTMENT OBJECTIVES OF THE DISTRICT

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

Under State law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities including letters of credit, (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities; including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation 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 and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) (i) that are issued by or through an institution that has its main office or a branch office 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 a broker (selected from a list adopted by the District) or a depository institution that has a main office or branch office in the State and that is selected by the District; (b) the broker or depository institution selected by the District arranges for the deposit of funds in one or more federally insured depository institutions, wherever located, for the account of the District; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; (d) the depository institution, broker, clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3, or certain entities described in Section 2257.041(d) of the Texas Government Code selected by the District acts as a 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 fully secured by a combination of cash and obligations described in clause (1) which are pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (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 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. If specifically authorized in the authorizing document, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations of the United States or its agencies and instrumentalities in

an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

Governmental bodies in the State are authorized to implement 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) of the first paragraph under this subcaption, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm not less than "A" or its equivalent, or (c) cash invested in obligations that are described in clauses (1) through (6) and (10) through (12) of the first paragraph under this subcaption, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the governmental body, held in the name of the governmental body 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.

As a school district that qualifies as an "issuer" under Chapter 1371, as amended, Texas Government Code, the District is also authorized to purchase, sell, and invest its funds in corporate bonds. Texas law defines "corporate bonds" as senior secured debt obligations issued by a domestic business entity and rated not lower than "AA-" or the equivalent by a nationally recognized investment rating firm. The term does not include a bond that is convertible into stocks or shares in the entity issuing the bond (or an affiliate or subsidiary thereof) or any unsecured debt. Corporate bonds must finally mature not later than 3 years from their date of purchase by the school district. A school district may not (1) invest more than 15% of its monthly average fund balance (excluding bond proceeds, reserves, and other funds held for the payment of debt service) in corporate bonds; or (2) invest more than 25% of the funds invested in corporate bonds in any one domestic business entity (including subsidiaries and affiliates thereof). Corporate bonds held by a school district must be sold if they are at any time downgraded below "AA-" (or the equivalent thereof) or, with respect to a corporate bond rated "AA-" (or the equivalent thereof), such corporate bond is placed on negative credit watch. Corporate bonds are not an eligible investment for a public funds investment pool. To invest in corporate bonds, an eligible school district must first (i) amend its investment policy to authorize corporate bonds as an eligible investment, (ii) adopt procedures for monitoring rating changes in corporate bonds and liquidating an investment in corporate bonds, and (iii) identify funds eligible to be invested in corporate bonds. As of the date of this Official Statement, the District has taken no such steps with respect to investment in corporate bonds, nor does it currently intend to do so.

Under State law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for District funds, maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the 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 State law, District 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 investment officers of the District shall submit an investment report detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, ending market value and fully accrued interest for the reporting period for each pooled fund group, (4) the book value and market value of each

separately listed asset at the end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) state law. No person may invest District funds without express written authority from the Board of Trustees.

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

Current Investments

As of April 30, 2018, the District's investable funds were invested in the following investment instruments:

<u>Investment Instrument</u>	<u>Book Value</u>	<u>Percentage</u>
Depository Account	\$41,167,802.08	54.05%
Texas Local Investment Pool ^(a)	15,706,787.99	20.62%
Lone Star Investment Pool ^(a)	12,458,759.78	16.36%
Texas CLASS Investment Pool ^(a)	5,427,961.85	7.13%
TexStar Investment Pool ^(a)	<u>1,404,165.35</u>	<u>1.84%</u>
Total	<u>\$76,165,477.05</u>	<u>100.00%</u>

^(a) Pools operate pursuant to Chapter 2256 of the Texas Government Code, as amended, as money market equivalents, in a manner consistent with the SEC's Rule 2a-7 under the Investment Company Act of 1940.

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

The information below concerning the 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 is not to be construed as a representation of the District, the Financial Advisor or the Underwriters.

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

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

History and Purpose

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

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

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

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

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

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

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

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

The Total Return Constitutional Amendment

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

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

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

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

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

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

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

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

portfolio of passively managed investments, it is expected that the Fund will reflect the general performance returns of the markets in which the Fund is invested.

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

Management and Administration of the Fund

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

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

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

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

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

including specific actions regarding the investment of the PSF to ensure compliance with fiduciary standards, and to provide transactional advice in connection with the investment of Fund assets in non-traditional investments.

Capacity Limits for the Guarantee Program

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

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

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

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

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

effective in late March 2018. Based upon the cost basis of the Fund at August 31, 2017, the State Law Capacity increased from \$97,933,360,905 on August 31, 2016 to \$111,568,711,072 on August 31, 2017.

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

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

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

The School District Bond Guarantee Program

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

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

If a school district fails to pay principal or interest on a bond as it is stated to mature, other amounts not due and payable are not accelerated and do not become due and payable by virtue of the district's default. The School District Bond Guarantee Program does not apply to the payment of principal and interest upon redemption of bonds, except upon mandatory sinking fund redemption, and does not apply to the obligation, if any, of a school district to pay a redemption premium on its guaranteed bonds. The guarantee applies to all matured interest on guaranteed school district bonds, whether the bonds were issued with a fixed or variable interest rate and whether the interest rate changes as a result of an interest reset provision or

other bond order provision requiring an interest rate change. The guarantee does not extend to any obligation of a school district under any agreement with a third party relating to guaranteed bonds that is defined or described in State law as a "bond enhancement agreement" or a "credit agreement," unless the right to payment of such third party is directly as a result of such third party being a bondholder.

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

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

Charter District Bond Guarantee Program

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

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

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

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

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

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

The CDBG 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 CDBG 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 CDBG 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 CDBG Rules that require the maintenance of a capacity reserve for the Charter District Bond Guarantee Program. Following the increase in the Program multiplier in February 2016 and the update of the percentage of students enrolled in open-enrollment charter schools to the total State scholastic census in March 2016, some new capacity became available under the Charter District Bond Guarantee Program, but that capacity was quickly exhausted. In accordance with the action of the SBOE on February 3, 2017, additional capacity for the Charter District Bond Guarantee Program became effective in two increments, implemented on March 1, 2017 and on September 1, 2017 (as described under "2017 Legislative Changes to the Charter District Bond Guarantee Program," an item to reverse the September 1, 2017 increase in the Program multiplier was approved by the SBOE at its Winter 2018 meeting). In addition, legislation enacted during the Legislature's 2017 regular session modifies the manner of calculating the capacity of the Charter District Bond Guarantee Program (the "CDBG Capacity"), which further increases the amount of the CDBG 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 CDBG Capacity include Fund investment performance, future increases in the Guarantee Program multiplier, changes in State law that govern the calculation of the CDBG 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 CDBG 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 CDBG 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 CDBG 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 CDBG 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 CDBG 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 CDBG 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 CDBG Capacity, as that percentage has grown from 3.53% in September, 2012 to 5.5% in February 2018, representing a cumulative growth during that period of 56%. TEA is unable to predict how the ratio of charter district students to the total State scholastic population will change over time.

SB 1480 provides that the implementation of the new method of calculating the CDBG 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 CDBG 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 CDBG 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 CDBG Capacity 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 CDBG Capacity for any year may not exceed the limit provided in the schedule set forth in SB 1480. In September 2017 and June 2018, the SBOE authorized the full 20% increase in the amount of charter district bonds that may be guaranteed for fiscal years 2018 and 2019, respectively, which increases the relative capacity of the Charter District Bond Guarantee Program to the School District Bond Guarantee Program for those fiscal years.

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

In addition to modifying the manner of determining the CDBG 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 CDBG Rules previously required the Commissioner to make an investigation of the accreditation status and certain financial criteria for a charter district applying for a bond guarantee, which remain in place.

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the "Charter District Reserve Fund"). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Commissioner, for deposit in the Charter District Reserve Fund, an

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

Charter District Risk Factors

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

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

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

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

Potential Impact of Hurricane Harvey on the PSF

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

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

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

Ratings of Bonds Guaranteed Under the Guarantee Program

Moody's Investors Service, S&P Global Ratings and Fitch Ratings rate bonds guaranteed by the PSF "Aaa," "AAA" and "AAA," respectively. Not all districts apply for multiple ratings on their bonds, however. See "RATINGS" herein.

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations

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 May 31, 2018, the PSF had a book value of \$33,178,779,673 and a market value of \$43,191,172,031. May 31, 2018 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds

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 (which was subsequently reduced back to 3.50). Using the IRS Limit, which is the lower of the two federal and State capacity limits of Program capacity, of \$117,318,653,038, at August 31, 2017 98.28% of Program capacity was available to the School District Bond Guarantee Program and 1.72% was available to the Charter District Bond Guarantee Program.

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

Fiscal Year Ended 8/31	School District Bonds		Charter District Bonds		Totals	
	No. of Issues	Principal Amount	No. of Issues	Principal Amount	No. of Issues	Principal Amount
2014 ⁽²⁾	2,869	\$58,061,805,783	10	\$302,545,000	2,879	\$58,364,3
2015	3,089	63,197,514,047	28	757,935,500	3,117	63,955,44
2016	3,244	67,324,303,445	35	961,025,000	3,279	68,303,32
2017 ⁽³⁾	3,253	72,884,480,023	40	1,381,610,000	3,293	74,266,09

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

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

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

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

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

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

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

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

The PSF(SLB) portfolio is generally characterized by three broad categories: (1) discretionary real assets investments, (2) sovereign and other lands, and (3) mineral interests. Discretionary real assets investments consist of externally managed real estate, infrastructure, and energy/minerals investment funds; internally managed direct real estate investments, and cash. Sovereign and other lands consist primarily of the lands set aside to the PSF when it was created. Mineral interests consist of all of the minerals that are associated with PSF lands. The investment focus of PSF(SLB) discretionary real assets investments has shifted from internally managed direct real estate investments to externally managed real assets investment

funds. The PSF(SLB) makes investments in certain limited partnerships that legally commit it to possible future capital contributions. At August 31, 2017, the remaining commitments totaled approximately \$2.042 billion.

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

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

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

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

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

2011 Constitutional Amendment

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

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

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

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

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

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

Other Events and Disclosures

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

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

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

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

PSF Continuing Disclosure Undertaking

The SBOE has adopted an investment policy rule (the "TEA Rule") pertaining to the PSF and the Guarantee Program. The TEA Rule is codified in Section I of the TEA Investment Procedure Manual, which relates to the Guarantee Program and is posted to the TEA web site at http://tea.texas.gov/Finance_and_Grants/Texas_Permanent_School_Fund/Texas_Permanent_School_Fund_Disclosure_Statement_-_Bond_Guarantee_Program/. 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 15c2-12 to make all disclosures and filings relating directly to guaranteed bonds, and the TEA takes no responsibility with respect to such undertakings. Under the TEA agreement, the TEA will be obligated to provide annually certain updated financial information and operating data, and timely notice of specified material events, to the MSRB.

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

Annual Reports

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

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

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

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

Material Event Notices

The TEA will also provide timely notices of certain events to the MSRB. Such notices will be provided not more than ten business days after the occurrence of the event. The TEA will provide notice of any of the following events with respect to the Guarantee Program: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if such event is material within the meaning of the federal securities laws; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax-exempt status of the Guarantee Program, or other material events affecting the tax status of the Guarantee Program; (7) modifications to rights of holders of bonds guaranteed by the Guarantee Program, if such event is

material within the meaning of the federal securities laws; (8) bond calls, if such event is material within the meaning of the federal securities laws, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the Guarantee Program (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Guarantee Program in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Guarantee Program, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Guarantee Program); (13) the consummation of a merger, consolidation, or acquisition involving the Guarantee Program or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) the appointment of a successor or additional trustee with respect to the Guarantee Program or the change of name of a trustee, if such event is material within the meaning of the federal securities laws. (Neither the Act nor any other law, regulation or instrument pertaining to the Guarantee Program make any provision with respect to the Guarantee Program for bond calls, debt service reserves, credit enhancement, liquidity enhancement, early redemption or the appointment of a trustee with respect to the Guarantee Program.) In addition, the TEA will provide timely notice of any failure by the TEA to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information

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

Limitations and Amendments

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

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

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

Compliance with Prior Undertakings

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

SEC Exemptive Relief

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

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

No registration statement relating to the Bonds has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2). The Bonds have not been approved or disapproved by the Securities and Exchange Commission, nor has the Securities and Exchange Commission passed upon the accuracy or adequacy of the Official Statement. 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 jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

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

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 while 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 certain specified events, to the Municipal Securities Rulemaking Board (the "MSRB"). Information will be available free of charge via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org.

See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" for a description of the TEA's continuing disclosure undertaking to provide certain updated financial information and operating data annually with respect to the Permanent School Fund and the State, as the case may be, and to provide timely notice of certain specified events related to the guarantee to the MSRB.

Annual Reports

The District will provide certain updated financial information and operating data to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement in "APPENDIX A - FINANCIAL INFORMATION REGARDING THE DISTRICT" (Tables 1-20) and in Appendix D. The District will update and provide this information in the numbered tables within six months after the end of each fiscal year ending in or after 2018 and, if then available, audited financial statements of the District. If audited financial statements are not available when the information is provided, the District will provide audited financial statements when and if they become available. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the District shall file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix D or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation. The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule").

The District's current fiscal year is August 31. Accordingly, updated information included in the above referenced tables must be provided by the last day of February in each year, and audited financial statements must be provided by August 31

of each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Notice of Certain Events

The District shall notify the MSRB, in a timely manner not in excess of ten business days after the occurrence of the event, of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to 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 trustee, if material. The District shall notify the MSRB in an electronic format prescribed by the MSRB, in a timely manner, of any failure by the District to provide financial information or operating data in accordance with the Rule.

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

Limitations and Amendments

The District has agreed to update information and to provide notices of certain specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of 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 amount (or any greater amount required by any other provision of the Order that authorizes such an amendment) 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 operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

Compliance with Prior Undertakings

During the last five years, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12.

LITIGATION

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

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.

FINANCIAL ADVISOR

In its role as Financial Advisor, RBC Capital Markets, LLC has relied on the District for certain information concerning the District and 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 fee of the Financial Advisor for services with respect to the Bonds is contingent upon the issuance and sale of the Bonds. In the normal course of business, the Financial Advisor may also from time to time receive a fee to conduct a competitive bidding process regarding the investment of certain proceeds of the Bonds, upon the request of the District.

UNDERWRITING

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

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective 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.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Products Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

Wells Fargo Bank, National Association, acting through its Municipal Products Group ("WFBNA"), the senior underwriter of the Bonds, has entered into an agreement (the "WFA Distribution Agreement") with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name "Wells Fargo Advisors") ("WFA"), for the distribution of certain municipal securities offerings, including the Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Bonds with WFA. WFBNA has also entered into an agreement (the "WFSLLC Distribution Agreement") with its affiliate Wells Fargo Securities, LLC ("WFSLLC"), for the distribution of municipal securities offerings, including the Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

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.

CONCLUDING STATEMENT

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

MISCELLANEOUS

In the Bond Order, the Board authorized the Authorized Officer to approve, for and on behalf of the District, (i) the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and (ii) the Underwriters' use of this Official Statement in connection with the public offering and the sale of the Bonds, all of which the Authorized Officer will approve in the Pricing Certificate.

Authorized Officer

APPENDIX A
FINANCIAL INFORMATION
REGARDING THE DISTRICT

FINANCIAL INFORMATION REGARDING THE DISTRICT

Table 1
2017/18 ASSESSED VALUATION

2017/18 Total Assessed Valuation.....	\$ 4,368,987,175
2017/18 Taxable Assessed Valuation.....	\$ 3,929,181,701 ^(a)
Exemption	Total
Residential Homestead.....	\$ 234,481,148
10% Residential Cap.....	72,473,725
Over 65/Disabled Persons.....	26,321,138
Disabled/Deceased Veterans	21,221,158
Productivity Loss.....	85,299,617
Other.....	8,688
Total (10.07% of Total Assessed Valuation).....	<u>\$ 439,805,474</u>

Source: Denton Central Appraisal District and State Comptroller's Office. Certified values are subject to change throughout the year as contested values are resolved and the Denton Central Appraisal District updates records.

^(a) Includes value of property which is "frozen" at lower levels for homesteads of taxpayers 65 years or older, their surviving spouses and disabled taxpayers.

Table 2
GENERAL OBLIGATION DEBT OUTSTANDING^{(a)(b)}

Unlimited Tax Bonds	
Unlimited Tax Bonds Outstanding (as of July 15, 2018).....	\$ 280,939,189
Plus: The Bonds.....	<u>22,695,000 *</u>
TOTAL UNLIMITED TAX DEBT OUTSTANDING.....	\$ 303,634,189
Less: Interest & Sinking Fund Balance (as of August 31, 2017).....	<u>4,472,752</u>
NET UNLIMITED TAX DEBT OUTSTANDING.....	<u>\$ 299,161,437</u>
Limited Tax Obligations^(c)	
Limited Tax Obligations Outstanding (As of July 15, 2018).....	\$ 4,020,000
TOTAL LIMITED TAX DEBT OUTSTANDING.....	<u>\$ 4,020,000</u>

^(a) See discussion under "TAX RATE LIMITATIONS" in the Official Statement.

^(b) Excludes interest accreted on outstanding capital appreciation bonds.

^(c) Payable from District's Maintenance & Operations tax rate.

* Preliminary, subject to change.

Est. 2018 District Population ^(a)	36,014	Per Capita Total Assessed Valuation	\$ 121,314
2017/18 Enrollment	7,594	Per Capita Taxable Assessed Valuation	\$ 109,102
Area (square miles)	38.79	Per Capita Net Debt	\$ 8,418

^(a) Source: Texas Municipal Advisory Council.

Table 3
ESTIMATED OVERLAPPING GENERAL OBLIGATION DEBT STATEMENT

<u>Taxing Body</u>	<u>Gross Dollar Amount^(a)</u>	<u>As of</u>	<u>Percent Overlap</u>	<u>Dollar Overlap^(a)</u>
Denton County	\$ 642,170,000	07/15/2018	4.52%	\$ 29,026,084
Frisco, City of	710,790,000	07/15/2018	1.79%	12,723,141
Lakewood Village, Town of	1,024,000	07/15/2018	100.00%	1,024,000
Little Elm, Town of	92,245,000	07/15/2018	54.64%	50,402,668
Oak Point WC&ID #1	4,610,000	07/15/2018	100.00%	4,610,000
Oak Point, City of	100,000	07/15/2018	59.29%	59,290
The Colony, City of	116,705,000	07/15/2018	11.52%	13,444,416
Total Net Overlapping Debt				<u>\$ 111,289,599</u>
Little Elm ISD	\$ 307,654,189 ^{(b)(c)}	07/15/2018	100.00%	<u>307,654,189</u>
Total Direct and Overlapping Debt				<u>\$ 418,943,788</u>
Ratio Direct and Overlapping Debt to Total Assessed Valuation.....				9.59%
Ratio Direct and Overlapping Debt to Taxable Assessed Valuation.....				10.66%
Per Capita Direct and Overlapping Debt.....				\$11,633

Source: Texas Municipal Reports.

^(a) Excludes interest accreted on outstanding capital appreciation bonds.

^(b) Includes limited tax obligations payable from the Maintenance & Operations tax rate of the District.

^(c) Includes the Bonds. Preliminary, subject to change.

Table 4
2017/18 TOTAL TAX RATES OF OVERLAPPING POLITICAL ENTITIES

Denton County.....	\$0.23781
Frisco, City of.....	0.41414
Lakewood Village, Town of.....	0.30000
Little Elm, Town of.....	0.65767
Oak Point WC&ID #1.....	0.50000
Oak Point, City of.....	0.54000
The Colony, City of.....	0.66500

Source: Denton Central Appraisal District.

Table 5
PROPERTY TAX RATES AND COLLECTIONS

<u>Tax Year</u>	<u>Taxable Assessed</u> <u>Valuation</u>	<u>Tax Rate</u>	<u>Percent Collections^(a)</u>		<u>Fiscal Year</u> <u>Ended</u>
			<u>Current</u>	<u>Total</u>	
2012	\$ 1,850,952,191	\$1.54000	99.38%	100.00%	08-31-13
2013	2,056,086,540	1.54000	100.25%	102.87%	08-31-14
2014	2,403,909,503	1.54000	100.63%	102.86%	08-31-15
2015	2,755,077,258	1.54000	99.43%	100.48%	08-31-16
2016	3,291,934,791	1.54000	<u>101.16%</u>	<u>102.03%</u>	08-31-17
	Five Year Average.....		<u>100.17%</u>	<u>101.65%</u>	
2017	\$ 3,929,181,701	\$1.54000	99.71% ^(b)	99.54% ^(b)	08-31-18

Source: District's Audited Financial Statements and District's Records.

^(a) Excludes penalties and interest.

^(b) Unaudited as of June 30, 2018.

Table 6
TAX RATE DISTRIBUTION^(a)

	<u>2017/18</u>	<u>2016/17</u>	<u>2015/16</u>	<u>2014/15</u>	<u>2013/14</u>
Local Maintenance ^(b)	\$1.17000	\$1.17000	\$1.17000	\$1.04000	\$1.04000
Interest & Sinking	<u>0.37000</u>	<u>0.37000</u>	<u>0.37000</u>	<u>0.50000</u>	<u>0.50000</u>
	<u>\$1.54000</u>	<u>\$1.54000</u>	<u>\$1.54000</u>	<u>\$1.54000</u>	<u>\$1.54000</u>

Source: District's Audited Financial Statements and District's Records.

^(a) See discussion under "TAX RATE LIMITATIONS" in the Official Statement.

^(b) The District held a Tax Ratification Election on September 5, 2015.

Table 7
VALUATION AND FUNDED DEBT HISTORY

<u>Fiscal Year</u>	<u>Taxable</u> <u>Assessed</u> <u>Valuation</u>	<u>Percent Increase/</u> <u>(Decrease)</u> <u>In T.A.V. Over</u> <u>Prior Year</u>	<u>Principal</u> <u>Of Funded Debt</u> <u>Outstanding</u> <u>At Year End</u>	<u>Ratio Of Debt</u> <u>To Taxable</u> <u>Assessed</u> <u>Valuation</u>
2013/14	\$ 2,056,086,540	11.08%	\$ 143,104,114	6.96%
2014/15	2,403,909,503	16.92%	139,339,796	5.80%
2015/16	2,755,077,258	14.61%	154,222,748	5.60%
2016/17	3,291,934,791	19.49%	149,799,189	4.55%
2017/18	3,929,181,701	19.36%	303,483,031 ^(a)	7.72% ^(a)

^(a) Projected. Includes the Bonds. Does not include debt payable from Maintenance and Operations tax rate.

Table 8
HISTORICAL TOP TEN TAXPAYERS

PRINCIPAL TAXPAYERS AND THEIR 2017/18 TAXABLE ASSESSED VALUATIONS

<u>Name of Taxpayer</u>	<u>Type of Property</u>	<u>Taxable Assessed Valuation</u>	<u>Percent Of T.A.V.</u>
LETC Dunhill LLC	Real Estate	\$ 29,384,233	0.75%
Retractable Technologies Inc.	Manufacturing	17,608,283	0.45%
CoServ Electric Coop	Utility	16,685,550	0.42%
Pulte Homes of Texas LP	Real Estate	15,528,354	0.40%
Rosebriar Little Elm LP	Real Estate	14,812,363	0.38%
Kroger Texas LP	Grocery	13,594,942	0.35%
Taylor Morrison of Texas Inc.	Real Estate	13,363,370	0.34%
Palladium USA	Real Estate	12,790,404	0.33%
DR Horton TX Ltd.	Real Estate	11,457,301	0.29%
Yes Companies LLC	Real Estate	9,742,827	0.25%
Total.....		\$ 154,967,627	3.94%

PRINCIPAL TAXPAYERS AND THEIR 2016/17 TAXABLE ASSESSED VALUATIONS

<u>Name of Taxpayer</u>	<u>Type of Property</u>	<u>Taxable Assessed Valuation</u>	<u>Percent Of T.A.V.</u>
LETC Dunhill LLC	Real Estate	\$ 20,100,000	0.61%
Pulte Homes of Texas LP	Real Estate	18,950,409	0.58%
Retractable Technologies Inc.	Manufacturing	17,729,648	0.54%
CoServ Electric Coop	Utility	13,942,810	0.42%
Kroger Texas LP	Grocery	12,478,240	0.38%
DR Horton TX Ltd.	Real Estate	10,383,198	0.32%
Lennar Homes of Texas	Real Estate	9,918,492	0.30%
Yes Companies LLC	Real Estate	9,279,815	0.28%
Rosebriar Little Elm LP	Real Estate	9,084,578	0.28%
Tribute Partners LP	Real Estate/Golf Course	8,037,629	0.24%
Total.....		\$ 129,904,819	3.95%

PRINCIPAL TAXPAYERS AND THEIR 2015/16 TAXABLE ASSESSED VALUATIONS

<u>Name of Taxpayer</u>	<u>Type of Property</u>	<u>Taxable Assessed Valuation</u>	<u>Percent Of T.A.V.</u>
LETC Dunhill LLC	Real Estate	\$ 24,850,000	0.90%
Pulte Homes of Texas LP	Real Estate	22,972,253	0.83%
DR Horton TX Ltd.	Real Estate	15,924,320	0.58%
Kroger Texas LP	Grocery	13,364,600	0.49%
Lennar Homes of Texas	Real Estate	12,829,177	0.47%
Retractable Technologies Inc.	Manufacturing	11,784,866	0.43%
CoServ Electric Coop	Utility	10,210,540	0.37%
Rosebriar Little Elm LP	Real Estate	8,859,542	0.32%
Lakshmi Investment Properties LLC	Real Estate	8,792,500	0.32%
Yes Companies LLC	Real Estate	8,325,833	0.30%
Total.....		\$ 137,913,631	5.01%

Source: Denton Central Appraisal District and State Comptroller's Office.

Table 9
CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY

<u>Property Use Category</u>	<u>Total Tax Roll For Fiscal Years</u>				
	<u>2017/18</u>	<u>2016/17</u>	<u>2015/16</u>	<u>2014/15</u>	<u>2013/14</u>
Real Property					
Single-Family Residential	\$ 3,655,094,294	\$ 3,077,808,860	\$ 2,521,445,435	\$ 2,147,273,992	\$ 1,779,722,028
Multi-Family Residential	44,906,442	27,382,195	23,663,919	22,191,195	20,036,717
Vacant Lots/Tracts	138,195,433	115,593,391	134,453,922	94,467,083	93,333,370
Acreage (Land Only)	87,026,947	143,258,679	141,463,041	157,866,661	161,021,510
Farm and Ranch Improvements	60,273,577	1,385,302	1,226,073	1,283,152	1,237,480
Commercial and Industrial	206,127,134	172,929,447	166,038,923	147,716,306	133,544,842
Inventory	77,693,371	64,009,687	38,183,803	22,622,475	34,920,662
Tangible Personal Property					
Business	61,725,634	54,647,858	43,425,198	49,084,010	50,534,516
Other	9,100,238	9,421,442	8,024,819	10,341,679	10,951,644
Real & Tangible Personal Property					
Utilities	28,844,105	29,374,524	28,320,071	21,089,510	23,166,257
Total Real & Tang. Per. Prop.	\$ 4,368,987,175	\$ 3,695,811,385	\$ 3,106,245,204	\$ 2,673,936,063	\$ 2,308,469,026
Less Exemptions:					
Residential Homestead	\$ 234,481,148	\$ 216,099,200	\$ 198,591,121	\$ 112,429,939	\$ 104,491,739
10% Residential Cap	72,473,725	64,833,160	37,713,919	29,392,451	6,103,169
Over 65/Disabled Persons	26,321,138	24,031,066	20,876,177	18,340,383	15,791,526
Disabled/Deceased Veterans	21,221,158	15,458,007	10,752,090	8,115,778	6,113,338
Productivity Loss	85,299,617	83,437,156	83,195,774	98,498,009	116,355,377
Community Hsg Development	-	-	-	3,250,000	2,892,317
Other	8,688	18,005	38,865	-	635,020
Total Exemptions	\$ 439,805,474	\$ 403,876,594	\$ 351,167,946	\$ 270,026,560	\$ 252,382,486
Taxable Assessed Valuation^(a)	\$ 3,929,181,701	\$ 3,291,934,791	\$ 2,755,077,258	\$ 2,403,909,503	\$ 2,056,086,540

Source: Denton Central Appraisal District and State Comptroller's Office. Certified values are subject to change throughout the year as contested values are resolved and the Denton Central Appraisal District updates records.

^(a) Includes value of property which is "frozen" at lower levels for homesteads of taxpayers 65 years or older, their surviving spouses and disabled taxpayers.

Table 10
PERCENTAGE TOTAL ASSESSED VALUATION BY CATEGORY

<u>Property Use Category</u>	<u>Percent Of Total Tax Roll For Fiscal Years</u>				
	<u>2017/18</u>	<u>2016/17</u>	<u>2015/16</u>	<u>2014/15</u>	<u>2013/14</u>
Real Property					
Single-Family Residential	83.66%	83.28%	81.17%	80.30%	77.10%
Multi-Family Residential	1.03%	0.74%	0.76%	0.83%	0.87%
Vacant Lots/Tracts	3.16%	3.13%	4.33%	3.53%	4.04%
Acreage (Land Only)	1.99%	3.88%	4.55%	5.90%	6.98%
Farm and Ranch Improvements	1.38%	0.04%	0.04%	0.05%	0.05%
Commercial and Industrial	4.72%	4.68%	5.35%	5.52%	5.78%
Special Inventory	1.78%	1.73%	1.23%	0.85%	1.51%
Tangible Personal Property					
Business	1.41%	1.48%	1.40%	1.84%	2.19%
Other	0.21%	0.25%	0.26%	0.39%	0.47%
Real & Tangible Personal Prop.					
Utilities	0.66%	0.79%	0.91%	0.79%	1.00%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

Table 11
OUTSTANDING UNLIMITED TAX DEBT SERVICE

FY Ending	Outstanding Debt Service		Plus: The Bonds*		Total Debt Service	Percent Of Principal Retired - Total
	Principal	Interest	Principal	Interest	Requirements	Debt Service
2018	\$ 3,971,157.80	\$ 9,581,141.05	\$ -	\$ -	\$ 13,552,298.85	1.31%
2019	4,423,818.35	14,253,762.90	1,105,000.00	1,100,384.86	20,882,966.11	3.13%
2020	5,695,215.35	14,243,108.56	1,300,000.00	1,059,250.00	22,297,573.91	5.43%
2021	3,822,589.20	14,192,396.47	355,000.00	1,007,250.00	19,377,235.67	6.81%
2022	3,766,267.20	14,244,464.05	370,000.00	993,050.00	19,373,781.25	8.17%
2023	2,899,266.80	15,113,964.45	385,000.00	978,250.00	19,376,481.25	9.25%
2024	3,643,137.60	14,708,918.65	400,000.00	959,000.00	19,711,056.25	10.58%
2025	4,171,678.40	14,183,977.85	420,000.00	939,000.00	19,714,656.25	12.10%
2026	4,209,305.80	14,144,300.45	445,000.00	918,000.00	19,716,606.25	13.63%
2027	4,225,248.80	14,128,557.45	465,000.00	895,750.00	19,714,556.25	15.17%
2028	4,465,089.70	13,887,466.55	490,000.00	872,500.00	19,715,056.25	16.81%
2029	6,561,249.20	11,792,707.05	515,000.00	848,000.00	19,716,956.25	19.14%
2030	7,270,164.30	11,085,504.45	540,000.00	822,250.00	19,717,918.75	21.71%
2031	8,295,000.00	10,060,281.25	565,000.00	795,250.00	19,715,531.25	24.63%
2032	8,610,000.00	9,742,800.00	595,000.00	767,000.00	19,714,800.00	27.66%
2033	8,970,000.00	9,383,975.00	625,000.00	737,250.00	19,716,225.00	30.82%
2034	9,340,000.00	9,012,862.50	655,000.00	706,000.00	19,713,862.50	34.11%
2035	9,750,000.00	8,601,637.50	690,000.00	673,250.00	19,714,887.50	37.55%
2036	10,195,000.00	8,158,025.00	720,000.00	638,750.00	19,711,775.00	41.14%
2037	10,665,000.00	7,691,575.00	760,000.00	602,750.00	19,719,325.00	44.91%
2038	11,195,000.00	7,210,925.00	795,000.00	564,750.00	19,765,675.00	48.85%
2039	11,730,000.00	6,710,350.00	835,000.00	525,000.00	19,800,350.00	52.99%
2040	12,230,000.00	6,215,350.00	875,000.00	483,250.00	19,803,600.00	57.31%
2041	12,755,000.00	5,686,375.00	920,000.00	439,500.00	19,800,875.00	61.81%
2042	13,390,000.00	5,053,325.00	965,000.00	393,500.00	19,801,825.00	66.54%
2043	13,945,000.00	4,388,700.00	1,015,000.00	345,250.00	19,693,950.00	71.47%
2044	14,645,000.00	3,691,450.00	1,065,000.00	294,500.00	19,695,950.00	76.64%
2045	15,375,000.00	2,959,200.00	1,120,000.00	241,250.00	19,695,450.00	82.07%
2046	16,145,000.00	2,190,450.00	1,175,000.00	185,250.00	19,695,700.00	87.78%
2047	16,950,000.00	1,383,200.00	1,235,000.00	126,500.00	19,694,700.00	93.77%
2048	17,630,000.00	705,200.00	1,295,000.00	64,750.00	19,694,950.00	100.00%
TOTAL	\$280,939,188.50	\$284,405,951.18	\$ 22,695,000.00	\$ 19,976,434.86	\$608,016,574.54	

* Preliminary, subject to change.

Table 12
TAX ADEQUACY - UNLIMITED TAX DEBT SERVICE REQUIREMENTS^(a)

Projected Principal and Interest Requirements, Year 2017/18.....	\$ 13,552,298.85
\$0.3450 Tax Rate @ 100.0% Collection Produces.....	\$ 13,555,676.87
Projected Maximum Principal and Interest Requirements, Year 2019/20.....	\$ 22,297,573.91 *
\$0.5675 Tax Rate @ 100.0% Collection Produces.....	\$ 22,298,106.15

^(a) Based on 2017/18 Taxable Assessed Valuation of \$3,929,181,701.

* Preliminary, subject to change.

Table 13
OUTSTANDING LIMITED TAX DEBT SERVICE

FY			Total	Percent
Ending			Debt Service	Of Principal
8/31	Principal	Interest	Requirements	Retired - Total
				Debt Service
2018	\$ 200,000.00	\$ 143,637.50	\$ 343,637.50	4.98%
2019	200,000.00	139,637.50	339,637.50	9.95%
2020	205,000.00	134,637.50	339,637.50	15.05%
2021	210,000.00	129,512.50	339,512.50	20.27%
2022	220,000.00	123,212.50	343,212.50	25.75%
2023	225,000.00	116,612.50	341,612.50	31.34%
2024	230,000.00	109,862.50	339,862.50	37.06%
2025	240,000.00	101,812.50	341,812.50	43.03%
2026	250,000.00	93,412.50	343,412.50	49.25%
2027	260,000.00	84,037.50	344,037.50	55.72%
2028	265,000.00	74,287.50	339,287.50	62.31%
2029	280,000.00	63,687.50	343,687.50	69.28%
2030	290,000.00	52,487.50	342,487.50	76.49%
2031	300,000.00	40,162.50	340,162.50	83.96%
2032	315,000.00	27,412.50	342,412.50	91.79%
2033	330,000.00	14,025.00	344,025.00	100.00%
TOTAL	\$ 4,020,000.00	\$ 1,448,437.50	\$ 5,468,437.50	

Table 14
TAX ADEQUACY - LIMITED TAX DEBT SERVICE REQUIREMENTS^(a)

Projected Principal and Interest Requirements, Year 2017/18.....	\$	343,637.50
\$0.0088 Tax Rate @ 100.0% Collection Produces.....	\$	345,767.99
Projected Maximum Principal and Interest Requirements, Year 2026/27.....	\$	344,037.50
\$0.0088 Tax Rate @ 100.0% Collection Produces.....	\$	345,767.99

^(a) Based on 2017/18 Taxable Assessed Valuation of \$3,929,181,701.

Table 15
INTEREST & SINKING FUND BUDGET INFORMATION

Tax Supported Debt Service Requirements, Fiscal Year Ending 8-31-18.....		\$	13,572,299	(a)(b)
Interest and Sinking Fund Balance at 8-31-17.....	\$		4,472,752	
Local Sources (i.e. taxes, interest earnings, etc.).....			<u>13,740,450</u>	\$ <u>18,213,202</u>
Projected Interest and Sinking Fund Balance at 8-31-18.....		\$	<u>4,640,903</u>	

(a) Includes paying agent fees and other debt administration costs.

(b) Includes the Bonds. Preliminary, subject to change.

Table 16
AUTHORIZED BUT UNISSUED BONDS

Upon issuance of the Bonds, the District will have \$60,000,000 of authorized but unissued bonds remaining for new school buildings in the District and \$4,500,000 of authorized but unissued bonds remaining for the potential refunding of existing maintenance tax debt of the District.

Table 17
CAPITAL LEASES

The District is obligated under certain leases accounted for as capital leases. The following is a schedule of future minimum lease payments under capital leases.

Year Ended		Principal	Interest	Total
<u>August 31,</u>				<u>Requirements</u>
2018	\$	975,740.00	\$ 84,580.00	\$ 1,060,320.00
2019		996,796.00	63,524.00	1,060,320.00
2020		846,757.00	42,011.00	888,768.00
2021		384,538.00	23,636.00	408,174.00
2022		392,261.00	15,913.00	408,174.00
2023		400,138.00	8,036.00	408,174.00
	\$	<u>3,996,230.00</u>	\$ <u>237,700.00</u>	\$ <u>4,233,930.00</u>

Table 18
COMBINED GENERAL FUND BALANCE SHEET

	Fiscal Years Ending August 31,				
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Assets:					
Cash and Temporary Investments	\$ 30,400,825	\$ 29,724,594	\$ 27,483,624	\$ 26,960,830	\$ 25,564,469
Receivables:					
Property Taxes - Delinquent	834,043	432,381	413,165	564,288	401,264
Allowance for Uncollectible Taxes	(54,213)	(28,105)	(26,856)	(36,679)	(26,082)
Due from Other Governments	3,876,110	1,525,957	768,902	671,834	643,057
Other Receivables	59,932	36,019	14,220	101,658	7,577
Deferred Expenditures	115,826	97,637	11,926	30,494	67,179
Total Assets	\$ 35,232,523	\$ 31,788,483	\$ 28,664,981	\$ 28,292,425	\$ 26,657,464
Liabilities and Fund Equity:					
Liabilities:					
Accounts Payable	\$ 1,333,886	\$ 1,374,995	\$ 2,005,385	\$ 2,581,997	\$ 1,947,356
Interest Payable - Current	-	300,000	-	14,074	-
Accrued Wages Payable	2,923,770	2,516,207	1,703,070	1,332,610	1,273,977
Accrued Expenditures	197,455	48,257	29,220	25,249	24,152
Deferred Revenues	2,211,442	101,074	1,293,637	2,157,146	4,737,532
Total Liabilities	\$ 6,666,553	\$ 4,340,533	\$ 5,031,312	\$ 6,111,076	\$ 7,983,017
Deferred Inflows of Resources	\$ 779,830	\$ 404,276	\$ 386,309	\$ 527,609	\$ 375,182
Fund Balances:					
Nonspendable Fund Balance:					
Prepaid Items	\$ 115,826	\$ 97,637	\$ 11,926	\$ 30,494	\$ 67,179
Assigned Fund Balance:					
Const Projects, Payroll & General Exp	8,000,000	8,000,000	8,000,000	8,000,000	8,000,000
Unassigned Fund Balance	19,670,314	18,946,037	15,235,434	13,623,246	10,232,086
Total Fund Equity	\$ 27,786,140	\$ 27,043,674	\$ 23,247,360	\$ 21,653,740	\$ 18,299,265
Total Liabilities, Deferred Inflows of Resources & Fund Equity	\$ 35,232,523	\$ 31,788,483	\$ 28,664,981	\$ 28,292,425	\$ 26,657,464

Source: District's Audited Financial Statements and District Records.

Table 19
COMPARATIVE STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES

	Fiscal Years Ending August 31,				
	2017	2016	2015	2014	2013
Beginning Fund Balance	<u>\$ 27,043,674</u>	<u>\$ 23,247,360</u>	<u>\$ 21,653,740</u>	<u>\$ 18,299,265</u>	<u>\$ 19,899,283</u>
Revenues:					
Local and Intermediate Sources	\$ 39,289,017	\$ 33,496,381	\$ 26,915,837	\$ 24,788,377	\$ 19,924,083
State Program	26,567,437	28,285,998	27,165,719	25,237,111	22,283,269
Federal Program	1,698,456	1,853,299	802,881	722,954	1,522,060
Total Revenues	<u>\$ 67,554,910</u>	<u>\$ 63,635,678</u>	<u>\$ 54,884,437</u>	<u>\$ 50,748,442</u>	<u>\$ 43,729,412</u>
Expenditures:					
Instruction	\$ 36,002,844	\$ 36,420,955	\$ 30,622,362	\$ 28,717,044	\$ 26,335,541
Instructional Resources & Media Services	672,880	745,102	612,099	669,960	612,283
Curriculum & Instructional Staff Dev	1,254,606	798,162	548,298	487,932	619,367
Instructional Leadership	1,026,127	1,165,730	685,274	590,422	632,996
School Leadership	4,317,840	4,049,390	3,467,022	3,287,775	3,089,655
Guidance, Counseling & Eval Services	1,710,672	1,596,227	1,541,958	1,489,359	1,259,543
Social Work Services	30,193	20,165	12,296	12,259	12,250
Health Services	539,874	514,233	470,612	436,357	402,506
Student (Pupil) Transportation	1,501,635	1,521,523	1,384,373	1,151,773	5,187,706
Food Services	125,673	113,933	77,442	64,201	57,021
Extracurricular Activities	1,884,881	1,858,501	1,493,297	1,615,344	1,340,432
General Administration	2,839,094	2,759,905	2,158,643	2,074,761	2,103,007
Plant Maintenance & Operations	6,024,615	5,941,068	5,276,928	4,866,073	4,354,757
Security & Monitoring Services	919,422	430,315	382,305	253,531	629,560
Data Processing Services	1,229,722	1,063,434	739,070	1,144,447	817,434
Community Services	49,522	38,856	37,765	37,515	35,887
Debt Service	1,204,876	1,324,181	836,524	588,193	108,707
Facilities Acquisition & Construction	928,937	2,004,209	2,691,376	4,786,867	1,210,147
Intergovernmental Charges	334,381	289,983	262,668	248,088	242,915
Total Expenditures	<u>\$ 62,597,794</u>	<u>\$ 62,655,872</u>	<u>\$ 53,300,312</u>	<u>\$ 52,521,901</u>	<u>\$ 49,051,714</u>
Other Resources and (Uses):					
Other Resources	\$ 350	\$ 3,816,130	\$ 9,495	\$ 4,786,485	\$ 3,732,284
Other Uses	(4,215,000)	(999,622)	-	-	(10,000)
Total Other Resources/(Uses)	<u>\$ (4,214,650)</u>	<u>\$ 2,816,508</u>	<u>\$ 9,495</u>	<u>\$ 4,786,485</u>	<u>\$ 3,722,284</u>
Excess/(Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	<u>\$ 742,466</u>	<u>\$ 3,796,314</u>	<u>\$ 1,593,620</u>	<u>\$ 3,013,026</u>	<u>\$ (1,600,018)</u>
Prior Period Adjustment^(a)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 341,449</u>	<u>\$ -</u>
Ending Fund Balance^(b)	<u>\$ 27,786,140</u>	<u>\$ 27,043,674</u>	<u>\$ 23,247,360</u>	<u>\$ 21,653,740</u>	<u>\$ 18,299,265</u>

Source: District's Audited Financial Statements and District Records.

^(a) See Note 3 of the District's Audited Financial Statements for the year ended August 31, 2014.

^(b) Includes Reserved, Designated and Undesignated Fund Balance.

Table 20
CHANGE IN NET POSITION^(a)

	Fiscal Years Ending August 31,				
	2017	2016	2015	2014	2013
Revenues:					
Program Revenues					
Charges for Services	\$ 4,684,602	\$ 2,369,109	\$ 2,219,059	\$ 1,987,428	\$ 2,000,576
Operating Grants and Contributions	8,216,172	9,428,469	8,325,892	7,566,092	7,749,349
Total Program Revenues	\$ 12,900,774	\$ 11,797,578	\$ 10,544,951	\$ 9,553,520	\$ 9,749,925
General Revenues					
Maintenance & Operations Taxes	\$ 37,932,185	\$ 31,654,164	\$ 25,054,044	\$ 21,877,593	\$ 19,353,829
Debt Service Taxes	12,054,026	10,035,719	12,019,598	10,515,600	9,284,676
State Aid - Formula Grants	23,446,772	25,262,226	24,444,501	22,622,080	19,982,476
Investment Earnings	653,548	198,520	93,690	98,241	123,593
Miscellaneous Local & Intermediate Revenue	438,764	1,334,744	1,368,123	178,036	224,421
Special Items	686,130	2,252,855	907,454	3,324,870	1,522,060
Transfers In (Out)	-	-	-	-	-
Total General Revenues	\$ 75,211,425	\$ 70,738,228	\$ 63,887,410	\$ 58,616,420	\$ 50,491,055
Total Revenues.....	\$ 88,112,199	\$ 82,535,806	\$ 74,432,361	\$ 68,169,940	\$ 60,240,980
Expenses					
Instruction	\$ 41,423,078	\$ 42,098,591	\$ 35,042,029	\$ 32,714,817	\$ 29,748,392
Instructional Resources & Media Services	852,899	927,619	769,108	809,023	751,346
Curriculum & Staff Development	1,398,843	996,325	686,205	617,232	721,885
Instructional Leadership	1,241,337	1,340,998	852,361	674,621	744,833
School Leadership	4,556,759	4,319,808	3,554,521	3,394,809	3,198,537
Guidance, Counseling & Evaluation Services	1,998,017	1,900,469	1,716,783	1,690,045	1,638,156
Social Work Services	30,568	21,440	13,509	13,496	13,705
Health Services	576,922	551,486	486,303	452,943	419,092
Student (Pupil) Transportation	1,908,247	1,930,398	1,794,154	1,498,484	1,499,965
Food Services	4,266,347	4,002,992	3,342,361	3,084,262	2,985,073
Cocurricular/Extracurricular Activities	3,170,817	2,890,925	2,513,579	2,472,586	2,164,103
General Administration	2,964,157	2,914,831	2,176,094	2,097,686	2,094,458
Plant Maintenance & Operations	6,533,316	6,152,406	5,481,657	5,052,860	4,576,693
Security & Monitoring Services	877,774	466,857	362,091	283,778	345,225
Data Processing Services	1,289,225	1,104,847	755,113	1,084,782	822,653
Community Services	144,714	119,087	98,686	99,755	96,421
Debt Service	8,814,444	6,532,577	7,812,344	7,960,833	8,315,035
Facilities Acquisition & Construction	-	-	-	-	-
Payments to Juvenile Justice Alternative Ed. Prg.	38,982	27,768	20,826	17,444	17,889
Other Intergovernmental Charges	295,399	262,215	241,842	230,644	225,026
Child Care Fund	582,286	643,931	592,011	586,630	607,313
Total Expenses.....	\$ 82,964,131	\$ 79,205,570	\$ 68,311,577	\$ 64,836,730	\$ 60,985,800
Beginning Net Position	\$ (1,582,287)	\$ (4,912,523)	\$ (3,374,248)	\$ (7,048,907)	\$ (4,160,204)
Prior Period Adjustment ^{(b)(c)}	(260,017)	-	(7,659,059)	341,449	(2,143,883)
Increase/(Decrease) In Net Position	5,148,068	3,330,236	6,120,784	3,333,210	(744,820)
Ending Net Position.....	\$ 3,305,764	\$ (1,582,287)	\$ (4,912,523)	\$ (3,374,248)	\$ (7,048,907)

^(a) Audited financial operations for all governmental activities in accordance with GASB Statement No. 34.

^(b) See Note 3 of the District's Audited Financial Statements for the year ended August 31, 2014.

^(c) See Note 19 of the District's Audited Financial Statements for the year ended August 31, 2015.

APPENDIX B

**GENERAL INFORMATION REGARDING
THE DISTRICT AND ITS ECONOMY**

GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY

Little Elm Independent School District (the "District") consists of approximately 38.79 square miles. The District is a recreational and residential area that includes a portion of Garza-Little Elm Reservoir. The District experienced rapid residential growth in previous years due to its proximity to the reservoir. The Town of Little Elm (the "Town") lies within the District. The 2010 census population for the Town was 25,898, an increase of 610% over the 2000 census population of 3,646. The current estimated District population is 36,014. The District had an enrollment of 7,594 as of January 12, 2018.

The District is governed by a seven member Board of Trustees (the "Board"). All of the Trustees are elected in single-member districts and serve three-year staggered terms with elections being held every year. Board policy and decisions are decided by a majority vote of the Board. The Superintendent of Schools is selected by the Board; other District officials are employed as a result of action by the Superintendent and the Board.

The District owns and operates nine instructional facilities which are fully accredited by the Texas Education Agency. Students attend classes in air-conditioned schools complete with cafeterias, library/media centers and gymnasiums. The number and types of instructional facilities are as follows:

Elementary Schools	5
Middle Schools	2
STEM Academy	1
High Schools	1
Total	<u>9</u>

DISTRICT ENROLLMENT INFORMATION

Scholastic Enrollment History

<u>Year</u>	<u>Enrollment</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change</u>
2007/08	5,409	234	4.52%
2008/09	5,855	446	8.25%
2009/10	6,112	257	4.39%
2010/11	6,245	133	2.18%
2011/12	6,344	99	1.59%
2012/13	6,416	72	1.13%
2013/14	6,637	221	3.44%
2014/15	6,891	254	3.83%
2015/16	7,175	284	4.12%
2016/17	7,395	220	3.07%
2017/18 ^(a)	7,594	199	2.69%

Source: District Records.

^(a) As of January 12, 2018.

Projected Student Enrollment

<u>Year</u>	<u>Enrollment</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change</u>
2018/19	7,764	170	2.24%
2019/20	7,953	189	2.43%
2020/21	8,251	298	3.75%
2021/22	8,606	355	4.30%
2022/23	8,866	260	3.02%

Source: District Projections.

Student Enrollment By Grades

<u>Year</u>	<u>EE/PK</u>	<u>K</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>	<u>Total</u>
2007/08	272	459	466	450	462	423	390	392	386	386	436	347	295	245	5,409
2008/09	357	502	485	475	481	457	466	383	431	402	416	380	328	292	5,855
2009/10	397	509	520	478	475	498	472	465	388	422	436	393	356	303	6,112
2010/11	394	543	528	511	473	475	494	451	440	397	458	403	370	308	6,245
2011/12	233	552	554	549	521	488	481	491	468	451	418	429	368	341	6,344
2012/13	217	553	556	538	537	522	476	474	482	467	482	398	393	321	6,416
2013/14	226	512	551	570	537	521	524	483	481	494	611	492	299	336	6,637
2014/15	237	538	548	584	590	548	533	523	498	497	618	521	371	285	6,891
2015/16	247	570	561	569	609	592	546	520	533	504	613	578	374	359	7,175
2016/17	255	551	601	566	587	621	618	539	516	547	602	559	405	428	7,395
2017/18 ^(a)	234	562	570	605	610	629	618	619	542	526	587	527	494	471	7,594

Source: District Records.

^(a) As of January 12, 2018.

Student Enrollment By School Type

<u>Year</u>	<u>Elementary Schools (Grades EE-5)</u>	<u>Junior High / Middle Schools (Grades 6-8)</u>	<u>STEM Academy (Grades K-8)^(a)</u>	<u>High School (Grades 9-12)</u>	<u>Total Enrollment</u>
2007/08	2,922	1,164	--	1,323	5,409
2008/09	3,223	1,216	--	1,416	5,855
2009/10	3,349	1,275	--	1,488	6,112
2010/11	3,418	1,288	--	1,539	6,245
2011/12	3,379	1,408	--	1,557	6,344
2012/13	3,399	1,423	--	1,594	6,416
2013/14	3,441	1,458	--	1,738	6,637
2014/15	3,237	1,186	673	1,795	6,891
2015/16	3,330	1,220	728	1,927	7,175
2016/17	3,378	1,260	762	1,995	7,395
2017/18 ^(b)	3,403	1,357	755	2,079	7,594

Source: District Records.

^(a) Prestwick STEM Academy opened Fall 2014.

^(b) As of January 12, 2018.

EMPLOYMENT OF THE DISTRICT

Teachers	483
Administrators	59
Teacher Aids & Secretaries	96
Auxiliary Employees	126
Other	<u>120</u>
Total Number of Employees	<u>884</u>

The District employs a staff of approximately 884 faculty and staff. Beginning with the 2017/18 school year, entry level teachers without advanced degrees earn \$50,000 annually. Teachers with longevity or advanced degrees can earn between \$54,000 and \$59,000 annually. All teachers receive life and health insurance benefits worth approximately \$351 monthly.

Source: District Records.

PRESENT SCHOOL FACILITIES

<u>Name of School</u>	<u>Current Enrollment^(a)</u>	<u>Total Capacity</u>	<u>(Under) / Over Capacity</u>	<u>Grades Served</u>
Little Elm High School	<u>2,079</u>	<u>2,500</u>	<u>(421)</u>	9-12
Total High Schools	<u>2,079</u>	<u>2,500</u>	<u>(421)</u>	
Prestwick STEM	<u>755</u>	<u>832</u>	<u>(77)</u>	K-8
Total STEM Academy	<u>755</u>	<u>832</u>	<u>(77)</u>	
Lakeside Middle School	853	920	(67)	7-8
Colin Powell Sixth Grade Center	<u>504</u>	<u>500</u>	4	6
Total Middle Schools	<u>1,357</u>	<u>1,420</u>	<u>(63)</u>	
Brent Elementary School	689	934	(245)	EE/PK, K-5
Cesar Chavez Elementary School	733	934	(201)	EE/PK, K-5
Hackberry Elementary School	637	912	(275)	EE/PK, K-5
Lakeview Elementary School	601	912	(311)	EE/PK, K-5
Oak Point Elementary School	<u>743</u>	<u>912</u>	<u>(169)</u>	EE/PK, K-5
Total Elementary Schools	<u>3,403</u>	<u>4,604</u>	<u>(1,201)</u>	
GRAND TOTAL	<u>7,594</u>	<u>9,356</u>	<u>(1,762)</u>	

^(a) As of January 12, 2018.
Source: District Records.

GENERAL ECONOMIC INFORMATION REGARDING DENTON COUNTY

Denton County (the "County") encompasses an area of 911 square miles in north central Texas. It borders Dallas and Tarrant counties on the South and Cooke and Grayson counties on the north. The County is traversed by Interstate Highway 35, United States Highways 77, 377 and 380 and State Highways 114 and 121. The County is a center for higher education, which includes two major universities, the University of North Texas and Texas Woman's University. Several growing urban centers are located in the County, including the cities of Denton, Lewisville, Carrollton, Flower Mound, The Colony and Roanoke. The County's 2010 census population was 662,614, increasing 53.04% since 2000. The County's current estimated population is 814,560.

Education

The County is served by seventeen independent school districts, all of which have been accredited by the Accreditation Division of the Texas Education Agency, and three institutions of higher learning.

The University of North Texas ("UNT") was established in 1890 as Texas Normal College and Teacher Training Institute. Today, the University has an enrollment of approximately 37,979. While the majority of UNT's students attend classes on the 900-acre Denton campus, UNT also offers numerous courses at many off-campus sites throughout the Dallas/Fort Worth metroplex. UNT is divided into 12 colleges and schools and currently offers 101 bachelor's, 82 master's and 37 doctoral degree programs. The Denton campus includes Discovery Park, UNT's nearly 300-acre research park. UNT employs approximately 4,000 faculty and staff.

Texas Woman's University ("TWU") is the nation's largest university primarily for women. Established in 1901, as the Girls Industrial College, TWU has a dual mission: to provide a liberal education and to prepare young women "for the practical industries of the age" with a specialized education. TWU today offers a comprehensive catalog of academic studies, including baccalaureate, master's and doctoral degrees. Men have been permitted at the college since 1972. With the main campus in Denton and health science centers in Dallas and Houston, TWU currently serves approximately 15,000 students. TWU offers bachelor's degrees in 32 fields of study, master's degrees in 38 and doctorates in 16 separate areas.

The County's community college, North Central Texas College ("NCTC"), has its main campus in Gainesville, Texas. NCTC offers technical, occupational and vocational classes at its Denton County campus in Corinth. NCTC was founded in 1924 and is the oldest continuously operating public two-year college in the State of Texas.

Economy

The economy of the County is primarily composed of educational services, health and social services, manufacturing and general retail trade. Organizations in these sectors employ over 20,000 people. Wholesale trade and hospitality jobs also play major roles. The city of Denton employs more than 1,300 people, 300 of whom are public safety personnel. Notable businesses headquartered in Denton include truck manufacturer Peterbilt, beauty supplier Sally Beauty Company, and jewelry producer Jostens.

Denton County sits atop a portion of the Barnett Shale, a geological formation believed to contain large quantities of natural gas. The County has benefited from tax revenue related to gas drilling and production.

Largest Employers In Denton County

<u>Company</u>	<u>Product/Service</u>	<u>Employees</u>
University of North Texas	Higher Education System	8,887
Denton Independent School District	Public Education System	4,417
Wal-Mart	Retail	3,722
Frito Lay	Food Distribution	2,500
Peterbilt Motors	Heavy Duty Truck Manufacturing	2,314
Northwest ISD	Public Education System	2,246
Lewisville Independent School District	Public Education System	2,061
Nebraska Furniture Mart	Retail Store	2,000
Texas Woman's University	Higher Education System	1,787
Denton County	County Government	1,700
Denton State School	State Government	1,700
City of Denton	City Government	1,383
Texas Health Presbyterian Hospital	Medical Facility	1,076
Denton Regional Medical Center	Medical Facility	1,000
Amazon	Retail Trade	1,000

Source: Office of Economic Development, Denton County.

Healthcare

Denton County is served by several major hospitals and surgical centers. Denton Regional Medical Center and Texas Health Resources Presbyterian Hospital are the two largest full service hospitals. Both are located in the city of Denton and each employ approximately 800 employees and are licensed with more than 200 beds and emergency services. North Texas Hospital, an ambulatory outpatient surgical center, and Mayhill Hospital, a 55-bed inpatient adult and senior behavioral health and physical rehabilitation hospital, also serve the surrounding community. Additionally, the area is served by emergency and urgent care facilities and by specialized inpatient and outpatient treatment facilities.

Transportation

The Denton Airport ("DTO"), located within the City of Denton, offers a full range of aeronautic services. DTO serves a number of major companies for transportation of cargo, personnel, vendors and prospective clients. The DTO is also the base of operations for law enforcement and search and rescue operations, including CareFlight. As one of only three FAA-designated super-reliever airports in Texas, DTO relieves general aviation traffic from DFW International Airport. It also serves as a major mid-continent refueling center, with appropriate services to accommodate business users.

Denton County also has easy access to Dallas-Fort Worth International Airport, the fourth busiest passenger airport in the United States, which offers a variety of flights with direct service to Europe, Mexico, Canada, Central and South America, and Asia. Additionally, Dallas Love Field, located just 40 minutes driving time from the city of Denton, is the city of Dallas's secondary airport and serves as a major hub for Southwest Airlines, which has its corporate headquarters on airport grounds. Delta Airlines, United Airlines and Virgin America Airlines also offer service from Love Field.

Alliance Airport, the first industrial airport in the U.S., operates on a 414-acre site in northern Tarrant County. The facility features a 9,600-foot runway, soon to be extended to 13,000-feet. With direct rail and interstate access, more than 150,000 tons of cargo pass through Alliance each year. Both international and domestic air freight companies utilize the strategic advantages of Fort Worth Alliance Airport, including Burlington Northern Santa Fe Railway's multimillion-dollar intermodal facility, the FedEx Southwest Regional Sorting Hub, immediate access to NAFTA highway, Foreign Trade Zone #196 and U.S. Customs clearance 24/7/365.

LABOR FORCE STATISTICS

Comparative Unemployment Rates

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018*</u>
Town of Little Elm	3.5%	2.7%	3.8%	3.7%	3.7%
Denton County	4.4%	3.6%	3.4%	3.3%	3.0%
State of Texas	5.1%	4.5%	4.6%	4.3%	3.7%
United States of America	6.2%	5.3%	4.9%	4.4%	3.6%

Source: Labor Market Information Department, Texas Workforce Commission.

* As of May 31, 2018.

APPENDIX C

**FORM OF LEGAL OPINION
OF BOND COUNSEL**

[CLOSING DATE]

\$ _____
LITTLE ELM INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BONDS
SERIES 2018A

WE HAVE ACTED as bond counsel for Little Elm Independent School District (the "District"), in connection with the bonds hereinafter described (the "Bonds"):

LITTLE ELM INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018A, dated July 15, 2018, in the aggregate principal amount of \$ _____.

The Bonds mature, bear interest, are subject to redemption prior to maturity, and may be transferred and exchanged as set out in the Bonds and in the order (the "Bond Order") adopted by the Board of Trustees of the District on June 18, 2018 authorizing their issuance and the pricing certificate (the "Pricing Certificate") executed as authorized therein (the Bond Order and the Pricing Certificate are collectively referred to as the "Order" herein).

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

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of proceedings pertaining to the Bonds and the bonds being refunded, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the District; customary certificates of officers, agents and representatives of the District and other public officials; and other certified showings relating to the authorization and issuance of the Bonds. We have

also examined such applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), court decisions, Treasury Regulations and published rulings of the Internal Revenue Service (the "Service") as we have deemed relevant. We have also examined executed Bond No. ICI-1 of this issue. Capitalized terms used herein, unless otherwise defined, have the meanings set forth in the Order.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

- (A) The transcript of proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective, and therefore, the Bonds constitute valid and legally binding obligations of the District; and
- (B) A continuing ad valorem tax, without limit as to rate or amount, has been levied on all taxable property in the District and pledged irrevocably to the payment of the principal of and interest on the Bonds.

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

IT IS OUR FURTHER OPINION THAT:

- (1) Interest on the Bonds is excludable from gross income for federal income tax purposes under existing law; and
- (2) The Bonds are not "private activity bonds" within the meaning of the Code, and interest on the Bonds is not subject to the alternative minimum tax on individuals.

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

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

Owners of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit, and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Bonds).

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

APPENDIX D

**AUDITED FINANCIAL STATEMENTS FOR
THE FISCAL YEAR ENDED AUGUST 31, 2017**

Members:
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC
ACCOUNTANTS
TEXAS SOCIETY OF CERTIFIED
PUBLIC ACCOUNTANTS

**HANKINS, EASTUP, DEATON,
TONN & SEAY**
A PROFESSIONAL CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS

902 NORTH LOCUST
P.O. BOX 977
DENTON, TX 76202-0977

TEL. (940) 387-8563
FAX (940) 383-4746

Independent Auditors' Report

To the Board of Trustees
Little Elm Independent School District
Little Elm, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Little Elm Independent School District (the District), as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standard* 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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Other Matters

Required Supplementary Information


Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* on pages 5 through 11 and the *pension information schedules* on pages 56 through 58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Little Elm Independent School District's basic financial statements. The combining and individual nonmajor fund financial statements and the required TEA schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance, and is also not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements, the required TEA schedules, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, the required TEA schedules, and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2017 on our consideration of Little Elm Independent School District's internal control over financial reporting and on our test 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 Little Elm Independent School District's internal control over financial reporting and compliance.


Hankins, Eastup, Deaton, Tonn & Seay, PC
Denton, Texas

December 6, 2017

**LITTLE ELM INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2017
(UNAUDITED)**

As management of Little Elm Independent School District, we offer readers of the District's financial statement this narrative overview and analysis of the financial activities of the District for the year ended August 31, 2017. Please read this narrative in conjunction with the independent auditors' report on page 3, and the District's Basic Financial Statements that begin on page 15.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of Little Elm Independent School District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal period by \$3,305,764 (net position). Of this amount, \$(4,773,602) represents negative unrestricted net position.
- The District's total net position increased by \$5,148,068 during the fiscal year.
- As of the close of the current fiscal period, the District's governmental funds reported combined ending fund balances of \$42,585,645. 46% of this total amount, \$19,670,314, is unassigned and available for use within the District's policies.
- At the end of the current fiscal period, unassigned fund balance for the general fund was \$19,670,314 or 31.4% of the total general fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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 15 through 17). 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 18) 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. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, 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 31) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

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

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 15. 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, deferred outflows of resources, liabilities and deferred inflows of resources at the end of the year while the Statement of Activities includes all revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting (the basis used by private sector companies).

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

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

In the Statement of Net Position and the Statement of Activities, we divide the District into two kinds of activities:

- **Governmental activities**—Most of the District's basic services are reported here, including the instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services, and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these activities.
- **Business-type activities**—The District charges a fee to “customers” to help it cover all or most of the cost of services it provides in its child care operation.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 18 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 No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District's two kinds of funds-government and proprietary-use different accounting approaches.

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

• **Proprietary funds**—The District reports the activities for which it charges users (whether outside customers or other units of the District) in proprietary funds using the same accounting methods employed in the Statement of Net Position and the Statement of Activities. In fact, the District's enterprise funds (one category of propriety funds) are the business-type activities reported in the government-wide statements but containing more detail and additional information, such as cash flows.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities and for scholarships. The District's fiduciary activity is reported in a separate Statement of Fiduciary Net Position on page 29. 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 this fund are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following analysis of comparative balances and changes therein is presented for the current and prior year's operations and a discussion of significant changes in the accounts. The 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 \$(1,658,083) to \$3,221,747. 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 \$(4,777,338) at August 31, 2017. This increase in governmental net position was the result of the District's revenues exceeding expenses by \$5,139,847.

Table I
NET POSITION

	Governmental Activities		Business-type Activities		Total	
	2016	2017	2016	2017	2016	2017
Current and other assets	\$ 60,960,335	\$ 55,231,793	\$ (10,828)	\$ 9,533	\$ 60,949,507	\$ 55,241,326
Capital assets	138,161,785	151,596,267	91,750	80,281	138,253,535	151,676,548
Total assets	199,122,120	206,828,060	80,922	89,814	199,203,042	206,917,874
Deferred outflows of resources	12,823,230	13,539,963	-	-	12,823,230	13,539,963
Total assets and deferred outflows of resources	211,945,350	220,368,023	80,922	89,814	212,026,272	220,457,837
Long-term liabilities	206,927,505	202,877,427	-	-	206,927,505	202,877,427
Other liabilities	5,674,173	11,804,937	5,126	5,797	5,679,299	11,810,734
Total liabilities	212,601,678	214,682,364	5,126	5,797	212,606,804	214,688,161
Deferred inflows of resources	1,001,755	2,463,912	-	-	1,001,755	2,463,912
Total liabilities and deferred inflows of resources	213,603,433	217,146,276	5,126	5,797	213,608,559	217,152,073
Net Position:						
Net investments in capital assets	(2,069,461)	2,236,539	91,750	80,281	(1,977,711)	2,316,820
Restricted	5,550,019	5,762,546	-	-	5,550,019	5,762,546
Unrestricted	(5,138,641)	(4,777,338)	(15,954)	3,736	(5,154,595)	(4,773,602)
Total Net Position	\$ (1,658,083)	\$ 3,221,747	\$ 75,796	\$ 84,017	\$ (1,582,287)	\$ 3,305,764

Table II
CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Total	
	2016	2017	2016	2017	2016	2017
Revenues:						
Program Revenues:						
Charges for services	\$ 1,790,986	\$ 4,094,095	\$ 578,123	\$ 590,507	\$ 2,369,109	\$ 4,684,602
Operating grants and contributions	9,428,469	8,216,172	-	-	9,428,469	8,216,172
General Revenues:						
Maintenance and operations taxes	31,654,164	37,932,185	-	-	31,654,164	37,932,185
Debt service taxes	10,035,719	12,054,026	-	-	10,035,719	12,054,026
State aid	25,262,226	23,446,772	-	-	25,262,226	23,446,772
Other grants and contributions	1,853,297	653,548	-	-	1,853,297	653,548
Investment earnings	198,520	438,764	-	-	198,520	438,764
Miscellaneous	1,734,302	686,130	-	-	1,734,302	686,130
Total Revenue	81,957,683	87,521,692	578,123	590,507	82,535,806	88,112,199
Expenses:						
Instruction, curriculum and media services	44,022,535	43,674,820	-	-	44,022,535	43,674,820
Instructional and school leadership	5,660,806	5,798,096	-	-	5,660,806	5,798,096
Student support services	4,403,793	4,513,754	-	-	4,403,793	4,513,754
Child nutrition	4,002,992	4,266,347	-	-	4,002,992	4,266,347
Cocurricular activities	2,890,925	3,170,817	-	-	2,890,925	3,170,817
General administration	2,914,831	2,964,157	-	-	2,914,831	2,964,157
Plant maintenance, security and data processing	7,724,110	8,700,315	-	-	7,724,110	8,700,315
Community services	119,087	144,714	-	-	119,087	144,714
Childcare services	-	-	643,931	582,286	643,931	582,286
Debt services	6,532,577	8,814,444	-	-	6,532,577	8,814,444
Intergovernmental charges	289,983	334,381	-	-	289,983	334,381
Total Expenses	78,561,639	82,381,845	643,931	582,286	79,205,570	82,964,131
Increase (Decrease) in Net Position	3,396,044	5,139,847	(65,808)	8,221	3,330,236	5,148,068
Net Position - beginning of year	(5,054,127)	(1,658,083)	141,604	75,796	(4,912,523)	(1,582,287)
Prior period adjustment	-	(260,017)	-	-	-	(260,017)
Net Position - end of year	\$ (1,658,083)	\$ 3,221,747	\$ 75,796	\$ 84,017	\$ (1,582,287)	\$ 3,305,764

The District notes the following highlights for the 2016-2017 school year in response to changes in personnel and continued growth in student enrollment.

- The District maintained its contract with a professional demographer in an effort to plan for future facility needs.
- The District maintained the employer's health insurance contribution of \$325 per month.
- The District operated an Energy Education Plan and an Energy Manager in an effort to conserve energy and reduce energy costs.
- The Board of Trustees approved a property tax rate of \$1.54/\$100 of value (1.17 for M&O and .37 for Debt Service).
- The District maintained an employee induction program for new teachers that provides training and staff development.
- The District maintained its status of "Superior Achievement" according to the Financial Integrity Rating System of Texas.

The cost of all governmental activities for the current fiscal year was \$82,381,845. However, as shown in the Statement of Activities on pages 16 and 17, the amount that our taxpayers ultimately financed for these activities through District taxes was \$49,986,211 because some of the costs were paid by those who directly benefited from the programs (\$4,094,095) or by other governments and organizations that subsidized certain programs with grants and contributions (\$8,216,172) or by State equalization funding (\$23,446,772), or by other grants and contributions (\$653,548).

THE DISTRICT'S FUNDS

As the District completed the fiscal year, its governmental funds (as presented in the balance sheet on page 18) reported a combined fund balance of \$42,585,645, which is \$12,141,541 less than last year's total of \$54,727,186. Included in this year's total change in fund balance is an increase of \$742,466 in the District's General Fund. The primary reason for the General Fund's increase was increased revenues in excess of expenditures.

Over the course of the year, the Board of Trustees revised the District's budget several times. These budget amendments fall into three categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect the actual beginning balances (versus the amounts we estimated in August 2016). The second category includes changes that the Board made during the year to reflect new information regarding revenue sources and expenditure needs. The third category involves 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 \$27,786,140 reported on page 18 differs from the General Fund's budgetary fund balance of \$21,958,074 reported in the budgetary comparison schedule on page 25. This is principally due to cost savings achieved during the year throughout all functions.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At August 31, 2017, the District's governmental activities had \$151,596,267 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 \$13,434,482 or 9.7 percent, more than last year.

This year's major additions were building renovations and additions.

More detailed information about the District's capital assets is presented in Note 4 to the financial statements.

Debt Administration

At August 31, 2017, the District had \$188,005,972 in bonds, capital leases and maintenance tax notes outstanding (including accreted interest on bonds) versus \$193,466,590 last year—a decrease of 2.82 percent. The District's general obligation bond rating is AAA (as a result of guarantees of the Texas Permanent School Fund), according to national rating agencies.

More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District took actions for 2017-2018 to compensate for some increases in costs and continued increases in enrollment:

- The Board adopted an \$82.3 million appropriations budget including General Operating, Child Nutrition, and Debt Service.
- Certified Taxable Property Values increased \$526.3 million from \$2,819,398,964 to \$3,345,743,154 from 2016 to 2017.
- Student enrollment increased 143 students from 7,381 to 7,524 students from the beginning of the 16-17 school year to the beginning of the 17-18 school year.
- The Board adopted a total tax rate of \$1.54/\$100 of taxable property value (\$1.17 for M&O and \$.37 for Debt Service).

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 Little Elm Independent School District, 300 Lobo Lane, Little Elm, Texas 75068, (972) 947-9340.

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BASIC FINANCIAL STATEMENTS

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LITTLE ELM INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2017

EXHIBIT A-1

Data Control Codes	1	2 Primary Government		3
		Governmental Activities	Business Type Activities	
				Total
ASSETS				
1110 Cash and Cash Equivalents	\$ 49,770,613	\$ 8,700		\$ 49,779,313
1220 Property Taxes Receivable (Delinquent)	1,153,643	-		1,153,643
1230 Allowance for Uncollectible Taxes	(74,987)	-		(74,987)
1240 Due from Other Governments	4,206,310	-		4,206,310
1290 Other Receivables, net	59,993	833		60,826
1410 Prepayments	116,221	-		116,221
Capital Assets:				
1510 Land	10,742,680	-		10,742,680
1520 Buildings, Net	116,080,805	80,281		116,161,086
1530 Furniture and Equipment, Net	5,234,068	-		5,234,068
1580 Construction in Progress	19,538,714	-		19,538,714
1000 Total Assets	206,828,060	89,814		206,917,874
DEFERRED OUTFLOWS OF RESOURCES				
1701 Deferred Charges on Bond Refundings	5,410,637	-		5,410,637
1705 Deferred Outflows Related to TRS	8,129,326	-		8,129,326
1700 Total Deferred Outflows of Resources	13,539,963	-		13,539,963
LIABILITIES				
2110 Accounts Payable	6,043,456	2,102		6,045,558
2140 Accrued Interest Payable	237,445	-		237,445
2150 Payroll Deductions & Withholdings	1,263	-		1,263
2160 Accrued Wages Payable	3,088,974	2,336		3,091,310
2200 Accrued Expenses	219,958	1,359		221,317
2300 Unearned Revenue	2,213,841	-		2,213,841
Noncurrent Liabilities				
2501 Due Within One Year	5,149,739	-		5,149,739
2502 Due in More Than One Year	182,856,233	-		182,856,233
2540 Net Pension Liability (District's Share)	14,871,455	-		14,871,455
2000 Total Liabilities	214,682,364	5,797		214,688,161
DEFERRED INFLOWS OF RESOURCES				
2605 Deferred Inflows Related to TRS	2,463,912	-		2,463,912
2600 Total Deferred Inflows of Resources	2,463,912	-		2,463,912
NET POSITION				
3200 Net Investment in Capital Assets	2,236,539	80,281		2,316,820
Restricted:				
3820 Restricted for Federal and State Programs	1,228,413	-		1,228,413
3850 Restricted for Debt Service	4,534,133	-		4,534,133
3900 Unrestricted	(4,777,338)	3,736		(4,773,602)
3000 Total Net Position	\$ 3,221,747	\$ 84,017		\$ 3,305,764

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

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

Data Control Codes	1	Program Revenues	
		3	4
		Charges for Services	Operating Grants and Contributions
Expenses			
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
11 Instruction	\$ 41,423,078	\$ 1,606,520	\$ 3,536,965
12 Instructional Resources and Media Services	852,899	-	36,792
13 Curriculum and Staff Development	1,398,843	48,137	140,983
21 Instructional Leadership	1,241,337	-	222,853
23 School Leadership	4,556,759	3,147	250,301
31 Guidance, Counseling and Evaluation Services	1,998,017	-	309,902
32 Social Work Services	30,568	-	375
33 Health Services	576,922	-	33,515
34 Student (Pupil) Transportation	1,908,247	-	465,080
35 Food Services	4,266,347	1,530,693	2,347,577
36 Extracurricular Activities	3,170,817	657,789	65,195
41 General Administration	2,964,157	174	191,717
51 Facilities Maintenance and Operations	6,533,316	247,635	199,210
52 Security and Monitoring Services	877,774	-	4,347
53 Data Processing Services	1,289,225	-	66,502
61 Community Services	144,714	-	114,257
72 Debt Service - Interest on Long Term Debt	8,662,376	-	230,601
73 Debt Service - Bond Issuance Cost and Fees	152,068	-	-
95 Payments to Juvenile Justice Alternative Ed. Prg.	38,982	-	-
99 Other Intergovernmental Charges	295,399	-	-
[TG] Total Governmental Activities:	82,381,845	4,094,095	8,216,172
BUSINESS-TYPE ACTIVITIES:			
01 Child Care	582,286	590,507	-
[TB] Total Business-Type Activities:	582,286	590,507	-
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 82,964,131	\$ 4,684,602	\$ 8,216,172

Data
Control
Codes

General Revenues:

Taxes:

MT	Property Taxes, Levied for General Purposes
DT	Property Taxes, Levied for Debt Service
SF	State Aid - Formula Grants
GC	Grants and Contributions not Restricted
IE	Investment Earnings
MI	Miscellaneous Local and Intermediate Revenue
TR	Total General Revenues

CN	Change in Net Position
NB	Net Position - Beginning
PA	Prior Period Adjustment
NE	Net Position--Ending

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

Net (Expense) Revenue and Changes in Net Position		
6	7	8
	Primary Government	
Governmental Activities	Business-type Activities	Total
\$ (36,279,593)	\$ -	\$ (36,279,593)
(816,107)	-	(816,107)
(1,209,723)	-	(1,209,723)
(1,018,484)	-	(1,018,484)
(4,303,311)	-	(4,303,311)
(1,688,115)	-	(1,688,115)
(30,193)	-	(30,193)
(543,407)	-	(543,407)
(1,443,167)	-	(1,443,167)
(388,077)	-	(388,077)
(2,447,833)	-	(2,447,833)
(2,772,266)	-	(2,772,266)
(6,086,471)	-	(6,086,471)
(873,427)	-	(873,427)
(1,222,723)	-	(1,222,723)
(30,457)	-	(30,457)
(8,431,775)	-	(8,431,775)
(152,068)	-	(152,068)
(38,982)	-	(38,982)
(295,399)	-	(295,399)
(70,071,578)	-	(70,071,578)
-	8,221	8,221
-	8,221	8,221
(70,071,578)	8,221	(70,063,357)
37,932,185	-	37,932,185
12,054,026	-	12,054,026
23,446,772	-	23,446,772
653,548	-	653,548
438,764	-	438,764
686,130	-	686,130
75,211,425	-	75,211,425
5,139,847	8,221	5,148,068
(1,658,083)	75,796	(1,582,287)
(260,017)	-	(260,017)
\$ 3,221,747	\$ 84,017	\$ 3,305,764

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2017

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
ASSETS			
1110 Cash and Cash Equivalents	\$ 30,400,825	\$ 4,472,752	\$ 13,316,981
1220 Property Taxes - Delinquent	834,043	319,600	-
1230 Allowance for Uncollectible Taxes (Credit)	(54,213)	(20,774)	-
1240 Receivables from Other Governments	3,876,110	-	-
1290 Other Receivables	59,932	-	-
1410 Prepayments	115,826	-	-
1000 Total Assets	<u>\$ 35,232,523</u>	<u>\$ 4,771,578</u>	<u>\$ 13,316,981</u>
LIABILITIES			
2110 Accounts Payable	\$ 1,333,886	\$ -	\$ 4,439,759
2150 Payroll Deductions and Withholdings Payable	1,263	-	-
2160 Accrued Wages Payable	2,922,507	-	-
2200 Accrued Expenditures	197,455	-	-
2300 Unearned Revenues	2,211,442	-	-
2000 Total Liabilities	<u>6,666,553</u>	<u>-</u>	<u>4,439,759</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	779,830	298,826	-
2600 Total Deferred Inflows of Resources	<u>779,830</u>	<u>298,826</u>	<u>-</u>
FUND BALANCES			
Nonspendable Fund Balance:			
3430 Prepaid Items	115,826	-	-
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	-	-
3470 Capital Acquisition and Contractual Obligation	-	-	3,662,600
3480 Retirement of Long-Term Debt	-	4,472,752	-
Committed Fund Balance:			
3545 Local Grants	-	-	-
3545 Campus Activities	-	-	-
3545 Textbooks	-	-	-
Assigned Fund Balance:			
3550 Construction	-	-	5,214,622
3590 Other Assigned Fund Balance	8,000,000	-	-
3600 Unassigned Fund Balance	19,670,314	-	-
3000 Total Fund Balances	<u>27,786,140</u>	<u>4,472,752</u>	<u>8,877,222</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 35,232,523</u>	<u>\$ 4,771,578</u>	<u>\$ 13,316,981</u>

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

EXHIBIT C-1

Other Funds	Total Governmental Funds
\$ 1,580,055	\$ 49,770,613
-	1,153,643
-	(74,987)
330,200	4,206,310
61	59,993
395	116,221
<u>\$ 1,910,711</u>	<u>\$ 55,231,793</u>
\$ 269,811	\$ 6,043,456
-	1,263
166,467	3,088,974
22,503	219,958
2,399	2,213,841
<u>461,180</u>	<u>11,567,492</u>
-	1,078,656
-	1,078,656
395	116,221
1,228,413	1,228,413
-	3,662,600
-	4,472,752
30,047	30,047
164,730	164,730
25,946	25,946
-	5,214,622
-	8,000,000
-	19,670,314
<u>1,449,531</u>	<u>42,585,645</u>
<u>\$ 1,910,711</u>	<u>\$ 55,231,793</u>

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

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$ 42,585,645
1 Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund financial statements.	209,298,359
2 Accumulated depreciation has not been included in the fund financial statements..	(57,702,092)
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 68 in the amount of \$14,871,455, a Deferred Inflow of Resources related to TRS in the amount of \$2,463,912, and a Deferred Outflow of Resources related to TRS in the amount of \$8,129,326. This results in a decrease in Net Position in the amount of \$9,206,041.	(9,206,041)
4 Bonds payable, capital leases payable and the maintenance tax note payable are not included in the fund financial statements.	(153,793,925)
5 Accreted interest payable on capital appreciation bonds has not been included in the fund financial statements.	(24,358,385)
6 Deferred loss on bond refunding has not been included in the fund financial statements.	5,410,637
7 Bond discounts and premiums were not recognized in the fund financial statements.	(9,853,662)
8 Interest on outstanding debt is accrued in the government-wide financial statements, whereas in the fund financial statements interest expenditures are reported when due.	(237,445)
9 Property tax revenue reported as unavailable revenue in the fund financial statements is recognized as revenue in the government-wide financial statements.	1,078,656
19 Net Position of Governmental Activities	\$ 3,221,747

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

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

Data Control Codes		10 General Fund	50 Debt Service Fund	60 Capital Projects
REVENUES:				
5700	Total Local and Intermediate Sources	\$ 39,289,017	\$ 11,979,360	\$ 168,795
5800	State Program Revenues	26,567,437	230,601	-
5900	Federal Program Revenues	1,698,456	-	-
5020	Total Revenues	67,554,910	12,209,961	168,795
EXPENDITURES:				
Current:				
0011	Instruction	36,002,844	-	-
0012	Instructional Resources and Media Services	672,880	-	-
0013	Curriculum and Instructional Staff Development	1,254,606	-	-
0021	Instructional Leadership	1,026,127	-	-
0023	School Leadership	4,317,840	-	-
0031	Guidance, Counseling and Evaluation Services	1,710,672	-	-
0032	Social Work Services	30,193	-	-
0033	Health Services	539,874	-	-
0034	Student (Pupil) Transportation	1,501,635	-	-
0035	Food Services	125,673	-	-
0036	Extracurricular Activities	1,884,881	-	-
0041	General Administration	2,839,094	-	-
0051	Facilities Maintenance and Operations	6,024,615	-	-
0052	Security and Monitoring Services	919,422	-	-
0053	Data Processing Services	1,229,722	-	-
0061	Community Services	49,522	-	-
Debt Service:				
0071	Principal on Long Term Debt	986,702	4,203,560	-
0072	Interest on Long Term Debt	217,674	7,864,120	-
0073	Bond Issuance Cost and Fees	500	151,568	-
Capital Outlay:				
0081	Facilities Acquisition and Construction	928,937	-	17,152,174
Intergovernmental:				
0095	Payments to Juvenile Justice Alternative Ed. Prg.	38,982	-	-
0099	Other Intergovernmental Charges	295,399	-	-
6030	Total Expenditures	62,597,794	12,219,248	17,152,174
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	4,957,116	(9,287)	(16,983,379)
OTHER FINANCING SOURCES (USES):				
7901	Refunding Bonds Issued	-	8,985,000	-
7912	Sale of Real and Personal Property	350	-	-
7915	Transfers In	-	-	4,215,000
7916	Premium or Discount on Issuance of Bonds	-	984,184	-
8911	Transfers Out (Use)	(4,215,000)	-	-
8949	Other (Uses)	-	(9,817,529)	-
7080	Total Other Financing Sources (Uses)	(4,214,650)	151,655	4,215,000
1200	Net Change in Fund Balances	742,466	142,368	(12,768,379)
0100	Fund Balance - September 1 (Beginning)	27,043,674	4,330,384	21,645,601
3000	Fund Balance - August 31 (Ending)	\$ 27,786,140	\$ 4,472,752	\$ 8,877,222

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

		Total	
Other		Governmental	
Funds		Funds	
\$	2,276,877	\$	53,714,049
	435,058		27,233,096
	3,935,221		5,633,677
	6,647,156		86,580,822
	1,889,040		37,891,884
	27		672,907
	155,100		1,409,706
	178,002		1,204,129
	3,834		4,321,674
	215,591		1,926,263
	375		30,568
	-		539,874
	-		1,501,635
	3,770,596		3,896,269
	599,673		2,484,554
	20,137		2,859,231
	-		6,024,615
	-		919,422
	-		1,229,722
	72,777		122,299
	-		5,190,262
	-		8,081,794
	-		152,068
	-		18,081,111
	-		38,982
	-		295,399
	6,905,152		98,874,368
	(257,996)		(12,293,546)
	-		8,985,000
	-		350
	8,657		4,223,657
	-		984,184
	(8,657)		(4,223,657)
	-		(9,817,529)
	-		152,005
	(257,996)		(12,141,541)
	1,707,527		54,727,186
\$	1,449,531	\$	42,585,645

LITTLE ELM 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	\$ (12,141,541)
Current year capital asset additions are expenditures in the fund financial statements, but they are shown as increases in capital assets in the government-wide financial statements. The net effect of reclassifying the current year capital asset additions is to increase net position.	18,807,463
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 in the government-wide financial statements.	(5,372,981)
Current year long-term debt principal payments on bonds payable, notes payable, and capital leases payable are expenditures in the governmental fund financial statements, but are shown as reductions in long-term debt in the government-wide financial statements.	7,040,679
Current year interest accretion on capital appreciation bonds is not recognized in the fund financial statements, but is shown as an increase in long-term debt in the government-wide financial statements.	(1,700,884)
The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 8/31/2016 caused the ending net position to increase in the amount of \$1,309,535. These contributions were replaced with the District's additional GASB 68 pension expense for the year of \$2,440,334, which caused a net decrease in the change in net position. The impact of all of these is to decrease the change in net position by \$1,130,799.	(1,130,799)
Revenues from property taxes are shown as unearned in the fund financial statements until they are considered available to finance current expenditures, but such revenues are recognized when assessed, net of an allowance for uncollectible amounts, in the government-wide financial statements.	519,680
Current year amortization of the premium/discount on bonds payable is not recorded in the fund financial statements, but is shown as a reduction in long-term debt in the government-wide financial statements.	(26,413)
The premium on the current year issuance of bonds is recorded as other resources in the fund financial statements, but is capitalized in the government-wide financial statements.	(984,184)
Current year issuances of bonds are shown as other resources in the fund financial statements, but are shown as increases in long-term debt in the government-wide financial statements.	(8,985,000)
Current year amortization of deferred charge on bond refunding is not recorded in the fund financial statements, but is shown as a reduction of the deferred loss in the government-wide financial statements.	(726,274)
Interest expense on outstanding debt is accrued in the government-wide financial statements, whereas in the fund financial statements, interest expenditures are reported when due.	22,572
The current year payment to the escrow agent for refunding debt is an other financing use in the fund financial statements, but is reported as a reduction in long-term debt in the government-wide financial statements. The payment of \$9,817,529 included the payment to refund bonds of \$9,010,000 plus accreted interest and premiums of \$1,106,420 and a deferred gain on bond refundings of \$298,891.	9,817,529
Change in Net Position of Governmental Activities	\$ 5,139,847

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

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

EXHIBIT C-5

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
		Original	Final		
	REVENUES:				
5700	Total Local and Intermediate Sources	\$ 36,246,174	\$ 38,983,174	\$ 39,289,017	\$ 305,843
5800	State Program Revenues	24,159,105	26,777,512	26,567,437	(210,075)
5900	Federal Program Revenues	1,250,000	1,555,839	1,698,456	142,617
5020	Total Revenues	61,655,279	67,316,525	67,554,910	238,385
	EXPENDITURES:				
	Current:				
0011	Instruction	35,957,335	37,913,974	36,002,844	1,911,130
0012	Instructional Resources and Media Services	656,534	709,568	672,880	36,688
0013	Curriculum and Instructional Staff Development	1,098,750	1,379,486	1,254,606	124,880
0021	Instructional Leadership	1,231,317	1,183,829	1,026,127	157,702
0023	School Leadership	4,190,966	4,540,014	4,317,840	222,174
0031	Guidance, Counseling and Evaluation Services	1,744,670	1,843,175	1,710,672	132,503
0032	Social Work Services	31,000	33,500	30,193	3,307
0033	Health Services	537,190	592,531	539,874	52,657
0034	Student (Pupil) Transportation	1,759,449	1,791,629	1,501,635	289,994
0035	Food Services	91,524	147,964	125,673	22,291
0036	Extracurricular Activities	1,680,284	2,180,970	1,884,881	296,089
0041	General Administration	2,881,746	3,078,792	2,839,094	239,698
0051	Facilities Maintenance and Operations	6,307,699	6,800,829	6,024,615	776,214
0052	Security and Monitoring Services	690,832	1,166,966	919,422	247,544
0053	Data Processing Services	1,229,307	1,567,163	1,229,722	337,441
0061	Community Services	39,290	57,501	49,522	7,979
	Debt Service:				
0071	Principal on Long Term Debt	986,702	986,702	986,702	-
0072	Interest on Long Term Debt	217,684	217,684	217,674	10
0073	Bond Issuance Cost and Fees	500	500	500	-
	Capital Outlay:				
0081	Facilities Acquisition and Construction	-	1,656,948	928,937	728,011
	Intergovernmental:				
0095	Payments to Juvenile Justice Alternative Ed. Prg.	36,000	42,000	38,982	3,018
0099	Other Intergovernmental Charges	286,500	295,400	295,399	1
6030	Total Expenditures	61,655,279	68,187,125	62,597,794	5,589,331
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(870,600)	4,957,116	5,827,716
	OTHER FINANCING SOURCES (USES):				
7912	Sale of Real and Personal Property	-	-	350	350
8911	Transfers Out (Use)	-	(4,215,000)	(4,215,000)	-
7080	Total Other Financing Sources (Uses)	-	(4,215,000)	(4,214,650)	350
1200	Net Change in Fund Balances	-	(5,085,600)	742,466	5,828,066
0100	Fund Balance - September 1 (Beginning)	27,043,674	27,043,674	27,043,674	-
3000	Fund Balance - August 31 (Ending)	\$ 27,043,674	\$ 21,958,074	\$ 27,786,140	\$ 5,828,066

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

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

EXHIBIT D-1

	Business-Type Activities
	Total Enterprise Funds
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 8,700
Other Receivables	833
Total Current Assets	<u>9,533</u>
Noncurrent Assets:	
Capital Assets:	
Buildings and Improvements	114,687
Depreciation on Buildings	(34,406)
Total Noncurrent Assets	<u>80,281</u>
Total Assets	<u>89,814</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	2,102
Accrued Wages Payable	2,336
Accrued Expenses	1,359
Total Liabilities	<u>5,797</u>
NET POSITION	
Net Investment in Capital Assets	80,281
Unrestricted Net Position	3,736
Total Net Position	<u>\$ 84,017</u>

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

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

EXHIBIT D-2

	Business-Type Activities
	Total Enterprise Funds
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 590,507
Total Operating Revenues	<u>590,507</u>
OPERATING EXPENSES:	
Payroll Costs	522,477
Professional and Contracted Services	6,136
Supplies and Materials	33,794
Other Operating Costs	8,410
Depreciation Expense	<u>11,469</u>
Total Operating Expenses	<u>582,286</u>
Operating Income	8,221
Total Net Position - September 1 (Beginning)	<u>75,796</u>
Total Net Position - August 31 (Ending)	<u><u>\$ 84,017</u></u>

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

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

	Business-Type Activities
	Total Enterprise Funds
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 589,984
Cash Payments for Payroll Costs	(519,923)
Cash Payments for Professional Services	(6,136)
Cash Payments for Supplies and Materials	(35,677)
Cash Payments for Other Costs	(8,410)
Net Cash Provided by Operating Activities	<u>19,838</u>
Net Increase in Cash and Cash Equivalents	19,838
Cash and Cash Equivalents at Beginning of Year	<u>(11,138)</u>
Cash and Cash Equivalents at End of Year	<u>\$ 8,700</u>
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Provided by Operating Activities:</u>	
Operating Income:	\$ 8,221
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	11,469
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Other Receivables	(523)
Increase (decrease) in Accounts Payable	(1,883)
Increase (decrease) in Accrued Wages Payable	1,217
Increase (decrease) in Accrued Expenses	1,337
Net Cash Provided by Operating Activities	<u>\$ 19,838</u>

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

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

EXHIBIT E-1

	Private Purpose Trust Funds	Agency Fund
ASSETS		
Cash and Cash Equivalents	\$ -	\$ 124,458
Other Receivables	-	15
Total Assets	-	<u>\$ 124,473</u>
LIABILITIES		
Due to Student Groups	-	\$ 124,473
Total Liabilities	-	<u>\$ 124,473</u>

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

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

EXHIBIT E-2

	Private Purpose Trust Funds
ADDITIONS:	
Local and Intermediate Sources	\$ -
Total Additions	-
DEDUCTIONS:	
Other Operating Costs	220,804
Total Deductions	220,804
Change in Net Position	(220,804)
Total Net Position - September 1 (Beginning)	220,804
Total Net Position - August 31 (Ending)	\$ -

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

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Little Elm Independent School District's (the "District") combined financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide (FAR). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the District are described below.

A. REPORTING ENTITY

The Board of Trustees, a seven member group, has fiscal accountability over all activities related to public elementary and secondary education within the jurisdiction of the District. The board of trustees are elected by the public. The trustees as a body corporate have the exclusive power and duty to govern and oversee the management of the public schools of the district. All powers and duties not specifically delegated by statute to the Texas Education Agency (Agency) or to the State Board of Education are reserved for the trustees, and the Agency may not substitute its judgment for the lawful exercise of those powers and duties by the trustees. The District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards.

The District's basic financial statements include the accounts of all District operations. The criteria for including organizations as component units within the District's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is fiscal dependency by the organization on the District

Based on the aforementioned criteria, Little Elm Independent School District has no component units.

B. BASIS OF PRESENTATION

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

Fund Financial Statements:

The District segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The District has presented the following major governmental funds:

1. **General Fund** - This fund is established to account for resources financing the fundamental operations of the District, in partnership with the community, in enabling and motivating students to reach their full potential. All revenues and expenditures not required to be accounted for in other funds are included here. This is a budgeted fund and any fund balances are considered resources available for current operations. Fund balances may be appropriated by the Board of Trustees to implement its responsibilities.
2. **Debt Service Fund** - This fund is established to account for payment of principal and interest on long-term general obligation debt and other long-term debts for which a tax has been dedicated. This is a budgeted fund. Any unused sinking fund balances are transferred to the General Fund after all of the related debt obligations have been met.
3. **Capital Projects Fund** - This fund is established to account for proceeds, from the sale of bonds and other resources to be used for Board authorized acquisition, construction, or renovation, as well as, furnishings and equipping of major capital facilities.

Additionally, the District reports the following fund types:

1. **Special Revenue Funds** - These funds are established to account for federally financed or expenditures legally restricted for specified purposes. In many special revenue funds, any unused balances are returned to the grantor at the close of specified project periods. For funds in this fund type, project accounting is employed to maintain integrity for the various sources of funds.
2. **Enterprise Fund** - The District utilizes an enterprise fund to account for the Districts' activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities. The District uses this fund to account for its child care program, because the child care program is self-supporting and does not require subsidies from the general fund.
3. **Private Purpose Trust Fund** - This fund is used to report trust arrangements under which principal and income benefit individuals, private organizations, or other governments not reported in other fiduciary fund types. This fund is not budgeted.
4. **Agency Funds** - These custodial funds are used to account for activities of student groups and other organizational activities requiring clearing accounts. Financial resources for the Agency funds are recorded as assets and liabilities; therefore, these funds do not include revenues and expenditures and have no fund equity. If any unused resources are declared surplus by the student groups, they are transferred to the General Fund with a recommendation to the Board for an appropriate utilization through a budgeted program.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

C. MEASUREMENT FOCUS/BASIS OF ACCOUNTING

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets, deferred outflows of resources and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The District considers property taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

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.

The revenue susceptible to accrual are property taxes, charges for services, interest income and intergovernmental revenues. All other Governmental Fund Type revenues are recognized when received.

Revenues from state and federal grants are recognized as earned when the related program expenditures are incurred. Funds received but unearned are reflected as unearned revenues, and funds expended but not yet received are shown as receivables.

Revenue from investments, including governmental external investment pool, is based upon fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Most investments are reported at amortized cost when the investments have remaining maturities of one year or less at time of purchase. External investment pools are permitted to report short-term debt investments at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer, or other factors. For that purpose, a pool's short-term investments are those with remaining maturities of up to ninety days.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

In accordance with the FAR, the District has adopted and installed an accounting system which exceeds the minimum requirements prescribed by the State Board of Education and approved by the State Auditor. Specifically, the District's accounting system uses codes and the code structure presented in the Accounting Code Section of the FAR.

D. BUDGETARY CONTROL

Formal budgetary accounting is employed for all required Governmental Fund Types, as outlined in TEA's FAR module, and is presented on the modified accrual basis of accounting consistent with generally accepted accounting principles. The budget is prepared and controlled at the function level within each organization to which responsibility for controlling operations is assigned.

The official school budget is prepared for adoption for required Governmental Fund Types prior to August 20 of the preceding fiscal year for the subsequent fiscal year beginning September 1. The budget is formally adopted by the Board of Trustees at a public meeting held at least ten days after public notice has been given. The budget is prepared by fund, function, object, and organization. The budget is controlled at the organizational level by the appropriate department head or campus principal within Board allocations. Therefore, organizations may transfer appropriations as necessary without the approval of the board unless the intent is to cross fund, function or increase the overall budget allocations. Control of appropriations by the Board of Trustees is maintained within Fund Groups at the function code level and revenue object code level.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, Debt Service Fund and Child Nutrition Fund. The special revenue funds adopt project-length budgets which do not correspond to the District's fiscal year. Each annual budget is presented on the modified accrual basis of accounting which is consistent with generally accepted accounting principles. The budget is amended throughout the year by the Board of Trustees. Such amendments are reflected in the official minutes of the Board.

E. ENCUMBRANCE ACCOUNTING

The District employs encumbrance accounting, whereby encumbrances for goods or purchased services are documented by purchase orders and contracts. An encumbrance represents a commitment of Board appropriation related to unperformed contracts for goods and services. The issuance of a purchase order or the signing of a contract creates an encumbrance but does not represent an expenditure for the period, only a commitment to expend resources. Appropriations lapse at August 31 and encumbrances outstanding at that time are either canceled or appropriately provided for in the subsequent year's budget. There were no outstanding encumbrances at August 31, 2017 that were subsequently provided for in the 2017-18 budget.

F. PREPAID ITEMS

Prepaid balances are for payments made by the District in the current year to provide services occurring in the subsequent fiscal year, and the nonspendable fund balance has been recognized to signify that a portion of fund balance is not available for other subsequent expenditures.

**LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017**

G. CAPITAL ASSETS

Capital assets, which includes property, plant, equipment, and infrastructure assets, are reported in the governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for propriety funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment.

Assets capitalized have an original cost of \$5,000 or more and over one-year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	40 Years
Furniture and Equipment	5-10 Years

H. COMPENSATED ABSENCES

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the District. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

I. CASH EQUIVALENTS

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

J. NET POSITION

Net position represents the difference between assets, deferred outflows of resources, deferred inflows of resources and liabilities. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation's adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Unrestricted net position is available for general governmental uses. When both restricted and unrestricted net position is available, restricted net position is expended before unrestricted net position if such use is consistent with the restricted purpose.

K. LONG-TERM OBLIGATIONS

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

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

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.

L. 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 fiscal 2017, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

During the year ended August 31, 2017, the District participated in the Texas Association of School Boards Risk Management Fund (the Fund). The Fund was created and is operated under provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The following are Funds the District participated in during the year ended August 31, 2017.

Workers' Compensation Aggregate Deductible

The District met its statutory workers' compensation obligations through participation in the TASB Risk Management Fund. The Fund's Workers Compensation Program is authorized by Chapter 504, Texas Labor Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members and their injured employees.

The District participates in the Fund's reimbursable aggregate deductible program. As such, the member is responsible for a certain amount of claims liability as outlined on the member's Contribution and Coverage Summary document. After the member's deductible has been met, the Fund is responsible for additional claims liability. The District's 2017 deductible was \$175,055.

The Fund and its members are protected against higher than expected claims cost through the purchase of stop loss coverage for any claim in excess of the Fund's self-insured retention of \$2.0 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2016, the fund carries a discounted reserve of \$51,843,324 for future development on reported claims and claims that have been incurred but not yet reported. For the year-ended August 31, 2017, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contributions and reimbursable aggregate deductibles.

The Fund engages the services of independent auditors to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2016, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

Changes in the workers compensation claims liability amounts in fiscal year 2017 is presented below:

Fiscal Year	September 1 Claims Liability	Claims and Changes in Estimates	Claims Payments	August 31 Claims Liability
2017	\$88,979	\$147,138	\$85,780	\$150,337

Unemployment Compensation Pool

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

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore there is no need for specific or aggregate stop loss coverage for the Unemployment Compensation pool. For the year ended August 31, 2017, the Fund anticipates that Little Elm ISD has no additional liability beyond the contractual obligation for payment of contribution.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2016, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

Auto, Liability and Property Programs

During the year ended August 31, 2017, Little Elm ISD participated in the following TASB Risk Management Fund (the Fund) programs:

Auto Liability
Auto Physical Damage
Legal Liability
Privacy & Information Security
Property

The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for its Auto, Liability and Property programs. The terms and limits of the stop-loss program vary by line of coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended August 31, 2017, the Fund anticipates Little Elm ISD has no additional liability beyond the contractual obligations for payment of contributions.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2016, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

M. ESTIMATES

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

NOTE 2. FUND BALANCE

The District has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent.

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

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The District has classified prepaid items as being nonspendable as these items are not expected to be converted to cash.
- 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 the District's bonded debt and are restricted through debt covenants. Unspent bond proceeds are restricted for future capital acquisition programs. Federal and State grant resources are restricted because their use is restricted pursuant to the mandates of the Federal or State grants.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the District's Board of Trustees. The Board of Trustees establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This can also be done through adoption and amendment of the budget. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Board of Trustees have committed resources as of August 31, 2017 for campus activities, textbooks, and local grants.
- Assigned: This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Trustees or through the Board of Trustees delegating this responsibility to other individuals in the District. Under the District's adopted policy, only the Board of Trustees may assign amounts for specific purposes. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. At August 31, 2017, the District has assigned \$8.0 million of the General Fund fund balance for future capital projects, payroll, and general operating expenses and \$5,214,622 of the Capital Projects Fund for future construction.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

- **Unassigned:** This classification includes all amounts not included in other spendable classifications, including the residual fund balance for the General Fund.

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 Board of Trustees has provided otherwise in its commitment or assignment actions.

The details of the fund balances are included in the Governmental Funds Balance Sheet (page 18) and are described below:

General Fund

The General Fund has unassigned fund balance of \$19,670,314 at August 31, 2017. Prepayments of \$115,826 are considered nonspendable fund balance. \$8,000,000 has been assigned for future capital projects, payroll, and general operating expenditures.

Other Major Funds

The Debt Service Fund has restricted funds of \$4,472,752 at August 31, 2017 consisting primarily of property tax collections that are restricted for debt service payments on bonded debt.

The Capital Projects Fund has restricted funds of \$3,662,600 at August 31, 2017 consisting primarily of unspent bond funds and \$5,214,622 of fund balance assigned for future construction.

Other Funds

The fund balance of \$164,730 of the Campus Activity Fund and \$25,946 Textbook Funds and \$30,047 local grants (special revenue funds) are shown as committed due to Board policy committing those funds to campus activities, textbooks, and local grants. The fund balance of \$1,228,808 in the Food Service Fund is shown as restricted for food service operations. The fund balance in the State Textbook Fund is shown as committed for textbooks.

NOTE 3. DEPOSITS AND INVESTMENTS

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

1. Cash Deposits:

At August 31, 2017, the carrying amount of the District's deposits in checking accounts and interest-bearing savings accounts was \$21,365,964, which includes \$9,032 cash on hand. The combined bank balance was \$22,903,706. The District's cash deposits at August 31, 2017 were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

2. Investments:

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

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy. That policy addresses the following risks:

- a. Custodial Credit Risk – Deposits: In the case of deposits, this is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. As of August 31, 2017, the District's cash balances in the bank totaled \$22,903,706. This entire amount was either collateralized with securities held by the District's financial institution's agent in the District's name or covered by FDIC insurance. Thus, the District's deposits were not exposed to custodial credit risk at August 31, 2017.
- b. Custodial Credit Risk - Investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At August 31, 2017, the District held investments in four public funds investment pools (TexPool, TexSTAR, Lonestar and Texas Class). Investments in external investment pools are considered unclassified as to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.
- c. Credit Risk: This is the risk that an issuer or other counterparty to an investment will be unable to fulfill its obligations. The rating of securities by nationally recognized rating agencies is designed to give an indication of credit risk. The credit quality rating for the four investment pools range from AAA (Standard & Poor's) to AAAM (Standard & Poor's).
- d. Interest Rate Risk: This is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase. The weighted average maturity for both TexPool and TexStar is less than 60 days.
- e. Foreign Currency Risk: This is the risk that exchange rates will adversely affect the fair value of an investment. At August 31, 2017, the District was not exposed to foreign currency risk.
- f. Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of the District's investment in a single issuer (i.e., lack of diversification). Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. Investment pools and government securities are excluded from the 5 percent disclosure requirement.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

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

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

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

<u>Name</u>	<u>Carrying Amount</u>	<u>Market Value</u>
TexPool	\$ 4,347,391	\$ 4,347,391
TexSTAR	1,392,471	1,392,471
Lonestar	12,337,497	12,337,497
Texas Class	<u>10,460,447</u>	<u>10,460,447</u>
Total	<u>\$28,537,806</u>	<u>\$28,537,806</u>

Fair Value Measurements

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 below.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements 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 judgement and considers factors specific to each asset or liability.

The District's investment in Texpool, TexStar, Lone Star, and Texas Class (statewide 2a7-like external investment pools) are not required to be measured at fair value but are measured at amortized cost.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

NOTE 4. CAPITAL ASSETS

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

	Balance <u>September 1</u>	Additions/ <u>Completions</u>	Retirement/ <u>Adjustments</u>	Balance <u>August 31</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 10,742,680	\$ -	\$ -	\$ 10,742,680
Construction in Progress	<u>3,317,336</u>	<u>17,414,840</u>	<u>(1,193,462)</u>	<u>19,538,714</u>
Total capital assets, not being depreciated	<u>14,060,016</u>	<u>17,414,840</u>	<u>(1,193,462)</u>	<u>30,281,394</u>
Capital assets, being depreciated:				
Buildings	167,908,727	1,859,732	-	169,768,459
Furniture and Equipment	<u>8,522,153</u>	<u>726,353</u>	-	<u>9,248,506</u>
Total capital assets, being depreciated	<u>176,430,880</u>	<u>2,586,085</u>	-	<u>179,016,965</u>
Less accumulated depreciation for:				
Buildings	(49,033,503)	(4,654,151)	-	(53,687,654)
Furniture and Equipment	<u>(3,295,608)</u>	<u>(718,830)</u>	-	<u>(4,014,438)</u>
Total accumulated depreciation	<u>(52,329,111)</u>	<u>(5,372,981)</u>	-	<u>(57,702,092)</u>
Total capital assets being depreciated, net	<u>124,101,769</u>	<u>(2,786,896)</u>	-	<u>121,314,873</u>
Governmental activities capital assets, net	<u>\$138,161,785</u>	<u>\$14,627,944</u>	<u>\$(1,193,462)</u>	<u>\$151,596,267</u>
Business-type activities:				
Buildings and Improvements	\$ 114,687	\$ -	\$ -	\$ 114,687
Totals at historic cost	<u>114,687</u>	-	-	<u>114,687</u>
Less accumulated depreciation for:				
Buildings and Improvements	<u>(22,937)</u>	<u>(11,469)</u>	-	<u>(34,406)</u>
Total accumulated depreciation	<u>(22,937)</u>	<u>(11,469)</u>	-	<u>(34,406)</u>
Business-type activities capital assets net	<u>\$ 91,750</u>	<u>\$ (11,469)</u>	<u>\$ -</u>	<u>\$ 80,281</u>

Depreciation expense was charged as direct expense to programs of the District as follows:

Governmental activities:	
Instruction	\$2,911,734
Instructional Resources & Media Services	161,377
Curriculum & Instructional Staff Development	17,947
Instructional Leadership	14,499
School Leadership	110,836
Guidance, Counseling & Evaluation Services	24,004
Health Services	20,079
Student (Pupil) Transportation	406,612
Food Services	411,311
Cocurricular/Extracurricular Activities	667,796
General Administration	42,712
Plant Maintenance and Operations	518,344
Security and Monitoring Services	38,485
Data Processing Services	25,832
Community Services	1,413
Total depreciation expense-Governmental activities	<u>\$5,372,981</u>
Business-type activities:	
Child Care	\$ 11,469
Total depreciation expense Business-type activities	<u>\$ 11,469</u>

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

NOTE 5. MAINTENANCE TAX NOTE

The District is obligated under a maintenance tax note, which is an obligation of the General Fund.

A summary of changes in the maintenance tax note for the year ended August 31, 2017 is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Amount Outstanding 9-1-16</u>	<u>Issued Current Year</u>	<u>Retired Current Year</u>	<u>Amount Outstanding 8-31-17</u>	<u>Due Within One Year</u>
Maintenance Tax Note	4.25%	<u>\$4,215,000</u>	<u>\$ -</u>	<u>\$195,000</u>	<u>\$4,020,000</u>	<u>\$200,000</u>

Presented below is a summary of the maintenance tax note requirements to maturity:

<u>Year Ended August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2018	\$ 200,000	\$ 143,638	\$ 343,638
2019	200,000	139,638	339,638
2020	205,000	134,638	339,638
2021	210,000	129,513	339,513
2022	220,000	123,213	343,213
2023-2027	1,205,000	505,737	1,710,737
2028-2032	1,450,000	258,035	1,708,035
2033	<u>330,000</u>	<u>14,025</u>	<u>344,025</u>
	<u>\$4,020,000</u>	<u>\$1,448,437</u>	<u>\$5,468,437</u>

NOTE 6. CAPITAL LEASES

The District is obligated under three leases; two for equipment, and one for buses, accounted for as capital leases. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one, which transfers benefits and risks of ownership to the lease.

The following schedule lists personal property leased:

<u>Description</u>	<u>Interest Rate</u>	<u>Date of Agreement</u>	<u>Original Property Value</u>
Buses	1.99%	8/18/2003	\$3,732,284
Computers	2.10%	3/24/2016	665,324
Computers	2.30%	3/24/2016	<u>1,851,964</u>
Total			<u>\$6,249,572</u>

The lease terms range from three to ten years. The terms call for annual payments over the life of the leases. The capital lease obligations are payable from the General Fund.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

The following schedule shows the future minimum lease payments under the capitalized lease together with the present value of the net minimum lease payments as of August 31, 2017:

Years Ending August 31,	Annual Lease Payments
2018	\$1,058,083
2019	1,058,082
2020	886,535
2021	408,174
2022	408,174
Thereafter	<u>408,174</u>
Total future minimum lease payments	4,227,222
Less: Amount representing interest	<u>(232,486)</u>
Present value of net minimum lease payments	<u>\$3,994,736</u>

NOTE 7. LONG-TERM DEBT

Long-term debt includes par bonds, capital appreciation (deep discount) serial bonds, maintenance tax notes and four capital leases. All long-term debt represents transactions in the District's governmental activities.

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

The following is a summary of the changes in the District's Long-term Debt for the year ended August 31, 2017:

Description	Interest Rate Payable	Amounts Outstanding 9/1/16	Additions	Refunded/ Retired	Amounts Outstanding 8/31/17	Due Within One Year
Bonded Indebtedness:						
1995A School Bldg.	5.90%	\$ 90,000	\$ -	\$ -	\$ 90,000	\$ -
1999 School Bldg. & Ref.	6.22%	1,525,078	-	150,816	1,374,262	144,661
2002 School Bldg. & Ref.	6.29%	2,975,742	-	815,815	2,159,927	766,497
2003 School Bldg. & Ref.	5.93%	51,929	-	51,929	-	-
2008A School Building	4.00%	7,335,000	-	5,550,000	1,785,000	100,000
2008B Refunding	4.00%	865,000	-	145,000	720,000	135,000
2010 Refunding	4.25%	19,960,000	-	550,000	19,410,000	490,000
2012 Refunding	5.00%	48,265,000	-	3,565,000	44,700,000	-
2013 School Bldg. & Ref.	5.00%	5,880,000	-	-	5,880,000	-
2014 Refunding	4.25%	4,960,000	-	-	4,960,000	-
2015A Refunding	4.00%	11,095,000	-	480,000	10,615,000	495,000
2015B Refunding	4.00%	8,410,000	-	30,000	8,380,000	30,000
2016 School Bldg. & Ref.	5.00%	38,595,000	-	1,730,000	36,865,000	1,750,000
2017 School Refunding	4.00%	-	8,985,000	145,000	8,840,000	60,000
Total Bonded Indebtedness		<u>150,007,749</u>	<u>8,985,000</u>	<u>13,213,560</u>	<u>145,779,189</u>	<u>3,971,158</u>
Maintenance Tax Notes	4.25%	4,215,000	-	195,000	4,020,000	200,000
Capital Leases Payable	1.99%-5.36%	4,786,438	-	791,702	3,994,736	978,581
Accreted Interest Payable		25,153,941	1,700,884	2,496,440	24,358,385	-
Discount/Premium on Issuance of Debt		<u>9,303,462</u>	<u>984,184</u>	<u>433,984</u>	<u>9,853,662</u>	-
Total Other Obligations		<u>43,458,841</u>	<u>2,685,068</u>	<u>3,917,126</u>	<u>42,226,783</u>	<u>1,178,581</u>
Total Obligations of District		<u>\$193,466,590</u>	<u>\$11,670,068</u>	<u>\$17,130,686</u>	<u>\$188,005,972</u>	<u>\$5,149,739</u>

**LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017**

The 1995A, 1999, 2002, 2003, 2008A, 2008B, 2010, 2012 and 2013 bond series include outstanding capital appreciation bonds in the principal amount of \$10,219,189. The bonds mature variously beginning in 2018 through 2042. Interest accrues on these bonds each February 15 and August 15, even though the interest is not paid until maturity. The accrued interest of \$24,358,385 is accounted for as Accreted Interest Payable-Capital Appreciation Bonds.

General Obligation Bonds are direct obligations issued on a pledge of the general taxing power for the payment of the debt obligations of the District. General Obligation Bonds require the District to compute, at the time taxes are levied, the rate of tax required to provide (in each year bonds are outstanding) a fund to pay interest and principal at maturity. The District is in compliance with this requirement.

There are a number of limitations and restrictions contained in the various general obligation bonds indentures. The District is in compliance with all significant limitations and restrictions at August 31, 2017.

Presented below is a summary of general obligation bond requirements to maturity:

Year Ended August 31,	Principal	Interest	Total Requirements
2018	\$ 3,971,158	\$ 7,992,878	\$ 11,964,036
2019	3,998,818	7,900,713	11,899,531
2020	4,000,216	7,902,809	11,903,025
2021	3,822,589	7,936,847	11,759,436
2022	3,766,267	7,988,914	11,755,181
2023-2027	15,653,638	41,255,469	56,909,107
2028-2032	29,911,503	26,667,509	56,579,012
2033-2037	42,560,000	14,390,025	56,950,025
2038-2042	<u>38,095,000</u>	<u>4,224,525</u>	<u>42,319,525</u>
	<u>\$145,779,189</u>	<u>\$126,259,689</u>	<u>\$272,038,878</u>

NOTE 8. DEBT ISSUANCE AND DEFEASED BONDS OUTSTANDING

In May 2017 the District issued \$8,985,000 (par value) in unlimited school building and tax refunding bonds (current interest bonds) to advance refund \$9,010,000 of unlimited tax school building and refunding bonds. The bonds were issued at a premium of \$984,184, and, after paying issuance costs of \$151,655 the net proceeds were \$9,817,529. The net proceeds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments on the refunded bonds until the bonds mature. The advanced refunding met the requirements of an in-substance debt defeasance and the unlimited tax school building bonds were removed from the District's General Long-Term Debt. The advance refunding resulted in a present value economic gain (difference between present value of debt service payments on the old and new debt) of \$964,352.

In the current and prior years, the District issued refunding bonds to defease certain outstanding bonds for the purpose of consolidation and to achieve debt service savings. The District has placed the proceeds from the refunding issues in irrevocable escrow accounts with a trust agent to ensure payment of debt service on the refunded bonds.

Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. Although defeased, the refunded debt from those earlier issues will not be actually retired until the call dates have come due or until maturity if they are not callable issues. On August 31, 2017, \$16,115,000 of bonds outstanding are considered defeased.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

The District's deferred charges on bond refundings are as follows:

Balance -- August 31, 2016	\$6,435,802
Current year gain on bond refunding	(298,891)
Current year amortization	<u>(726,274)</u>
Balance -- August 31, 2017	<u>\$5,410,637</u>

NOTE 9. PROPERTY TAXES

Property taxes are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The District levies its taxes on October 1 on the assessed (appraised) value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. The assessed value of the property tax roll upon which the levy for the 2016-17 fiscal year was based was \$3,245,898. Taxes are delinquent if not paid by June 30. Delinquent taxes are subject to both penalty and interest charges plus 15 % delinquent collection fees for attorney costs.

The tax rates assessed for the year ended August 31, 2017, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.17 and \$0.37 per \$100 valuation, respectively, for a total of \$1.54 per \$ 100 valuation.

Current tax collections for the year ended August 31, 2017 were 99.26% of the year-end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the General and Debt Service Funds are based on historical experience in collecting 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. As of August 31, 2017, property taxes receivable, net of estimated uncollectible taxes, totaled \$779,830 and \$298,826 for the General and Debt Service Funds, respectively.

Property taxes are recorded as receivables and unavailable revenues at the time the taxes are assessed. Revenues are recognized as the related ad valorem taxes are collected. Additional amounts estimated to be collectible in time to be a resource for payment of obligations incurred during the fiscal year and therefore susceptible to accrual in accordance with Generally Accepted Accounting Principles have been recognized as revenue.

NOTE 10. DEFINED BENEFIT PENSION PLAN

Plan Description. Little Elm 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). TRS's defined benefit pension plan is 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.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

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 above.

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

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

<u>Contribution Rates</u>		
	<u>2016</u>	<u>2017</u>
Member	7.2%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Little Elm ISD FY2017 Employer Contributions	\$	1,309,535
Little Elm ISD FY2017 Member Contributions	\$	3,189,828
Little Elm ISD 2017 NECE On-Behalf Contributions	\$	2,053,526

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

As the non-employer contributing entity for public education, 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 the 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:

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

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

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

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

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

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

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

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

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

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 Expectation			2.2%
Alpha	0%		1.0%
Total	<u>100%</u>		<u>8.7%</u>

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

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

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
Little Elm ISD's proportionate share of the net pension liability:	\$23,015,998	\$14,871,455	\$7,963,231

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2017, Little Elm Independent School District reported a liability of \$14,871,455 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to Little Elm Independent School District. The amount recognized by Little Elm 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 Little Elm Independent School District were as follows:

District's Proportionate share of the collective net pension liability	\$14,871,455
State's proportionate share that is associated with the District	23,843,301
Total	\$38,714,756

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

At August 31, 2016 the employer's proportion of the collective net pension liability was 0.0393544%, an increase of 0.0012704% from its proportionate share of 0.038084% at August 31, 2015.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

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, Little Elm Independent School District recognized pension expense of \$2,474,366 and revenue of \$2,474,366 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 233,182	\$ 444,053
Changes in actuarial assumptions	453,255	412,217
Difference between projected and actual investment earnings	2,865,750	1,606,466
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	3,267,604	1,176
Contributions paid to TRS subsequent to the measurement date	1,309,535	-
Total	\$8,129,326	\$2,463,912

\$1,309,535 reported as deferred outflows of resources resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended August 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	Pension Expense Amount
2018	\$ 756,992
2019	756,992
2020	1,560,224
2021	695,274
2022	456,550
Thereafter	129,847

NOTE 11. SCHOOL DISTRICT RETIREE HEALTH PLAN

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

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% as of September 1, 2013 and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal year 2017, 2016, and 2015. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For the years ended August 31, 2017, 2016, and 2015, the State's contributions to TRS-Care were \$396,967, \$406,252, and \$363,871, respectively, the active member contributions were \$269,272, \$264,064, and \$236,516, respectively, and the school district's contribution were \$245,143, \$223,645, and \$200,130, respectively, which equaled the required contributions each year.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. These on-behalf payments are recognized as equal revenues and expenditures/expenses by the District. For the year ended August 31, 2017, the contribution made on behalf of the District was \$193,273.

NOTE 12. HEALTH CARE

During the year ended August 31, 2017, employees of Little Elm Independent School District were covered by the TRS-Active Care health insurance plan (the Plan). The District contributed \$325 per month per employee to the Plan and employees, at their option, authorized payroll withholdings to pay any additional contribution and contributions for dependents. All contributions were paid to a self-funded pool. The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreement.

NOTE 13. DUE FROM OTHER GOVERNMENTS

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

Fund	State Grant	Federal Grants	Total
General Fund	\$3,876,110	\$ -	\$3,876,110
Special Revenue	-	330,200	330,200
Total	<u>\$3,876,110</u>	<u>\$330,200</u>	<u>\$4,206,310</u>

NOTE 14. LITIGATION AND CONTINGENCIES

The District participates in numerous state and Federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at August 31, 2017 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

NOTE 15. REVENUES FROM LOCAL AND INTERMEDIATE SOURCES

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

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
Property Taxes	\$37,365,155	\$ -	\$11,847,037	\$ -	\$49,212,192
Food Sales	-	1,530,693	-	-	1,530,693
Investment Income	200,509	4,948	69,460	168,795	443,712
Penalties, interest and other tax related income	191,476	-	62,863	-	254,339
Co-curricular student activities	104,913	696,866	-	-	801,779
Other	1,426,964	44,370	-	-	1,471,334
Total	<u>\$39,289,017</u>	<u>\$2,276,877</u>	<u>\$11,979,360</u>	<u>\$168,795</u>	<u>\$53,714,049</u>

NOTE 16. UNEARNED REVENUE

Unearned revenue at year-end consisted of the following:

	General Fund	Special Revenue Funds	Total
Tuition and Fees	\$ 16,545	\$ -	\$ 16,545
Devise Protection Plan	132,968	-	132,968
Grant Funds	31,000	2,399	33,399
Insurance Proceeds	<u>2,030,929</u>	<u>-</u>	<u>2,030,929</u>
	<u>\$2,211,442</u>	<u>\$ 2,399</u>	<u>\$2,213,841</u>

NOTE 17. GENERAL FUND FEDERAL SOURCE REVENUES

<u>Program or Source</u>	<u>CFDA Number</u>	<u>Amount</u>	<u>Total Grant or Entitlement</u>
General Fund:			
Impact Aid	84.041	\$ 520,288	\$ 520,288
Watershed Protection & Flood Control	10.904	73,778	73,778
SHARS		1,035,551	1,035,551
Indirect Costs		<u>68,839</u>	<u>68,839</u>
Total for General Fund		<u>\$1,698,456</u>	<u>\$1,698,456</u>

NOTE 18. GOVERNMENTAL FUNDS EXPENDITURES

Expenditures reported in the governmental funds are generally recorded when a liability is incurred, as under accrual accounting, and reported in the statement of revenues, expenditures, and changes in fund balances according to function or general operational area.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

The following presents Little Elm ISD's expenditures according to the nature of the transactions.

		General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
6100	Payroll Costs	\$48,345,832	\$2,694,729	\$ -	\$ -	\$51,040,561
6200	Professional and contracted services	6,719,021	414,765	-	-	7,133,786
6300	Supplies and materials	3,298,174	3,421,105	-	-	6,719,279
6400	Other operating costs	1,479,253	269,901	-	-	1,749,154
6500	Debt service expenditures	1,204,877	-	12,219,248	-	13,424,125
6600	Capital outlay	<u>1,550,637</u>	<u>104,652</u>	<u>-</u>	<u>17,152,174</u>	<u>18,807,463</u>
	Total governmental expenditures	<u>\$62,597,794</u>	<u>\$6,905,152</u>	<u>\$12,219,248</u>	<u>\$17,152,174</u>	<u>\$98,874,368</u>

NOTE 19. INTERFUND TRANSFERS

During the year ended August 31, 2017, the District transferred \$4,215,000 from the District's General Fund to the District's Capital Projects Fund as a fund balance transfer to cover construction and renovation projects. The District also transferred \$8,657 from the Campus Activity Fund to Local Grants Fund (both special revenue funds) to transfer certain contributions.

NOTE 20. CONSTRUCTION COMMITMENTS

As of August 31, 2017, the District had entered into a construction contract for construction at its high school totaling \$17,710,939. At August 31, 2017, there was \$2,350,437 remaining costs under this contract. These costs will be paid from the District's Capital Projects Fund.

NOTE 21. PRIOR PERIOD ADJUSTMENT

The District recorded a prior period adjustment in the government-wide financial statements to reflect additional interest amounts. The adjustment reduced beginning net position by \$260,017.



RBC Capital Markets

OFFICIAL STATEMENT

Dated: July 26, 2018

NEW ISSUE: BOOK-ENTRY-ONLY

In the opinion of Bond Counsel, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes and the Bonds are not private activity bonds. See "TAX MATTERS" herein for a discussion of the opinion of Bond Counsel.

\$23,885,000

LITTLE ELM INDEPENDENT SCHOOL DISTRICT

(Denton County, Texas)

UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018A

Dated Date: July 15, 2018

Due: August 15, as shown on page ii

Interest Accrual Date: Date of Delivery

The Little Elm Independent School District (the "District") is issuing its \$23,885,000 Unlimited Tax School Building Bonds, Series 2018A (the "Bonds") in accordance with the Constitution and general laws of the State of Texas, including particularly Chapter 45, Texas Education Code, as amended, and Chapter 1371 ("Chapter 1371"), Texas Government Code, as amended, and an order authorizing the issuance of the Bonds (the "Bond Order"). Additionally, the Bonds are authorized pursuant to an election held within the District on November 7, 2017. In the Bond Order, the Board delegated to officers of the District, pursuant to certain provisions of Chapter 1371, authority to complete the sale of the Bonds. The terms of the sale are included in a "Pricing Certificate," which completed the sale of the Bonds (the Bond Order and the Pricing Certificate are collectively referred to as the "Order").

The Bonds constitute direct obligations of the District and are payable as to principal and interest from an annual ad valorem tax levied, without legal limit as to rate or amount, against all taxable property located within the District (see "THE BONDS – Security"). Additionally, the District has received conditional approval for 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 they are initially delivered (the "Delivery Date") to the underwriters named below (the "Underwriters") 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 – General Description").

The District intends to utilize the Book-Entry-Only System of The Depository Trust Company, New York, New York ("DTC"), but reserves the right on its behalf or on behalf of DTC to discontinue such system. The principal of and interest on the Bonds will be payable to Cede & Co., as nominee for DTC, by UMB Bank N.A., Dallas, 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 (see "BOOK-ENTRY-ONLY SYSTEM").

Proceeds from the sale of the Bonds will be used for (i) constructing, improving, renovating, and equipping school buildings in the District and acquiring real property therefor, and the purchase of new school buses and (ii) paying costs of issuance related to the Bonds (see "THE BONDS – Authorization and Purpose").

CUSIP PREFIX: 537096

MATURITY SCHEDULE & 9 DIGIT CUSIP

See Schedule on Page ii

The Bonds are offered when, as and if issued, and accepted by the Underwriters, subject to the approving opinion of the Attorney General of the State of Texas and the opinion of Bracewell LLP, Bond Counsel, Dallas, Texas. Certain legal matters will be passed upon for the Underwriters by their counsel, Norton Rose Fulbright US LLP, Dallas, Texas. The Bonds are expected to be available for initial delivery through the services of DTC on or about August 16, 2018.

Wells Fargo Securities

Piper Jaffray & Co.

MATURITY SCHEDULE

\$23,885,000

UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018A

\$13,250,000 Serial Bonds

<u>Maturity Date</u> <u>(8/15)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Yield^(b)</u>	<u>CUSIP</u> <u>Suffix^(a)</u>
2019	\$1,440,000	4.00%	1.53%	X95
2020	780,000	4.00%	1.70%	Y29
2021	410,000	4.00%	1.86%	Y37
2022	425,000	4.00%	1.98%	Y45
2023	440,000	5.00%	2.12%	Y52
2024	465,000	5.00%	2.26%	Y60
2025	490,000	5.00%	2.38%	Y78
2026	510,000	5.00%	2.51%	Y86
2027	540,000	5.00%	2.61%	Y94
2028	565,000	5.00%	2.68% ^(c)	Z28
2029	595,000	5.00%	2.74% ^(c)	Z36
2030	625,000	4.00%	2.94% ^(c)	Z44
2031	645,000	4.00%	3.04% ^(c)	Z51
2032	675,000	4.00%	3.13% ^(c)	Z69
2033	700,000	4.00%	3.21% ^(c)	Z77
2034	730,000	4.00%	3.29% ^(c)	Z85
2035	755,000	4.00%	3.35% ^(c)	Z93
2036	790,000	4.00%	3.41% ^(c)	2A6
2037	820,000	4.00%	3.45% ^(c)	2B4
2038	850,000	4.00%	3.47% ^(c)	2C2

(Interest to Accrue from the Delivery Date)

\$10,635,000 Term Bonds\$4,795,000 4.00% Term Bonds due August 15, 2043, Price 102.663%, Initial Yield 3.65%^{(b)(c)}, CUSIP Suffix^(a) 2D0\$5,840,000 4.00% Term Bonds due August 15, 2048, Price 102.047%, Initial Yield 3.73%^{(b)(c)}, CUSIP Suffix^(a) 2E8

(Interest to Accrue from the Delivery Date)

Optional Redemption... The Bonds maturing on and after August 15, 2028 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 August 15, 2027 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 – Redemption Provisions").

Mandatory Redemption... The Term Bonds (as defined herein) are subject to mandatory sinking fund redemption as further described herein (see "THE BONDS – Redemption Provisions").

^(a) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for the convenience of the owners of the Bonds. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. Neither the District, the Financial Advisor nor the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

^(b) The initial offering yield represents the initial offering yield to the public, which will be determined by the Underwriters and may subsequently be changed by the Underwriters without notice to the District and is the sole responsibility of the Underwriters.

^(c) Yield calculated based on the assumption that the Bonds denoted and sold at a premium will be redeemed on August 15, 2027, the first optional call date of such Bonds, at a redemption price of par, plus accrued interest to the redemption date.

**LITTLE ELM INDEPENDENT SCHOOL DISTRICT
OFFICIALS, STAFF AND CONSULTANTS**

ELECTED OFFICIALS

<u>Name</u>	<u>Term Expires</u>	<u>Occupation</u>
Melissa Myers, President	2020	Implementation Manager, Iron Mountain, Inc.
David Montemayor, Vice President	2019	Sr. Manager of Consulting, Accretive Solutions
Alex Flores, Secretary	2020	Sales & Marketing, TXU Energy
Dan Blackwood, Member	2019	Credit Manager, HD Supply C&I Whitecap
DeLeon English, Member	2021	Engagement Lead, Slalom Consulting
LeAnna Harding, Member	2020	Sr. Human Resources Consultant, HumCap
Jason Olson, Member	2021	Strategic Account Manager, AT&T

CERTAIN DISTRICT OFFICIALS

<u>Name</u>	<u>Position</u>
Daniel Gallagher	Superintendent of Schools
Grant Anderson	Associate Superintendent and Chief Financial Officer

CONSULTANTS AND ADVISORS

Auditors..... Hankins, Eastup, Deaton, Tonn & Seay, P.C.
Denton, Texas

Bond Counsel Bracewell LLP
Dallas, Texas

Financial Advisor RBC Capital Markets, LLC
Dallas, Texas

For additional information regarding the District, please contact:

Grant Anderson
Associate Superintendent and Chief Financial Officer
Little Elm Independent School District
300 Lobo Lane
Little Elm, Texas 75068
Phone: (972) 292-1847

Derek Honea
Director
RBC Capital Markets, LLC
200 Crescent Court, Suite 1500
Dallas, Texas 75201
Phone: (214) 989-1660

USE OF INFORMATION IN OFFICIAL STATEMENT

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

This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any jurisdiction in which such offer or solicitation is not authorized or in which 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 "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM - PSF Continuing Disclosure Undertaking" and "CONTINUING DISCLOSURE OF INFORMATION" for a description of the undertakings of the Texas Education Agency (the "TEA") and the District, respectively, to provide certain information on a continuing basis.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE 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 THE BONDS HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE 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.

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

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

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

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 any purchaser of the Bonds. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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

TABLE OF CONTENTS

ELECTED OFFICIALS	iii	The School Finance System as Applied to the District	18
CERTAIN DISTRICT OFFICIALS	iii	TAX RATE LIMITATIONS	18
CONSULTANTS AND ADVISORS	iii	RATINGS	19
USE OF INFORMATION IN OFFICIAL STATEMENT	iv	LEGAL MATTERS	19
TABLE OF CONTENTS	v	TAX MATTERS	20
SELECTED DATA FROM THE OFFICIAL STATEMENT	vi	Tax Exemption	20
INTRODUCTORY STATEMENT	1	Additional Federal Income Tax Considerations	21
THE BONDS	1	LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE	
Authorization and Purpose	1	PUBLIC FUNDS IN TEXAS	21
General Description	1	INVESTMENT AUTHORITY AND INVESTMENT	
Redemption Provisions	2	OBJECTIVES OF THE DISTRICT	22
Notice of Redemption	2	Current Investments	24
Security	3	THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM	24
Permanent School Fund Guarantee	3	History and Purpose	24
Legality	3	The Total Return Constitutional Amendment	26
Payment Record	3	Management and Administration of the Fund	28
Defeasance of Bonds	4	Capacity Limits for the Guarantee Program	28
Sources and Uses of Funds	4	The School District Bond Guarantee Program	30
REGISTERED OWNERS' REMEDIES	4	Charter District Bond Guarantee Program	31
BOOK-ENTRY-ONLY SYSTEM	5	2017 Legislative Changes to the Charter District Bond	
Use of Certain Terms in Other Sections of this Official		Guarantee Program	32
Statement	7	Charter District Risk Factors	33
REGISTRATION, TRANSFER AND EXCHANGE	7	Potential Impact of Hurricane Harvey on the PSF	34
Paying Agent/Registrar	7	Ratings of Bonds Guaranteed Under the Guarantee Program	35
Future Registration	7	Valuation of the PSF and Guaranteed Bonds	35
Record Date for Interest Payment	7	Discussion and Analysis Pertaining to Fiscal Year Ended	
Limitation on Transfer of Bonds	8	August 31, 2017	36
Replacement Bonds	8	2011 Constitutional Amendment	38
AD VALOREM TAX PROCEDURES	8	Other Events and Disclosures	38
Property Tax Code and County-Wide Appraisal District	8	PSF Continuing Disclosure Undertaking	39
Property Subject to Taxation by the District	8	Annual Reports	39
Valuation of Property for Taxation	10	Material Event Notices	40
Residential Homestead Exemption	10	Availability of Information	40
District and Taxpayer Remedies	11	Limitations and Amendments	40
Public Hearing and Rollback Tax Rate	11	Compliance with Prior Undertakings	41
Levy and Collection of Taxes	12	SEC Exemptive Relief	41
District's Rights in the Event of Tax Delinquencies	12	REGISTRATION AND QUALIFICATION OF BONDS FOR	
THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT	12	SALE	41
EMPLOYEES' BENEFIT PLANS	13	CONTINUING DISCLOSURE OF INFORMATION	41
STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN		Annual Reports	42
TEXAS	14	Notice of Certain Events	42
Litigation Relating to the Texas Public School Finance		Limitations and Amendments	42
System	14	Compliance with Prior Undertakings	43
Possible Effects of Litigation and Changes in Law on		LITIGATION	43
District Bonds	14	FINANCIAL ADVISOR	43
CURRENT PUBLIC SCHOOL FINANCE SYSTEM	14	UNDERWRITING	43
Overview	14	FORWARD LOOKING STATEMENTS	44
Local Funding for School Districts	15	CONCLUDING STATEMENT	44
State Funding for School Districts	15	MISCELLANEOUS	44
2006 Legislation	17		
2017 Legislation	17		
Wealth Transfer Provisions	17		
FINANCIAL INFORMATION REGARDING THE DISTRICT	APPENDIX A		
GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY	APPENDIX B		
FORM OF LEGAL OPINION OF BOND COUNSEL	APPENDIX C		
AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED AUGUST 31, 2017	APPENDIX D		

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

SELECTED DATA FROM THE OFFICIAL STATEMENT

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

The Issuer	Little Elm Independent School District (the “District”) is a political subdivision of the State of Texas (the “State”) located in Denton County. The District is governed by a seven-member Board of Trustees (the “Board”). Policy making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools, who is the chief administrative officer of the District. Support services are supplied by consultants and advisors. For more information regarding the District, see “APPENDIX A – FINANCIAL INFORMATION REGARDING THE DISTRICT” and “APPENDIX B – GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY.”
Authority for Issuance and Use of Proceeds	<p>The District’s Unlimited Tax School Building Bonds, Series 2018A (the “Bonds”) are being issued pursuant to the Constitution and general laws of the State, including particularly Chapter 45, Texas Education Code, and Chapter 1371, Texas Government Code, as amended, and an order passed by the Board (the “Bond Order”). Additionally, the Bonds are authorized pursuant to an election held within the District on November 7, 2017. In the Bond Order, the Board delegated to officers of the District, pursuant to certain provisions of Chapter 1371, authority to complete the sale of the Bonds. The terms of the sale are included in a “Pricing Certificate,” which completed the sale of the Bonds (the Bond Order and the Pricing Certificate are collectively referred to as the “Order”).</p> <p>Proceeds from the sale of the Bonds will be used for (i) constructing, improving, renovating, and equipping school buildings in the District and acquiring real property therefor, and the purchase of new school buses and (ii) paying costs of issuance related to the Bonds (see “THE BONDS – Authorization and Purpose”).</p>
Payment of Interest	Interest on the Bonds will accrue from the date they are initially delivered to the Underwriters and will be payable on February 15 and August 15 of each year, commencing February 15, 2019, until maturity or prior redemption (see “THE BONDS – General Description”).
Paying Agent/Registrar	The initial Paying Agent/Registrar is UMB Bank N.A., Dallas, Texas (see “REGISTRATION, TRANSFER AND EXCHANGE – Paying Agent/Registrar”). Initially, the District intends to use the Book-Entry-Only System of The Depository Trust Company, New York, New York (see “BOOK-ENTRY-ONLY SYSTEM”).
Tax Exemption	In the opinion of Bond Counsel, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes and the Bonds are not private activity bonds. See “TAX MATTERS” herein for a discussion of the opinion of Bond Counsel.
Security	The Bonds will constitute direct obligations of the District, payable as to principal and interest from an annual ad valorem tax levied, without legal limit as to rate or amount, against all taxable property located within the District (see “THE BONDS – Security”). Additionally, an application has been filed and the District has received conditional approval for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of Texas (see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”). Also see “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS” and “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” for a discussion of recent developments in State law affecting the financing of school districts in the State.
Redemption Provisions	The Bonds maturing on and after August 15, 2028 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 August 15, 2027 or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption as further described herein. In addition, the Term Bonds (as defined herein) are subject to mandatory sinking fund redemption as further described herein (see “THE BONDS – Redemption Provisions”).

Ratings

S&P Global Ratings (“S&P”) has assigned a municipal bond rating of “AAA” to the Bonds based upon the Permanent School Fund Guarantee, as S&P generally rates all bond issues guaranteed by the Permanent School Fund of the State of Texas “AAA” (see “RATINGS” and “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).

The District’s underlying rating for the Bonds (without consideration of the Permanent School Fund Guarantee) is “AA-” by S&P (see “RATINGS”).

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. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 principal amount or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. The principal and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see “BOOK-ENTRY-ONLY SYSTEM”).

Continuing Disclosure of Information

Pursuant to the Order, the District is obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events to the Municipal Securities Rulemaking Board (the “MSRB”). Investors will be able to access continuing disclosure information filed with the MSRB free of charge at www.emma.msrb.org (see “CONTINUING DISCLOSURE OF INFORMATION”).

Payment Record

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

Legal Opinion

Bracewell LLP, Bond Counsel, Dallas, Texas.

OFFICIAL STATEMENT RELATING TO
\$23,885,000
LITTLE ELM INDEPENDENT SCHOOL DISTRICT
(Denton County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018A

INTRODUCTORY STATEMENT

This Official Statement, including Appendices A and B, has been prepared by the Little Elm Independent School District (the "District") located in Denton County, Texas, in connection with the offering by the District of its Unlimited Tax School Building Bonds, Series 2018A (the "Bonds").

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 "FORWARD LOOKING STATEMENTS").

This Official Statement contains descriptions of the Bonds and the Order (as defined herein), 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 during the offering period, from the District's Financial Advisor, RBC Capital Markets, LLC.

This Official Statement speaks only as of its date and the information contained herein is subject to change. Copies of the final Official Statement will be submitted to the Municipal Securities Rulemaking Board and will be available through its Electronic Municipal Market Access system. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – PSF Continuing Disclosure Undertaking" and "CONTINUING DISCLOSURE OF INFORMATION" for a description of the undertakings of the Texas Education Agency ("TEA") and the District, respectively, to provide certain information on a continuing basis.

THE BONDS

Authorization and Purpose

The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Chapter 45, Texas Education Code, as amended, Chapter 1371 ("Chapter 1371"), Texas Government Code, as amended, and an order authorizing the issuance of the Bonds (the "Bond Order"). Additionally, the Bonds are authorized pursuant to an election held within the District on November 7, 2017. In the Bond Order, the Board delegated to officers of the District, pursuant to certain provisions of Chapter 1371, authority to complete the sale of the Bonds. The terms of the sale are included in a "Pricing Certificate," which completed the sale of the Bonds (the Bond Order and the Pricing Certificate are collectively referred to as the "Order"). Capitalized terms used herein and not otherwise defined have the meanings assigned to such terms in the Order.

Proceeds from the sale of the Bonds will be used for (i) constructing, improving, renovating, and equipping school buildings in the District and acquiring real property therefor, and the purchase of new school buses and (ii) paying costs of issuance related to the Bonds (see "THE BONDS – Authorization and Purpose").

General Description

The Bonds shall be dated July 15, 2018 and interest will be calculated on the basis of 360-day year of twelve 30-day months. The paying agent and transfer agent (the "Paying Agent/Registrar") for the Bonds is initially UMB Bank, N.A., Dallas, Texas. The Bonds are to mature on the dates and in the principal amounts shown on page ii hereof. The Bonds will each be issued as fully registered obligations in principal denominations of \$5,000 or any integral multiple thereof within a maturity. Interest on the Bonds will accrue from the date they are initially delivered to the Underwriters and will be payable on February 15 and August 15 of each year, commencing February 15, 2019, until maturity or prior redemption.

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. Principal of 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 "BOOK-ENTRY-ONLY SYSTEM" below for a more complete description of such system.

Interest on the Bonds shall be payable to the registered owner whose name appears on the bond registration books of the Paying Agent/Registrar at the close of business on the "Record Date" (hereinafter defined) and such accrued interest will be paid by (i) check sent United States mail, first class, postage prepaid, to the address of the registered owner appearing on such registration books of the Paying Agent/Registrar or (ii) such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. The record date (the "Record Date") for the interest payable on any interest payment date is the close of business on the last business day of the month next preceding such interest payment date (see "REGISTRATION, TRANSFER AND EXCHANGE - Record Date for Interest Payment" herein). The principal of the Bonds will be payable only upon presentation of such Bonds at the designated office of the Paying Agent/Registrar upon maturity or prior redemption; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under "BOOK-ENTRY-ONLY SYSTEM" herein.

Redemption Provisions

Optional Redemption

The Bonds maturing on and after August 15, 2028 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 August 15, 2027 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 (provided that a portion of a Bond may be redeemed only in an integral multiple of \$5,000 principal amount) 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.

Mandatory Redemption

The Bonds scheduled to mature on August 15 in the years 2043 and 2048 (the "Term Bonds") are subject to mandatory sinking fund redemption in part prior to their stated maturity, and will be redeemed by the District at a redemption price equal to the principal amount thereof plus interest accrued thereon to the redemption date, on the dates and in the principal amounts shown in the following schedule:

Term Bonds Due August 15, 2043		Term Bonds Due August 15, 2048	
<u>Redemption Date (8/15)</u>	<u>Principal Amount</u>	<u>Redemption Date (8/15)</u>	<u>Principal Amount</u>
2039	\$885,000	2044	\$1,080,000
2040	920,000	2045	1,120,000
2041	960,000	2046	1,165,000
2042	995,000	2047	1,215,000
2043*	1,035,000	2048*	1,260,000

* Stated maturity.

Notice of Redemption

Not less than thirty (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 of each Bond to be redeemed at the address shown on the Registration Books at the close of business on the business day next preceding the date of mailing such.

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

an Event of Default. Further, in the case of a conditional redemption, the failure of the District to make moneys and/or authorized securities available in part or in whole on or before the redemption date shall not constitute an Event of Default.

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN AND SUBJECT, IN THE CASE OF AN OPTIONAL REDEMPTION, TO ANY RIGHTS OR CONDITIONS RESERVED BY THE DISTRICT IN THE NOTICE, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

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

Security

The Bonds are direct obligations of the District and are payable as to principal and interest from an annual ad valorem tax levied, without limit as to rate or amount, on all taxable property within the District as provided in the Order (see "TAX RATE LIMITATIONS"). Also see "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" for a discussion of recent developments in State law affecting the financing of school districts in the State.

Additionally, the District has received conditional approval for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of Texas (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

Permanent School Fund Guarantee

In connection with the sale of the Bonds, the District has submitted an application to the Texas Education Agency and has received conditional approval from the Commissioner of Education 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. 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 (see "THE BONDS – Defeasance of Bonds").

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 approving legal opinion of Bracewell LLP, Dallas, Texas (see "LEGAL MATTERS" and "APPENDIX C – FORM OF LEGAL OPINION OF BOND COUNSEL").

Payment Record

The District has never defaulted with respect to the payment of its bonded indebtedness.

Defeasance of Bonds

The Order provides that the District may defease, refund or discharge its obligations to the registered Owners of any or all of the Bonds in any manner permitted by law. Under current State law, such discharge may be accomplished: (i) by depositing with the Paying Agent/Registrar or other lawfully authorized entity a sum of money equal to the principal and all interest to accrue on the Bonds or (ii) by depositing with the Paying Agent/Registrar or other lawfully authorized entity amounts sufficient, together with the investment earnings thereon, to provide for the payment and/or redemption of such Bonds; provided that such deposits may be invested and reinvested only in (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the District authorizes the defeasance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that, on the date the District authorizes the defeasance of the Bonds, have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; or (iii) any combination of (i) and (ii) above.

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

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

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

Sources and Uses of Funds

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

Sources:

Principal Amount of the Bonds	\$23,885,000.00
Original Issue Premium	<u>1,366,042.70</u>
Total Sources of Funds	<u>\$25,251,042.70</u>

Uses:

Deposit to Project Fund	\$25,000,000.00
Costs of Issuance and Underwriters' Discount	<u>251,042.70</u>
Total Uses of Funds	<u>\$25,251,042.70</u>

REGISTERED OWNERS' REMEDIES

If the District defaults in the payment of principal, interest or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Order, or defaults in the observation or performance of any other covenants, conditions or obligations set forth in the Order, and the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds if there is no other available remedy at law to compel performance of the covenants contained in the Bonds or in the Order and the District's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to

represent the interest of the Bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Chapter 1371, which pertains to the issuance of public securities by issuers such as the District, permits the District to waive sovereign immunity in the proceedings authorizing its bonds, but in connection with the issuance of the Bonds, the District has not waived sovereign immunity. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and by general principles of equity which permit the exercise of judicial discretion. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, redemption payments and interest on the Bonds are to be paid to and credited by DTC while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book Entry Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District, the Financial Advisor and the Underwriters believe the source of such information to be reliable, but none of the District, the Financial Advisor or the Underwriters take any 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 (as hereinafter defined), or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

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

custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices be provided directly to them.

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

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

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on 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. All payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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 Order will be given only to DTC.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

UMB Bank N.A., Dallas, 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 the 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, as applicable, 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 principal corporate trust 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.

Future Registration

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

Record Date for Interest Payment

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

Limitation on Transfer of Bonds

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

Replacement Bonds

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

AD VALOREM TAX PROCEDURES

Property Tax Code and County-Wide Appraisal District

The Texas Tax Code (the "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 Denton Central 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 the Appraisal Review Board (the "Appraisal Review Board"), whose members are appointed by the Appraisal District. Such appraisal rolls, as approved by the Appraisal Review Board, are used by the District in establishing its tax roll and tax rate.

Property Subject to Taxation by the District

Except for certain exemptions provided by 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 nonprofit 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) entitled to an exemption from taxation of the total appraised value of the veteran's residential homestead (the surviving spouse of a totally disabled veteran who died on or before January 1, 2010 and who would have qualified for the full exemption on the homestead's entire value if it had been available at that time, will be entitled to an exemption from ad valorem taxation all or a part of the market value of the residence homestead if the spouse has not remarried); \$25,000 in market value for all residential homesteads (see "Residential Homestead Exemption" below); and certain classes of intangible property. Furthermore, effective January 1, 2012, the surviving spouse of a deceased veteran who had received a disability rating of 100% is entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries. In addition, except for increases attributable to certain improvements, the District is prohibited by State law from increasing the total ad valorem tax 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 or she 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 – Overview"). The school property tax limitation provided by the constitutional amendment and enabling legislation apply to the 2007 and subsequent tax years. Owners of agricultural and open space land, under certain circumstances, may request valuation of such land on the basis of productive capacity rather than market value.

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

Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit" is defined by Section 11.253 of the Tax Code as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. 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. Senate Bill 1, passed by the 82nd Texas Legislature, 1st Called Session, requires again that governmental entities take affirmative action after October 1 of the prior year, but prior to January 1 of the first tax year in which the governing body proposes to tax goods-in-transit to continue its taxation of goods-in-transit in the 2012 tax year and beyond. See "APPENDIX A – FINANCIAL INFORMATION REGARDING THE DISTRICT" and "THE PROPERTY TAX CODE AS APPLIED TO 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. 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 each Appraisal District at least once every three years. The District, at its expense, has the right to obtain from the Appraisal District a current estimate of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimate of appraisal values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the Appraisal District chooses to formally include such values on its appraisal roll.

Residential Homestead Exemption

Under Section 1-b, Article VIII of the Texas Constitution and State law, the governing body of a political subdivision, at its option, may grant an exemption of not less than \$3,000 of market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision. Once authorized, such exemption may be repealed or decreased or increased in amount (i) by the governing body of the political subdivision or (ii) by a favorable vote of a majority of the qualified voters at an election called by the governing body of the political subdivision, which election must be called upon receipt of a petition signed by at least 20% of the number of qualified voters who voted in the preceding election of the political subdivision. In the case of a decrease, the amount of the exemption may not be reduced to less than \$3,000 of the market value. Districts are prohibited from reducing or repealing the amount of their optional homestead exemption that was in place for the 2014 tax year for a period running through December 31, 2019.

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.

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 for less than market value to the veteran by a charitable organization. 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 residence homestead, if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

Following the approval by the voters at a November 7, 2017 statewide election (with an effective date 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 a property tax

exemption for all or part of the market value of such surviving spouse's residence homestead, if the surviving spouse has not remarried since the first responder's death and said property was the first responder's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

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.

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

THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT

The Appraisal District has the responsibility for appraising property in the District as well as other taxing units in Denton County. The Appraisal District is governed by a board of directors appointed by voters of the governing bodies of various political subdivisions in Denton County. The District's taxes are collected by the Denton County Tax Assessor-Collector.

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

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

The District grants a state mandated residence homestead exemption for disabled veterans.

The District has not granted a local option, additional exemption for disabled veterans above the amount of the state-mandated exemption.

The District has not granted any part of the local option, additional exemption of up to 20% of the market value of residence homesteads.

The District does not tax non-business personal property.

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

The District does not exempt “freeport property” from taxation.

The District has taken action to continue taxing “goods-in-transit.”

The District is not currently a participant in any tax increment financing district.

The District is not currently a participant in any tax abatement agreements.

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

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

After July, the penalty remains at 12%, and interest accrues at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid. A delinquent tax continues to accrue interest as long as the tax remains unpaid, regardless of whether a judgment for the delinquent tax has been rendered. The purpose of imposing such interest penalty is to compensate the taxing unit for revenue lost because of the delinquency. In addition, an additional penalty of 20% is assessed on July 1 in order to defray attorney collection expenses.

Property within the District is assessed as of January 1 of each year (except business inventories which may be assessed as of September 1 and mineral values which are assessed on the basis of a twelve month average) and taxes become due October 1 of the same year and become delinquent on February 1 of the following year. Split payments of taxes are not permitted. Discounts for the early payment of taxes are not permitted.

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. The District contributes to a retiree health care through the Texas Public School Retired Employees Group Insurance Program (“TRS Care”), a cost sharing multiple-employer defined benefit post employment health care plan administered by TRS. TRS Care provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. In addition to the TRS retirement plan, the District participates in the State health insurance plan to provide health care coverage for its employees. For a discussion of the TRS retirement plan, TRS Care and the District's medical benefit plan, see Notes 10, 11 and 12 to the audited financial statements of the District that are attached hereto as Appendix D.

In June 2012, Government Accounting Standards Board (GASB) Statement No. 68 (Accounting and Financial Reporting for Pensions) was issued to improve accounting and financial reporting by state and local governments regarding pensions. GASB Statement No. 68 requires reporting entities, such as the District, to recognize their proportionate share of the net pension liability and operating statement activity related to changes in collective pension liability. This means that reporting entities, such as the District, that contribute to the TRS pension plan will report a liability on the face of their government-wide financial statements. Such reporting began with the District's fiscal year ending August 31, 2015. GASB Statement No. 68 applies only to pension benefits and does not apply to Other Post-Employment Benefits (OPEB) or TRS-Care related liabilities.

As a result of its participation in the TRS and having no other post-retirement benefit plans, the District has no obligations for other post-employment benefits within the meaning of Governmental Accounting Standards Board Statement 45.

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.

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:

Law makers 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. They judicial role is not to second-guess whether our system is optimal, but whether it is constitutional. Our Byzantine school funding “system” is undeniably imperfect, with immense room for improvement. But it satisfies minimum constitutional requirements.

Possible Effects of Litigation and Changes in Law on District Bonds

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

Overview

The following language constitutes only a summary of the Finance System as it is currently structured. For a more complete description of school finance and fiscal management in the State, reference is made to Texas 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 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 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 local referendum, districts may, in general, increase their M&O tax rate up to a maximum M&O tax rate of \$1.17 per \$100 of taxable value and receive State equalization funds for such taxing effort (see "AD VALOREM TAX PROCEDURES – Public Hearing and Rollback Tax Rate" herein). Elections authorizing the levy of M&O taxes held in certain school districts under older laws, however, may subject M&O tax rates in such districts to other limitations (see "TAX RATE LIMITATIONS" herein).

State Funding for School Districts

State funding for school districts is provided through the Foundation School Program, which provides each school district with a minimum level of funding (a "Basic Allotment") for each student in average daily attendance ("ADA"). The Basic Allotment is calculated for each school district using various weights and adjustments based on the number of students in average daily attendance and also varies depending on each district's compressed tax rate. This Basic Allotment formula determines most of the allotments making up a district's basic level of funding, referred to as "Tier One" of the Foundation School Program. The basic level of funding is then "enriched" with additional funds known as "Tier Two" of the Foundation School Program. Tier Two provides a guaranteed level of funding for each cent of local tax effort that exceeds the compressed tax rate (for most districts, M&O tax rates above \$1.00 per \$100 of taxable value). The Finance System also provides an Existing Debt Allotment ("EDA") to subsidize debt service on eligible outstanding school district bonds, an Instructional Facilities Allotment ("IFA") to subsidize debt service on newly issued bonds, and a New Instructional Facilities Allotment ("NIFA") subsidize operational expenses associated with the opening of a new instructional facility. IFA primarily addresses the debt service needs of property-poor school districts. In 2017, the 85th Texas Legislature appropriated funds in the amount of \$1,211,000,000 for the 2018-19 State fiscal biennium for the Basic Allotment, EDA, and NIFA.

Tier One and Tier Two allotments represent the State's share of the cost of M&O expenses of school districts, with local M&O taxes representing the district's local share. EDA and IFA allotments supplement a school district's local I&S taxes levied for debt service on eligible bonds issued to construct, acquire and improve facilities. Tier One and Tier Two allotments and existing EDA and IFA allotments are generally required to be funded each year by the Texas Legislature.

Since future-year IFA awards were not funded by the Texas Legislature for the 2018-19 State fiscal biennium and debt service assistance on school district bonds that are not yet eligible for EDA is not available, debt service on new bonds issued by districts to construct, acquire and improve facilities must be funded solely from local I&S taxes.

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

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

Tier Two supplements the basic funding of Tier One and provides two levels of enrichment with different guaranteed yields (i.e., guaranteed levels of funding by the State) depending on the district's local tax effort. The first six cents of tax effort that exceeds the compressed tax rate (for most districts, M&O tax rates ranging from \$1.00 to \$1.06 per \$100 of taxable value) will, for most districts, generate a guaranteed yield of \$99.41 and \$106.28 per cent per weighted student in average daily attendance ("WADA") in the 2017-18 and 2018-19 State fiscal years, respectively.

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

A district with a compressed tax rate below \$1.00 per \$100 of taxable value (known as a "fractionally funded district") receives a Basic Allotment that is reduced proportionately to the degree that the district's compressed tax rate falls 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 \$31.95 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 IFA program and the 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. 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 estimated to be less than \$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 did appropriate funds in the amount of \$23,750,000 for each of the 2017-18 and 2018-19 State fiscal years for NIFA allotments.

2006 Legislation

Since the enactment of the Reform Legislation in 2006, most school districts in the State have operated with a “target” funding level per student (“Target Revenue”) that is based upon the “hold harmless” principles embodied in the Reform Legislation. This system of Target Revenue was superimposed on the Foundation School Program and made existing funding formulas substantially less important for most school districts. The Reform Legislation was intended to lower M&O tax rates in order to give school districts “meaningful discretion” in setting their M&O tax rates, while holding school districts harmless by providing them with the same level of overall funding they received prior to the enactment of the Reform Legislation. To make up for this shortfall, the Reform Legislation authorized Additional State Aid for Tax Reduction (“ASATR”) for each school district in an amount equal to the difference between the amount that each district would receive under the Foundation School Program and the amount of each district’s Target Revenue funding level. However, in subsequent legislative sessions, the Texas Legislature has gradually reduced the reliance on ASATR by increasing the funding formulas. This phase-out of ASATR began with actions adopted by the 83rd Texas Legislature, and beginning with the 2017-18 school year, the statutes authorizing ASATR are repealed (eliminating revenue targets and ASATR funding).

2017 Legislation

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

Wealth Transfer Provisions

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

The equalized wealth levels that subject Chapter 41 districts to recapture for the 2018-2019 State fiscal biennium are set at (i) \$514,000 per student in WADA with respect to that portion of a district’s M&O tax effort that does not exceed its compressed tax rate (for most districts, the first \$1.00 per \$100 of taxable value) and (ii) \$319,500 per WADA with respect to that portion of a district’s M&O tax effort that is beyond its compressed rate plus \$.06 (for most districts, M&O taxes levied above \$1.06 per \$100 in taxable value). So long as the State’s equalization program under Chapter 42 of the Texas Education Code is funded to provide tax revenue equivalent to that raised by the Austin Independent School District on the first six pennies of tax effort that exceed the compressed tax rate, then M&O taxes levied above \$1.00 but at or below \$1.06 per \$100 of taxable value (“Golden Pennies”) are not subject to the wealth equalization provisions of Chapter 41. Because funding at the Austin Independent School District level is currently being provided to school districts under Chapter 42 of the Texas Education Code, no recapture is currently associated with the Golden Pennies. Chapter 41 districts with a wealth per student above the lower equalized wealth level but below the higher equalized wealth level must equalize their wealth only with respect to the portion of their M&O tax rate, if any, in excess of \$1.06 per \$100 of taxable value. Under Chapter

41, a district has five options to reduce its wealth per student so that it does not exceed the equalized wealth levels: (1) a district may consolidate by agreement with one or more districts to form a consolidated district; all property and debt of the consolidating districts vest in the consolidated district; (2) a district may detach property from its territory for annexation by a property-poor district; (3) a district may purchase attendance credits from the State; (4) a district may contract to educate nonresident students from a property-poor district by sending money directly to one or more property-poor districts; or (5) a district may consolidate by agreement with one or more districts to form a consolidated taxing district solely to levy and distribute either M&O taxes or both M&O taxes and I&S taxes. A Chapter 41 district may also exercise any combination of these remedies. Options (3), (4) and (5) require prior approval by the Chapter 41 district's voters.

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

The School Finance System as Applied to the District

The District's wealth per student for the 2017-18 school year is approximately \$364,676 which is greater than the equalized wealth value. Accordingly, the District has been required to exercise one of the permitted wealth equalization options. As a district with wealth per student in excess of the equalized wealth value, the District has elected to reduce its wealth per student by purchasing attendance credits from the State.

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 of the financial performance of the annexing district.

The District is unable to predict the future actions of courts and the Texas legislature with respect to funding of the Finance System. Changes made to the Finance System could materially affect the financial condition of the District. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS - Litigation Related to the Texas Public School Finance System."

TAX RATE LIMITATIONS

A school district is authorized to levy maintenance and operation ("M&O") taxes subject to approval of a proposition submitted to district voters under Section 45.003(d) of the Texas Education Code, as amended. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the next succeeding paragraph. The maximum voted M&O tax rate for the District is \$1.50 per \$100 of assessed valuation as approved by the voters at an election held on February 2, 2002 under Chapter 20, Texas Education Code (now codified at Section 45.003, Texas Education Code).

The maximum tax rate per \$100 of assessed valuation that may be adopted by the District may not exceed the lesser of (A) \$1.50 and (B) the sum of (1) the rate of \$0.17, and (2) the product of the "State Compression Percentage" multiplied by \$1.50. The State Compression Percentage has been set, and will remain, at 66.67% for the 2018-19 State fiscal biennium. The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. For a more detailed description of the State Compression Percentage, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Local Funding for School Districts." Furthermore, a school district cannot annually increase its tax rate in excess of the district's "rollback tax rate" without submitting such tax rate to a referendum election and a majority of the voters voting at such election approving the adopted rate. See "AD VALOREM TAX PROCEDURES - Public Hearing and Rollback Tax Rate." On September 5, 2015, voters in the District approved an increase in the District's M&O tax rate by thirteen cents to \$1.17 per \$100 of taxable assessed valuation through a tax ratification election (see "Table 6 - TAX RATE DISTRIBUTION" in Appendix A for details regarding the District's current tax rate).

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

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

RATINGS

S&P Global Ratings ("S&P") has assigned a municipal bond rating of "AAA" to the Bonds based upon the Permanent School Fund Guarantee (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM"), as S&P generally rates all bond issues guaranteed by the Permanent School Fund of the State of Texas "AAA". The District's underlying rating for the Bonds (without consideration of the Permanent School Fund Guarantee) is "AA-" by S&P.

An explanation of the significance of such ratings may be obtained from S&P. The ratings reflect only the view of S&P and the District makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by S&P, if circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

In addition, due to the ongoing uncertainty regarding the economy and debt of the United States of America, including, without limitation, general economic conditions and political developments that may affect the financial condition of the United States government, the United States debt limit, and bond and credit ratings of the United States and its instrumentalities, the ratings of obligations issued by state and local governments, such as the Bonds, could be adversely affected.

LEGAL MATTERS

The District will furnish to the Underwriters a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approving legal opinion of Bracewell LLP, Bond Counsel, with respect to the Bonds being issued in compliance with the provisions of applicable law and the interest on the Bonds being excludable from gross income for purposes of federal income tax. The form of Bond Counsel's opinion is attached hereto as Appendix C.

Though it represents the Financial Advisor and the Underwriters from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the District in connection with the issuance of the Bonds.

Except as noted below, Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under captions or subcaptions, "THE BONDS" (except under the subcaptions "Payment Record," "Permanent School Fund Guarantee" and "Sources and Uses of Funds"), "REGISTRATION, TRANSFER AND EXCHANGE," "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" (except under the subcaption "The School Finance System as Applied to the District"), "TAX RATE LIMITATIONS," "LEGAL MATTERS" (except for the last two sentences of the second paragraph thereof), "TAX MATTERS," "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE" and "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance With Prior Undertakings") and such firm is of the opinion that the information relating to the Bonds and legal matters contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. 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, Norton Rose Fulbright US LLP, Dallas, 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.

TAX MATTERS

Tax Exemption

In the opinion of Bracewell LLP, Bond Counsel, under existing law, (i) interest on the Bonds is excludable from gross income for federal income tax purposes and (ii) the Bonds are not "private activity bonds" under the Internal Revenue Code of 1986, as amended (the "Code"), and, as such, interest on the Bonds is not subject to the alternative minimum tax on individuals.

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

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

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

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

procedures the Service is likely to treat the District as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds regardless of the ultimate outcome of the audit.

Additional Federal Income Tax Considerations

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

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

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

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201), the Bonds (i) are negotiable instruments, (ii) are investment securities to which Chapter 8 of the Texas Business and Commerce Code applies, and (iii) 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 at least “A” or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds (see “RATINGS”). 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.

INVESTMENT AUTHORITY AND INVESTMENT OBJECTIVES OF THE DISTRICT

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

Under State law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities including letters of credit, (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities; including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation 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 and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) (i) that are issued by or through an institution that has its main office or a branch office 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 a broker (selected from a list adopted by the District) or a depository institution that has a main office or branch office in the State and that is selected by the District; (b) the broker or depository institution selected by the District arranges for the deposit of funds in one or more federally insured depository institutions, wherever located, for the account of the District; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; (d) the depository institution, broker, clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3, or certain entities described in Section 2257.041(d) of the Texas Government Code selected by the District acts as a 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 fully secured by a combination of cash and obligations described in clause (1) which are pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (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 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. If specifically authorized in the authorizing document, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

Governmental bodies in the State are authorized to implement 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) of the first paragraph under this subcaption, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm not less than "A" or its equivalent, or (c) cash invested in obligations that are described in clauses (1) through (6) and (10) through (12) of the first paragraph under this subcaption, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the governmental body, held in the name of the governmental body 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.

As a school district that qualifies as an "issuer" under Chapter 1371, as amended, Texas Government Code, the District is also authorized to purchase, sell, and invest its funds in corporate bonds. Texas law defines "corporate bonds" as senior secured debt obligations issued by a domestic business entity and rated not lower than "AA-" or the equivalent by a nationally recognized investment rating firm. The term does not include a bond that is convertible into stocks or shares in the entity issuing the bond (or an affiliate or subsidiary thereof) or any unsecured debt. Corporate bonds must finally mature not later than 3 years from their date of purchase by the school district. A school district may not (1) invest more than 15% of its monthly average fund balance (excluding bond proceeds, reserves, and other funds held for the payment of debt service) in corporate bonds; or (2) invest more than 25% of the funds invested in corporate bonds in any one domestic business entity (including subsidiaries and affiliates thereof). Corporate bonds held by a school district must be sold if they are at any time downgraded below "AA-" (or the equivalent thereof) or, with respect to a corporate bond rated "AA-" (or the equivalent thereof), such corporate bond is placed on negative credit watch. Corporate bonds are not an eligible investment for a public funds investment pool. To invest in corporate bonds, an eligible school district must first (i) amend its investment policy to authorize corporate bonds as an eligible investment, (ii) adopt procedures for monitoring rating changes in corporate bonds and liquidating an investment in corporate bonds, and (iii) identify funds eligible to be invested in corporate bonds. As of the date of this Official Statement, the District has taken no such steps with respect to investment in corporate bonds, nor does it currently intend to do so.

Under State law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for District funds, maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Public Funds Investment Act. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under State law, District 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 investment officers of the District shall submit an investment report detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, ending market value and fully accrued interest for the reporting period for each pooled fund group, (4) the book value and market value of each separately listed asset at the end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) state law. No person may invest District funds without express written authority from the Board of Trustees.

Under State law, the District is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution, (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the Board of Trustees; (4) require the qualified representative of firms offering to engage in an investment transaction with the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the District and the business organization that are not authorized by the District's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the District's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the District and the business organization attesting to these requirements; (5)

perform an annual audit of the management controls on investments and adherence to the District's investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

Current Investments

As of April 30, 2018, the District's investable funds were invested in the following investment instruments:

<u>Investment Instrument</u>	<u>Book Value</u>	<u>Percentage</u>
Depository Account	\$41,167,802.08	54.05%
Texas Local Investment Pool ^(a)	15,706,787.99	20.62%
Lone Star Investment Pool ^(a)	12,458,759.78	16.36%
Texas CLASS Investment Pool ^(a)	5,427,961.85	7.13%
TexStar Investment Pool ^(a)	1,404,165.35	1.84%
Total	<u>\$76,165,477.05</u>	<u>100.00%</u>

^(a) Pools operate pursuant to Chapter 2256 of the Texas Government Code, as amended, as money market equivalents, in a manner consistent with the SEC's Rule 2a-7 under the Investment Company Act of 1940.

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

The information below concerning the 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 is not to be construed as a representation of the District, the Financial Advisor or the Underwriters.

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

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

History and Purpose

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

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

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

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

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

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

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

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

Audited financial information for the PSF is provided annually through the PSF Comprehensive Annual Financial Report (the "Annual Report"), which is filed with the Municipal Securities Rulemaking Board ("MSRB"). The Annual Report includes the Message of the Executive Administrator of the Fund (the "Message") and the Management's Discussion and Analysis ("MD&A"). The Annual Report for the year ended August 31, 2017, when filed with the MSRB in accordance with the PSF undertaking and agreement made in accordance with Rule 15c2-12 ("Rule 15c2-12") of the federal Securities and Exchange Commission (the "SEC"), as described below, is hereby incorporated by reference into this disclosure. Information included herein for the year ended August 31, 2017 is derived from the audited financial statements of the PSF, which are included in the Annual Report when it is filed and posted. Reference is made to the Annual Report for the complete Message and MD&A for the year ended August 31, 2017 and for a description of the financial results of the PSF for the year ended August 31, 2017, the most recent year for which audited financial information regarding the Fund is available. The 2017 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2017 Annual Report or any other Annual Report. The TEA posts each Annual Report, which includes statistical data regarding the Fund as of the close of each fiscal year, the most recent disclosure for the Guarantee Program, the Statement of Investment Objectives, Policies and Guidelines of the Texas Permanent School Fund, which is codified at 19 Texas Administrative Code, Chapter 33 (the "Investment Policy"), monthly updates with respect to the capacity of the Guarantee Program (collectively, the "Web Site Materials") on the TEA web site at http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/ and with the MSRB at www.emma.msrb.org. Such monthly updates regarding the Guarantee Program are also incorporated herein and made a part hereof for all purposes. In

addition to the Web Site Materials, the Fund is required to make quarterly filings with the SEC under Section 13(f) of the Securities Exchange Act of 1934. Such filings, which consist of a list of the Fund's holdings of securities specified in Section 13(f), including exchange-traded (e.g., NYSE) or NASDAQ-quoted stocks, equity options and warrants, shares of closed-end investment companies and certain convertible debt securities, is available from the SEC at www.sec.gov/edgar.shtml. A list of the Fund's equity and fixed income holdings as of August 31 of each year is posted to the TEA web site and filed with the MSRB. Such list excludes holdings in the Fund's securities lending program. Such list, as filed, is incorporated herein and made a part hereof for all purposes.

The Total Return Constitutional Amendment

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

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

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

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

With respect to the management of the Fund's financial assets portfolio, the single most significant change made to date as a result of the Total Return Constitutional Amendment has been new asset allocation policies adopted from time to time by the SBOE. The SBOE generally reviews the asset allocations during its summer meeting in even numbered years. The first asset allocation policy adopted by the SBOE following the Total Return Constitutional Amendment was in February 2004, and the policy was reviewed and modified or reaffirmed in the summers of each even-numbered year, most recently in 2018. The Fund's investment policy provides for minimum and maximum ranges among the components of each of the asset classifications: equities, fixed income and alternative asset investments. The 2004 asset allocation policy decreased the fixed income target from 45% to 25% of Fund investment assets and increased the allocation for equities from 55% to 75%

of investment assets. Subsequent asset allocation policies have continued to diversify Fund assets, and have added an alternative asset allocation to the fixed income and equity allocations. The alternative asset allocation category includes real estate, real return, absolute return and private equity components. Alternative asset classes diversify the SBOE-managed assets and are not as correlated to traditional asset classes, which is intended to increase investment returns over the long run while reducing risk and return volatility of the portfolio. The most recent asset allocation, from 2016, which was reviewed and reaffirmed in June 2018, is as follows: (i) an equity allocation of 35% (consisting of U.S. large cap equities targeted at 13%, international equities at 14% and emerging international equities at 3%) and U.S. small/mid cap equities at 5%), (ii) a fixed income allocation of 19% (consisting of a 12% allocation for core bonds and a 7% allocation for emerging market debt in local currency) and (iii) an alternative asset allocation of 46% (consisting of a private equity allocation of 13%, a real estate allocation of 10%, an absolute return allocation of 10%, a risk parity allocation of 7% and a real return allocation of 6%). The 2016 asset allocation decreased U.S. large cap equities and international equities by 3% and 2%, respectively, and increased the allocations for private equity and real estate by 3% and 2%, respectively.

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

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

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

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

Management and Administration of the Fund

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

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

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

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

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

Capacity Limits for the Guarantee Program

The capacity of the Fund to guarantee bonds under the Guarantee Program is limited in two ways: by State law (the "State Capacity Limit") and by regulations and a notice issued by the IRS (the "IRS Limit"). Prior to May 20, 2003, the State Capacity Limit was equal to two times the lower of cost or fair market value of the Fund's assets, exclusive of real estate. During the 78th Regular Session of the Legislature in 2003, legislation was enacted that increased the State Capacity Limit by 25%, to two and one half times the lower of cost or fair market value of the Fund's assets as estimated by the SBOE and certified by the State Auditor, and eliminated the real estate exclusion from the calculation. Prior to the issuance of the IRS Notice (defined below), the capacity of the program under the IRS Limit was limited to two and one-half times the lower of cost or fair market value of the Fund's assets adjusted by a factor that excluded additions to the Fund made since May 14, 1989. During the 2007 Texas Legislature, Senate Bill 389 ("SB 389") was enacted providing for additional increases in the capacity of the Guarantee Program, and specifically providing that the SBOE may by rule increase the capacity of the Guarantee Program from two and one-half times the cost value of the PSF to an amount not to exceed five times the cost

value of the PSF, provided that the increased limit does not violate federal law and regulations and does not prevent bonds guaranteed by the Guarantee Program from receiving the highest available credit rating, as determined by the SBOE. SB 389 further provides that the SBOE shall at least annually consider whether to change the capacity of the Guarantee Program. From 2005 through 2009, the Guarantee Program twice reached capacity under the IRS Limit, and in each instance the Guarantee Program was closed to new bond guarantee applications until relief was obtained from the IRS. The most recent closure of the Guarantee Program commenced in March 2009 and the Guarantee Program reopened in February 2010 on the basis of receipt of the IRS Notice.

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

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

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

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

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

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

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

The School District Bond Guarantee Program

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

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

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

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

Generally, the SDBG 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 SDBG Rules are codified in the Texas Administrative Code at 19 TAC section 33.65, and are available at <http://ritter.tea.state.tx.us/rules/tac/chapter033/ch033a.html#33.65>.

Charter District Bond Guarantee Program

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

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

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

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

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

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

The CDBG Rules provide that the PSF may be used to guarantee bonds issued for the acquisition, construction, repair, or renovation of an educational facility for an open-enrollment charter holder and equipping real property of an open-enrollment charter school and/or to refinance promissory notes executed by an open-enrollment charter school, each in an amount in excess of \$500,000 the proceeds of which loans were used for a purposes described above (so-called new money bonds) or

for refinancing bonds previously issued for the charter school that were approved by the attorney general (so-called refunding bonds). Refunding bonds may not be guaranteed under the Charter District Bond Guarantee Program if they do not result in a present value savings to the charter holder.

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

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

2017 Legislative Changes to the Charter District Bond Guarantee Program

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

during that period of 56%. TEA is unable to predict how the ratio of charter district students to the total State scholastic population will change over time.

SB 1480 provides that the implementation of the new method of calculating the CDBGP Capacity will begin with the State fiscal year that commences September 1, 2021 (the State's fiscal year 2022). However, for the intervening four fiscal years, beginning with fiscal year 2018, SB 1480 provides that the SBOE may establish a CDBGP Capacity that increases the amount of charter district bonds that may be guaranteed by up to a cumulative 20% in each fiscal year (for a total maximum increase of 80% in fiscal year 2021) as compared to the capacity figure calculated under the Act as of January 1, 2017. However, SB 1480 provides that in making its annual determination of the magnitude of an increase for any year, the SBOE may establish a lower (or no) increase if the SBOE determines that an increase in the CDBGP Capacity would likely result in a negative impact on the bond ratings for the Bond Guarantee Program (see "Ratings of Bonds Guaranteed Under the Guarantee Program") or if one or more charter districts default on payment of principal or interest on a guaranteed bond, resulting in a negative impact on the bond ratings of the Bond Guarantee Program. The provisions of SB 1480 that provide for discretionary, incremental increases in the CDBGP expire September 1, 2022. If the SBOE makes a determination for any year based upon the potential ratings impact on the Bond Guarantee Program and modifies the increase that would otherwise be implemented under SB 1480 for that year, the SBOE may also make appropriate adjustments to the schedule for subsequent years to reflect the modification, provided that the CDBGP Capacity for any year may not exceed the limit provided in the schedule set forth in SB 1480. In September 2017 and June 2018, the SBOE authorized the full 20% increase in the amount of charter district bonds that may be guaranteed for fiscal years 2018 and 2019, respectively, which increases the relative capacity of the Charter District Bond Guarantee Program to the School District Bond Guarantee Program for those fiscal years.

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

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

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

Charter District Risk Factors

Open-enrollment charter schools in the State may not charge tuition and, unlike school districts, charter districts have no taxing power. Funding for charter district operations is largely from amounts appropriated by the Legislature. The amount of such State payments a charter district receives is based on a variety of factors, including the enrollment at the schools

operated by a charter district. The overall amount of education aid provided by the State for charter schools in any year is also subject to appropriation by the Legislature. The Legislature may base its decisions about appropriations for charter schools on many factors, including the State's economic performance. Further, because some public officials, their constituents, commentators and others have viewed charter schools as controversial, political factors may also come to bear on charter school funding, and such factors are subject to change.

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

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

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

Potential Impact of Hurricane Harvey on the PSF

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

The TEA, members of the Legislature and the Governor, among others, have stated that they are developing programs to provide financial assistance to affected school districts and charter districts, particularly with regard to funding assistance for facility repairs and construction and to offset tax base and/or revenue loss to affected districts. The composition of any final programs that may be implemented cannot be predicted, and are likely to be subject to future State legislative and administrative actions, available amounts of federal and private disaster relief for affected schools, and other factors. TEA has initiated programs designed to hold school districts and charter districts harmless for the loss of State funding associated with declines in average daily attendance for fiscal year 2018. In the past, storm damage has caused multiple year impacts to affected schools with respect to both attendance figures and tax base (for school districts). In June 2018 TEA received

results of a survey of tax appraisal districts in the area affected by the hurricane with respect to the impact of the hurricane on the tax rolls of affected school districts. In aggregate, the tax rolls of affected districts appear to have increased slightly for fiscal 2018 over 2017, but the increases were at a lower rate than had been anticipated in the State's general appropriation act for the biennium. TEA notes that as of June 2018 the negative effect of the hurricane on the average daily attendance of districts in the affected area appears to have been less than TEA had initially anticipated.

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

Ratings of Bonds Guaranteed Under the Guarantee Program

Moody's Investors Service, S&P Global Ratings and Fitch Ratings rate bonds guaranteed by the PSF "Aaa," "AAA" and "AAA," respectively. Not all districts apply for multiple ratings on their bonds, however. See "RATINGS" herein.

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations

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 May 31, 2018, the PSF had a book value of \$33,178,779,673 and a market value of \$43,191,172,031. May 31, 2018 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds

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 (which was subsequently reduced back to 3.50). Using the IRS Limit, which is the lower of the two federal and State capacity limits of Program capacity, of \$117,318,653,038, at August 31, 2017 98.28% of Program capacity was available to the School District Bond Guarantee Program and 1.72% was available to the Charter District Bond Guarantee Program.

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

Fiscal Year Ended	School District Bonds		Charter District Bonds		Totals	
<u>8/31</u>	No. of <u>Issues</u>	Principal <u>Amount</u>	No. of <u>Issues</u>	Principal <u>Amount</u>	No. of <u>Issues</u>	Principal <u>Amount</u>
2014 ⁽²⁾	2,869	\$58,061,805,783	10	\$302,545,000	2,879	\$58,364,3
2015	3,089	63,197,514,047	28	757,935,500	3,117	63,955,44
2016	3,244	67,324,303,445	35	961,025,000	3,279	68,303,32
2017 ⁽³⁾	3,253	72,884,480,023	40	1,381,610,000	3,293	74,266,09

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2011 Constitutional Amendment

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

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

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

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

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

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

Other Events and Disclosures

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

In addition, the GLO has established processes and controls over its administration of real estate transactions and is subject to provisions of the Texas Natural Resources Code and its own internal procedures in administering real estate transactions

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

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

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

PSF Continuing Disclosure Undertaking

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

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

Annual Reports

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

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

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

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

Material Event Notices

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

Availability of Information

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

Limitations and Amendments

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

The continuing disclosure agreement of the TEA is made only with respect to the PSF and the Guarantee Program. The issuer of guaranteed bonds or an obligated person with respect to guaranteed bonds may make a continuing disclosure undertaking in accordance with Rule 15c2-12 with respect to its obligations arising under Rule 15c2-12 pertaining to

financial and operating data concerning such entity and notices of material events relating to such guaranteed bonds. A description of such undertaking, if any, is included elsewhere in the Official Statement.

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

Compliance with Prior Undertakings

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

SEC Exemptive Relief

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

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

No registration statement relating to the Bonds has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2). The Bonds have not been approved or disapproved by the Securities and Exchange Commission, nor has the Securities and Exchange Commission passed upon the accuracy or adequacy of the Official Statement. 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 jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

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

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 while 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 certain specified events, to the Municipal Securities Rulemaking Board (the "MSRB"). Information will be available free of charge via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org.

See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" for a description of the TEA's continuing disclosure undertaking to provide certain updated financial information and operating data annually with respect to the Permanent School Fund and the State, as the case may be, and to provide timely notice of certain specified events related to the guarantee to the MSRB.

Annual Reports

The District will provide certain updated financial information and operating data to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement in "APPENDIX A - FINANCIAL INFORMATION REGARDING THE DISTRICT" (Tables 1-20) and in Appendix D. The District will update and provide this information in the numbered tables within six months after the end of each fiscal year ending in or after 2018 and, if then available, audited financial statements of the District. If audited financial statements are not available when the information is provided, the District will provide audited financial statements when and if they become available. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the District shall file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix D or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation. The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule").

The District's current fiscal year is August 31. Accordingly, updated information included in the above referenced tables must be provided by the last day of February in each year, and audited financial statements must be provided by August 31 of each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Notice of Certain Events

The District shall notify the MSRB, in a timely manner not in excess of ten business days after the occurrence of the event, of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to 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 trustee, if material. The District shall notify the MSRB in an electronic format prescribed by the MSRB, in a timely manner, of any failure by the District to provide financial information or operating data in accordance with the Rule.

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

Limitations and Amendments

The District has agreed to update information and to provide notices of certain specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of 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 amount (or any greater amount required by any other provision of the Order that authorizes such an amendment) 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 operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

Compliance with Prior Undertakings

During the last five years, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12.

LITIGATION

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

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.

FINANCIAL ADVISOR

In its role as Financial Advisor, RBC Capital Markets, LLC has relied on the District for certain information concerning the District and 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 fee of the Financial Advisor for services with respect to the Bonds is contingent upon the issuance and sale of the Bonds. In the normal course of business, the Financial Advisor may also from time to time receive a fee to conduct a competitive bidding process regarding the investment of certain proceeds of the Bonds, upon the request of the District.

UNDERWRITING

The Underwriters have agreed, subject to certain customary conditions, to purchase the Bonds at a price equal to the initial offering prices to the public, as shown on the inside cover page, less an Underwriters' discount of \$137,189.79. The Underwriters' obligations are subject to certain conditions precedent, and they will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective 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.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Products Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

Wells Fargo Bank, National Association, acting through its Municipal Products Group ("WFBNA"), the senior underwriter of the Bonds, has entered into an agreement (the "WFA Distribution Agreement") with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name "Wells Fargo Advisors") ("WFA"), for the distribution of certain municipal

securities offerings, including the Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Bonds with WFA. WFBNA has also entered into an agreement (the "WFSLLC Distribution Agreement") with its affiliate Wells Fargo Securities, LLC ("WFSLLC"), for the distribution of municipal securities offerings, including the Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

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.

CONCLUDING STATEMENT

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

MISCELLANEOUS

In the Bond Order, the Board authorized the Authorized Officer to approve, for and on behalf of the District, (i) the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and (ii) the Underwriters' use of this Official Statement in connection with the public offering and the sale of the Bonds, all of which the Authorized Officer approved in the Pricing Certificate.

/s/ Grant Anderson
Authorized Officer

APPENDIX A
FINANCIAL INFORMATION
REGARDING THE DISTRICT

FINANCIAL INFORMATION REGARDING THE DISTRICT

Table 1
2017/18 ASSESSED VALUATION

2017/18 Total Assessed Valuation.....	\$ 4,368,987,175
2017/18 Taxable Assessed Valuation.....	\$ 3,929,181,701 ^(a)
Exemption	Total
Residential Homestead.....	\$ 234,481,148
10% Residential Cap.....	72,473,725
Over 65/Disabled Persons.....	26,321,138
Disabled/Deceased Veterans	21,221,158
Productivity Loss.....	85,299,617
Other.....	8,688
Total (10.07% of Total Assessed Valuation).....	<u>\$ 439,805,474</u>

Source: Denton Central Appraisal District and State Comptroller's Office. Certified values are subject to change throughout the year as contested values are resolved and the Denton Central Appraisal District updates records.

^(a) Includes value of property which is "frozen" at lower levels for homesteads of taxpayers 65 years or older, their surviving spouses and disabled taxpayers.

Table 2
GENERAL OBLIGATION DEBT OUTSTANDING^{(a)(b)}

Unlimited Tax Bonds	
Unlimited Tax Bonds Outstanding (as of July 15, 2018).....	\$ 280,939,189
Plus: The Bonds.....	23,885,000
TOTAL UNLIMITED TAX DEBT OUTSTANDING.....	\$ 304,824,189
Less: Interest & Sinking Fund Balance (as of August 31, 2017).....	4,472,752
NET UNLIMITED TAX DEBT OUTSTANDING.....	<u>\$ 300,351,437</u>
Limited Tax Obligations^(c)	
Limited Tax Obligations Outstanding (As of July 15, 2018).....	\$ 4,020,000
TOTAL LIMITED TAX DEBT OUTSTANDING.....	<u>\$ 4,020,000</u>

^(a) See discussion under "TAX RATE LIMITATIONS" in the Official Statement.

^(b) Excludes interest accreted on outstanding capital appreciation bonds.

^(c) Payable from District's Maintenance & Operations tax rate.

Est. 2018 District Population ^(a)	36,014	Per Capita Total Assessed Valuation	\$ 121,314
2017/18 Enrollment	7,594	Per Capita Taxable Assessed Valuation	\$ 109,102
Area (square miles)	38.79	Per Capita Net Debt	\$ 8,451

^(a) Source: Texas Municipal Advisory Council.

Table 3
ESTIMATED OVERLAPPING GENERAL OBLIGATION DEBT STATEMENT

<u>Taxing Body</u>	<u>Gross Dollar Amount^(a)</u>	<u>As of</u>	<u>Percent Overlap</u>	<u>Dollar Overlap^(a)</u>
Denton County	\$ 642,170,000	07/15/2018	4.52%	\$ 29,026,084
Frisco, City of	710,790,000	07/15/2018	1.79%	12,723,141
Lakewood Village, Town of	1,024,000	07/15/2018	100.00%	1,024,000
Little Elm, Town of	92,245,000	07/15/2018	54.64%	50,402,668
Oak Point WC&ID #1	4,610,000	07/15/2018	100.00%	4,610,000
Oak Point, City of	100,000	07/15/2018	59.29%	59,290
The Colony, City of	116,705,000	07/15/2018	11.52%	13,444,416
Total Net Overlapping Debt				\$ 111,289,599
Little Elm ISD	\$ 308,844,189 ^{(b)(c)}	07/15/2018	100.00%	308,844,189
Total Direct and Overlapping Debt				\$ 420,133,788

Ratio Direct and Overlapping Debt to Total Assessed Valuation.....	9.62%
Ratio Direct and Overlapping Debt to Taxable Assessed Valuation.....	10.69%
Per Capita Direct and Overlapping Debt.....	\$11,666

Source: Texas Municipal Reports.

^(a) Excludes interest accreted on outstanding capital appreciation bonds.

^(b) Includes limited tax obligations payable from the Maintenance & Operations tax rate of the District.

^(c) Includes the Bonds.

Table 4
2017/18 TOTAL TAX RATES OF OVERLAPPING POLITICAL ENTITIES

Denton County.....	\$0.23781
Frisco, City of.....	0.41414
Lakewood Village, Town of.....	0.30000
Little Elm, Town of.....	0.65767
Oak Point WC&ID #1.....	0.50000
Oak Point, City of.....	0.54000
The Colony, City of.....	0.66500

Source: Denton Central Appraisal District.

Table 5
PROPERTY TAX RATES AND COLLECTIONS

<u>Tax Year</u>	<u>Taxable Assessed</u>		<u>Percent Collections^(a)</u>		<u>Fiscal Year Ended</u>
	<u>Valuation</u>	<u>Tax Rate</u>	<u>Current</u>	<u>Total</u>	
2012	\$ 1,850,952,191	\$1.54000	99.38%	100.00%	08-31-13
2013	2,056,086,540	1.54000	100.25%	102.87%	08-31-14
2014	2,403,909,503	1.54000	100.63%	102.86%	08-31-15
2015	2,755,077,258	1.54000	99.43%	100.48%	08-31-16
2016	3,291,934,791	1.54000	<u>101.16%</u>	<u>102.03%</u>	08-31-17
	Five Year Average.....		<u>100.17%</u>	<u>101.65%</u>	
2017	\$ 3,929,181,701	\$1.54000	99.71% ^(b)	99.54% ^(b)	08-31-18

Source: District's Audited Financial Statements and District's Records.

^(a) Excludes penalties and interest.

^(b) Unaudited as of June 30, 2018.

Table 6
TAX RATE DISTRIBUTION^(a)

	<u>2017/18</u>	<u>2016/17</u>	<u>2015/16</u>	<u>2014/15</u>	<u>2013/14</u>
Local Maintenance ^(b)	\$1.17000	\$1.17000	\$1.17000	\$1.04000	\$1.04000
Interest & Sinking	0.37000	0.37000	0.37000	0.50000	0.50000
	<u>\$1.54000</u>	<u>\$1.54000</u>	<u>\$1.54000</u>	<u>\$1.54000</u>	<u>\$1.54000</u>

Source: District's Audited Financial Statements and District's Records.

^(a) See discussion under "TAX RATE LIMITATIONS" in the Official Statement.

^(b) The District held a Tax Ratification Election on September 5, 2015.

Table 7
VALUATION AND FUNDED DEBT HISTORY

<u>Fiscal Year</u>	<u>Taxable Assessed Valuation</u>	<u>Percent Increase/ (Decrease) In T.A.V. Over Prior Year</u>	<u>Principal Of Funded Debt Outstanding At Year End</u>	<u>Ratio Of Debt To Taxable Assessed Valuation</u>
2013/14	\$ 2,056,086,540	11.08%	\$ 143,104,114	6.96%
2014/15	2,403,909,503	16.92%	139,339,796	5.80%
2015/16	2,755,077,258	14.61%	154,222,748	5.60%
2016/17	3,291,934,791	19.49%	149,799,189	4.55%
2017/18	3,929,181,701	19.36%	300,413,031 ^(a)	7.65% ^(a)

^(a) Includes the Bonds. Does not include debt payable from Maintenance and Operations tax rate.

Table 8
HISTORICAL TOP TEN TAXPAYERS

PRINCIPAL TAXPAYERS AND THEIR 2017/18 TAXABLE ASSESSED VALUATIONS

<u>Name of Taxpayer</u>	<u>Type of Property</u>	<u>Taxable Assessed Valuation</u>	<u>Percent Of T.A.V.</u>
LETC Dunhill LLC	Real Estate	\$ 29,384,233	0.75%
Retractable Technologies Inc.	Manufacturing	17,608,283	0.45%
CoServ Electric Coop	Utility	16,685,550	0.42%
Pulte Homes of Texas LP	Real Estate	15,528,354	0.40%
Rosebriar Little Elm LP	Real Estate	14,812,363	0.38%
Kroger Texas LP	Grocery	13,594,942	0.35%
Taylor Morrison of Texas Inc.	Real Estate	13,363,370	0.34%
Palladium USA	Real Estate	12,790,404	0.33%
DR Horton TX Ltd.	Real Estate	11,457,301	0.29%
Yes Companies LLC	Real Estate	9,742,827	0.25%
Total.....		\$ 154,967,627	3.94%

PRINCIPAL TAXPAYERS AND THEIR 2016/17 TAXABLE ASSESSED VALUATIONS

<u>Name of Taxpayer</u>	<u>Type of Property</u>	<u>Taxable Assessed Valuation</u>	<u>Percent Of T.A.V.</u>
LETC Dunhill LLC	Real Estate	\$ 20,100,000	0.61%
Pulte Homes of Texas LP	Real Estate	18,950,409	0.58%
Retractable Technologies Inc.	Manufacturing	17,729,648	0.54%
CoServ Electric Coop	Utility	13,942,810	0.42%
Kroger Texas LP	Grocery	12,478,240	0.38%
DR Horton TX Ltd.	Real Estate	10,383,198	0.32%
Lennar Homes of Texas	Real Estate	9,918,492	0.30%
Yes Companies LLC	Real Estate	9,279,815	0.28%
Rosebriar Little Elm LP	Real Estate	9,084,578	0.28%
Tribute Partners LP	Real Estate/Golf Course	8,037,629	0.24%
Total.....		\$ 129,904,819	3.95%

PRINCIPAL TAXPAYERS AND THEIR 2015/16 TAXABLE ASSESSED VALUATIONS

<u>Name of Taxpayer</u>	<u>Type of Property</u>	<u>Taxable Assessed Valuation</u>	<u>Percent Of T.A.V.</u>
LETC Dunhill LLC	Real Estate	\$ 24,850,000	0.90%
Pulte Homes of Texas LP	Real Estate	22,972,253	0.83%
DR Horton TX Ltd.	Real Estate	15,924,320	0.58%
Kroger Texas LP	Grocery	13,364,600	0.49%
Lennar Homes of Texas	Real Estate	12,829,177	0.47%
Retractable Technologies Inc.	Manufacturing	11,784,866	0.43%
CoServ Electric Coop	Utility	10,210,540	0.37%
Rosebriar Little Elm LP	Real Estate	8,859,542	0.32%
Lakshmi Investment Properties LLC	Real Estate	8,792,500	0.32%
Yes Companies LLC	Real Estate	8,325,833	0.30%
Total.....		\$ 137,913,631	5.01%

Source: Denton Central Appraisal District and State Comptroller's Office.

Table 9
CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY

Property Use Category	Total Tax Roll For Fiscal Years				
	2017/18	2016/17	2015/16	2014/15	2013/14
Real Property					
Single-Family Residential	\$ 3,655,094,294	\$ 3,077,808,860	\$ 2,521,445,435	\$ 2,147,273,992	\$ 1,779,722,028
Multi-Family Residential	44,906,442	27,382,195	23,663,919	22,191,195	20,036,717
Vacant Lots/Tracts	138,195,433	115,593,391	134,453,922	94,467,083	93,333,370
Acreage (Land Only)	87,026,947	143,258,679	141,463,041	157,866,661	161,021,510
Farm and Ranch Improvements	60,273,577	1,385,302	1,226,073	1,283,152	1,237,480
Commercial and Industrial	206,127,134	172,929,447	166,038,923	147,716,306	133,544,842
Inventory	77,693,371	64,009,687	38,183,803	22,622,475	34,920,662
Tangible Personal Property					
Business	61,725,634	54,647,858	43,425,198	49,084,010	50,534,516
Other	9,100,238	9,421,442	8,024,819	10,341,679	10,951,644
Real & Tangible Personal Property					
Utilities	28,844,105	29,374,524	28,320,071	21,089,510	23,166,257
Total Real & Tang. Per. Prop.	\$ 4,368,987,175	\$ 3,695,811,385	\$ 3,106,245,204	\$ 2,673,936,063	\$ 2,308,469,026
Less Exemptions:					
Residential Homestead	\$ 234,481,148	\$ 216,099,200	\$ 198,591,121	\$ 112,429,939	\$ 104,491,739
10% Residential Cap	72,473,725	64,833,160	37,713,919	29,392,451	6,103,169
Over 65/Disabled Persons	26,321,138	24,031,066	20,876,177	18,340,383	15,791,526
Disabled/Deceased Veterans	21,221,158	15,458,007	10,752,090	8,115,778	6,113,338
Productivity Loss	85,299,617	83,437,156	83,195,774	98,498,009	116,355,377
Community Hsg Development	-	-	-	3,250,000	2,892,317
Other	8,688	18,005	38,865	-	635,020
Total Exemptions	\$ 439,805,474	\$ 403,876,594	\$ 351,167,946	\$ 270,026,560	\$ 252,382,486
Taxable Assessed Valuation^(a)	\$ 3,929,181,701	\$ 3,291,934,791	\$ 2,755,077,258	\$ 2,403,909,503	\$ 2,056,086,540

Source: Denton Central Appraisal District and State Comptroller's Office. Certified values are subject to change throughout the year as contested values are resolved and the Denton Central Appraisal District updates records.

^(a) Includes value of property which is "frozen" at lower levels for homesteads of taxpayers 65 years or older, their surviving spouses and disabled taxpayers.

Table 10
PERCENTAGE TOTAL ASSESSED VALUATION BY CATEGORY

Property Use Category	Percent Of Total Tax Roll For Fiscal Years				
	2017/18	2016/17	2015/16	2014/15	2013/14
Real Property					
Single-Family Residential	83.66%	83.28%	81.17%	80.30%	77.10%
Multi-Family Residential	1.03%	0.74%	0.76%	0.83%	0.87%
Vacant Lots/Tracts	3.16%	3.13%	4.33%	3.53%	4.04%
Acreage (Land Only)	1.99%	3.88%	4.55%	5.90%	6.98%
Farm and Ranch Improvements	1.38%	0.04%	0.04%	0.05%	0.05%
Commercial and Industrial	4.72%	4.68%	5.35%	5.52%	5.78%
Special Inventory	1.78%	1.73%	1.23%	0.85%	1.51%
Tangible Personal Property					
Business	1.41%	1.48%	1.40%	1.84%	2.19%
Other	0.21%	0.25%	0.26%	0.39%	0.47%
Real & Tangible Personal Prop.					
Utilities	0.66%	0.79%	0.91%	0.79%	1.00%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

Table 11
OUTSTANDING UNLIMITED TAX DEBT SERVICE

FY Ending 8/31	Outstanding Debt Service		Plus: The Bonds		Total Debt Service Requirements	Percent Of Principal Retired - Total Debt Service
	Principal	Interest	Principal	Interest		
2018	\$ 3,971,157.80	\$ 9,581,141.05	\$ -	\$ -	\$ 13,552,298.85	1.30%
2019	4,423,818.35	14,253,762.90	1,440,000.00	988,695.97	21,106,277.22	3.23%
2020	5,695,215.35	14,243,108.56	780,000.00	933,850.00	21,652,173.91	5.35%
2021	3,822,589.20	14,192,396.47	410,000.00	902,650.00	19,327,635.67	6.74%
2022	3,766,267.20	14,244,464.05	425,000.00	886,250.00	19,321,981.25	8.11%
2023	2,899,266.80	15,113,964.45	440,000.00	869,250.00	19,322,481.25	9.21%
2024	3,643,137.60	14,708,918.65	465,000.00	847,250.00	19,664,306.25	10.56%
2025	4,171,678.40	14,183,977.85	490,000.00	824,000.00	19,669,656.25	12.09%
2026	4,209,305.80	14,144,300.45	510,000.00	799,500.00	19,663,106.25	13.63%
2027	4,225,248.80	14,128,557.45	540,000.00	774,000.00	19,667,806.25	15.20%
2028	4,465,089.70	13,887,466.55	565,000.00	747,000.00	19,664,556.25	16.85%
2029	6,561,249.20	11,792,707.05	595,000.00	718,750.00	19,667,706.25	19.20%
2030	7,270,164.30	11,085,504.45	625,000.00	689,000.00	19,669,668.75	21.79%
2031	8,295,000.00	10,060,281.25	645,000.00	664,000.00	19,664,281.25	24.72%
2032	8,610,000.00	9,742,800.00	675,000.00	638,200.00	19,666,000.00	27.76%
2033	8,970,000.00	9,383,975.00	700,000.00	611,200.00	19,665,175.00	30.94%
2034	9,340,000.00	9,012,862.50	730,000.00	583,200.00	19,666,062.50	34.24%
2035	9,750,000.00	8,601,637.50	755,000.00	554,000.00	19,660,637.50	37.69%
2036	10,195,000.00	8,158,025.00	790,000.00	523,800.00	19,666,825.00	41.29%
2037	10,665,000.00	7,691,575.00	820,000.00	492,200.00	19,668,775.00	45.06%
2038	11,195,000.00	7,210,925.00	850,000.00	459,400.00	19,715,325.00	49.01%
2039	11,730,000.00	6,710,350.00	885,000.00	425,400.00	19,750,750.00	53.15%
2040	12,230,000.00	6,215,350.00	920,000.00	390,000.00	19,755,350.00	57.46%
2041	12,755,000.00	5,686,375.00	960,000.00	353,200.00	19,754,575.00	61.96%
2042	13,390,000.00	5,053,325.00	995,000.00	314,800.00	19,753,125.00	66.68%
2043	13,945,000.00	4,388,700.00	1,035,000.00	275,000.00	19,643,700.00	71.60%
2044	14,645,000.00	3,691,450.00	1,080,000.00	233,600.00	19,650,050.00	76.75%
2045	15,375,000.00	2,959,200.00	1,120,000.00	190,400.00	19,644,600.00	82.17%
2046	16,145,000.00	2,190,450.00	1,165,000.00	145,600.00	19,646,050.00	87.84%
2047	16,950,000.00	1,383,200.00	1,215,000.00	99,000.00	19,647,200.00	93.80%
2048	17,630,000.00	705,200.00	1,260,000.00	50,400.00	19,645,600.00	100.00%
TOTAL	\$280,939,188.50	\$284,405,951.18	\$ 23,885,000.00	\$ 16,983,595.97	\$606,213,735.65	

Table 12
TAX ADEQUACY - UNLIMITED TAX DEBT SERVICE REQUIREMENTS^(a)

Projected Principal and Interest Requirements, Year 2017/18.....	\$ 13,552,298.85
\$0.3450 Tax Rate @ 100.0% Collection Produces.....	\$ 13,555,676.87
Projected Maximum Principal and Interest Requirements, Year 2019/20.....	\$ 21,652,173.91
\$0.5511 Tax Rate @ 100.0% Collection Produces.....	\$ 21,653,720.35

^(a) Based on 2017/18 Taxable Assessed Valuation of \$3,929,181,701.

Table 13
OUTSTANDING LIMITED TAX DEBT SERVICE

FY			Total	Percent
Ending			Debt Service	Of Principal
8/31	Principal	Interest	Requirements	Retired - Total
2018	\$ 200,000.00	\$ 143,637.50	\$ 343,637.50	4.98%
2019	200,000.00	139,637.50	339,637.50	9.95%
2020	205,000.00	134,637.50	339,637.50	15.05%
2021	210,000.00	129,512.50	339,512.50	20.27%
2022	220,000.00	123,212.50	343,212.50	25.75%
2023	225,000.00	116,612.50	341,612.50	31.34%
2024	230,000.00	109,862.50	339,862.50	37.06%
2025	240,000.00	101,812.50	341,812.50	43.03%
2026	250,000.00	93,412.50	343,412.50	49.25%
2027	260,000.00	84,037.50	344,037.50	55.72%
2028	265,000.00	74,287.50	339,287.50	62.31%
2029	280,000.00	63,687.50	343,687.50	69.28%
2030	290,000.00	52,487.50	342,487.50	76.49%
2031	300,000.00	40,162.50	340,162.50	83.96%
2032	315,000.00	27,412.50	342,412.50	91.79%
2033	330,000.00	14,025.00	344,025.00	100.00%
TOTAL	\$ 4,020,000.00	\$ 1,448,437.50	\$ 5,468,437.50	

Table 14
TAX ADEQUACY - LIMITED TAX DEBT SERVICE REQUIREMENTS^(a)

Projected Principal and Interest Requirements, Year 2017/18.....	\$	343,637.50
\$0.0088 Tax Rate @ 100.0% Collection Produces.....	\$	345,767.99
Projected Maximum Principal and Interest Requirements, Year 2026/27.....	\$	344,037.50
\$0.0088 Tax Rate @ 100.0% Collection Produces.....	\$	345,767.99

^(a) Based on 2017/18 Taxable Assessed Valuation of \$3,929,181,701.

Table 15
INTEREST & SINKING FUND BUDGET INFORMATION

Tax Supported Debt Service Requirements, Fiscal Year Ending 8-31-18.....		\$	13,572,299	(a)(b)
Interest and Sinking Fund Balance at 8-31-17.....	\$	4,472,752		
Local Sources (i.e. taxes, interest earnings, etc.).....		<u>13,740,450</u>	\$	<u>18,213,202</u>
Projected Interest and Sinking Fund Balance at 8-31-18.....			\$	<u>4,640,903</u>

(a) Includes paying agent fees and other debt administration costs.

(b) Includes the Bonds.

Table 16
AUTHORIZED BUT UNISSUED BONDS

Upon issuance of the Bonds, the District will have \$60,000,000 of authorized but unissued bonds remaining for new school buildings in the District and \$4,500,000 of authorized but unissued bonds remaining for the potential refunding of existing maintenance tax debt of the District.

Table 17
CAPITAL LEASES

The District is obligated under certain leases accounted for as capital leases. The following is a schedule of future minimum lease payments under capital leases.

Year Ended				Total
<u>August 31,</u>	<u>Principal</u>	<u>Interest</u>		<u>Requirements</u>
2018	\$ 975,740.00	\$ 84,580.00	\$	1,060,320.00
2019	996,796.00	63,524.00		1,060,320.00
2020	846,757.00	42,011.00		888,768.00
2021	384,538.00	23,636.00		408,174.00
2022	392,261.00	15,913.00		408,174.00
2023	400,138.00	8,036.00		408,174.00
	<u>\$ 3,996,230.00</u>	<u>\$ 237,700.00</u>	<u>\$</u>	<u>4,233,930.00</u>

Table 18
COMBINED GENERAL FUND BALANCE SHEET

	Fiscal Years Ending August 31,				
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Assets:					
Cash and Temporary Investments	\$ 30,400,825	\$ 29,724,594	\$ 27,483,624	\$ 26,960,830	\$ 25,564,469
Receivables:					
Property Taxes - Delinquent	834,043	432,381	413,165	564,288	401,264
Allowance for Uncollectible Taxes	(54,213)	(28,105)	(26,856)	(36,679)	(26,082)
Due from Other Governments	3,876,110	1,525,957	768,902	671,834	643,057
Other Receivables	59,932	36,019	14,220	101,658	7,577
Deferred Expenditures	115,826	97,637	11,926	30,494	67,179
Total Assets	\$ 35,232,523	\$ 31,788,483	\$ 28,664,981	\$ 28,292,425	\$ 26,657,464
Liabilities and Fund Equity:					
Liabilities:					
Accounts Payable	\$ 1,333,886	\$ 1,374,995	\$ 2,005,385	\$ 2,581,997	\$ 1,947,356
Interest Payable - Current	-	300,000	-	14,074	-
Accrued Wages Payable	2,923,770	2,516,207	1,703,070	1,332,610	1,273,977
Accrued Expenditures	197,455	48,257	29,220	25,249	24,152
Deferred Revenues	2,211,442	101,074	1,293,637	2,157,146	4,737,532
Total Liabilities	\$ 6,666,553	\$ 4,340,533	\$ 5,031,312	\$ 6,111,076	\$ 7,983,017
Deferred Inflows of Resources	\$ 779,830	\$ 404,276	\$ 386,309	\$ 527,609	\$ 375,182
Fund Balances:					
Nonspendable Fund Balance:					
Prepaid Items	\$ 115,826	\$ 97,637	\$ 11,926	\$ 30,494	\$ 67,179
Assigned Fund Balance:					
Const Projects, Payroll & General Exp	8,000,000	8,000,000	8,000,000	8,000,000	8,000,000
Unassigned Fund Balance	19,670,314	18,946,037	15,235,434	13,623,246	10,232,086
Total Fund Equity	\$ 27,786,140	\$ 27,043,674	\$ 23,247,360	\$ 21,653,740	\$ 18,299,265
Total Liabilities, Deferred Inflows of Resources & Fund Equity	\$ 35,232,523	\$ 31,788,483	\$ 28,664,981	\$ 28,292,425	\$ 26,657,464

Source: District's Audited Financial Statements and District Records.

Table 19
COMPARATIVE STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES

	Fiscal Years Ending August 31,				
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Beginning Fund Balance	\$ 27,043,674	\$ 23,247,360	\$ 21,653,740	\$ 18,299,265	\$ 19,899,283
<u>Revenues:</u>					
Local and Intermediate Sources	\$ 39,289,017	\$ 33,496,381	\$ 26,915,837	\$ 24,788,377	\$ 19,924,083
State Program	26,567,437	28,285,998	27,165,719	25,237,111	22,283,269
Federal Program	1,698,456	1,853,299	802,881	722,954	1,522,060
Total Revenues	\$ 67,554,910	\$ 63,635,678	\$ 54,884,437	\$ 50,748,442	\$ 43,729,412
<u>Expenditures:</u>					
Instruction	\$ 36,002,844	\$ 36,420,955	\$ 30,622,362	\$ 28,717,044	\$ 26,335,541
Instructional Resources & Media Services	672,880	745,102	612,099	669,960	612,283
Curriculum & Instructional Staff Dev	1,254,606	798,162	548,298	487,932	619,367
Instructional Leadership	1,026,127	1,165,730	685,274	590,422	632,996
School Leadership	4,317,840	4,049,390	3,467,022	3,287,775	3,089,655
Guidance, Counseling & Eval Services	1,710,672	1,596,227	1,541,958	1,489,359	1,259,543
Social Work Services	30,193	20,165	12,296	12,259	12,250
Health Services	539,874	514,233	470,612	436,357	402,506
Student (Pupil) Transportation	1,501,635	1,521,523	1,384,373	1,151,773	5,187,706
Food Services	125,673	113,933	77,442	64,201	57,021
Extracurricular Activities	1,884,881	1,858,501	1,493,297	1,615,344	1,340,432
General Administration	2,839,094	2,759,905	2,158,643	2,074,761	2,103,007
Plant Maintenance & Operations	6,024,615	5,941,068	5,276,928	4,866,073	4,354,757
Security & Monitoring Services	919,422	430,315	382,305	253,531	629,560
Data Processing Services	1,229,722	1,063,434	739,070	1,144,447	817,434
Community Services	49,522	38,856	37,765	37,515	35,887
Debt Service	1,204,876	1,324,181	836,524	588,193	108,707
Facilities Acquisition & Construction	928,937	2,004,209	2,691,376	4,786,867	1,210,147
Intergovernmental Charges	334,381	289,983	262,668	248,088	242,915
Total Expenditures	\$ 62,597,794	\$ 62,655,872	\$ 53,300,312	\$ 52,521,901	\$ 49,051,714
Other Resources and (Uses):					
Other Resources	\$ 350	\$ 3,816,130	\$ 9,495	\$ 4,786,485	\$ 3,732,284
Other Uses	(4,215,000)	(999,622)	-	-	(10,000)
Total Other Resources/(Uses)	\$ (4,214,650)	\$ 2,816,508	\$ 9,495	\$ 4,786,485	\$ 3,722,284
Excess/(Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	\$ 742,466	\$ 3,796,314	\$ 1,593,620	\$ 3,013,026	\$ (1,600,018)
Prior Period Adjustment^(a)	\$ -	\$ -	\$ -	\$ 341,449	\$ -
Ending Fund Balance^(b)	\$ 27,786,140	\$ 27,043,674	\$ 23,247,360	\$ 21,653,740	\$ 18,299,265

Source: District's Audited Financial Statements and District Records.

^(a) See Note 3 of the District's Audited Financial Statements for the year ended August 31, 2014.

^(b) Includes Reserved, Designated and Undesignated Fund Balance.

Table 20
CHANGE IN NET POSITION^(a)

	Fiscal Years Ending August 31,				
	2017	2016	2015	2014	2013
Revenues:					
Program Revenues					
Charges for Services	\$ 4,684,602	\$ 2,369,109	\$ 2,219,059	\$ 1,987,428	\$ 2,000,576
Operating Grants and Contributions	8,216,172	9,428,469	8,325,892	7,566,092	7,749,349
Total Program Revenues	\$ 12,900,774	\$ 11,797,578	\$ 10,544,951	\$ 9,553,520	\$ 9,749,925
General Revenues					
Maintenance & Operations Taxes	\$ 37,932,185	\$ 31,654,164	\$ 25,054,044	\$ 21,877,593	\$ 19,353,829
Debt Service Taxes	12,054,026	10,035,719	12,019,598	10,515,600	9,284,676
State Aid - Formula Grants	23,446,772	25,262,226	24,444,501	22,622,080	19,982,476
Investment Earnings	653,548	198,520	93,690	98,241	123,593
Miscellaneous Local & Intermediate Revenue	438,764	1,334,744	1,368,123	178,036	224,421
Special Items	686,130	2,252,855	907,454	3,324,870	1,522,060
Transfers In (Out)	-	-	-	-	-
Total General Revenues	\$ 75,211,425	\$ 70,738,228	\$ 63,887,410	\$ 58,616,420	\$ 50,491,055
Total Revenues.....	\$ 88,112,199	\$ 82,535,806	\$ 74,432,361	\$ 68,169,940	\$ 60,240,980
Expenses					
Instruction	\$ 41,423,078	\$ 42,098,591	\$ 35,042,029	\$ 32,714,817	\$ 29,748,392
Instructional Resources & Media Services	852,899	927,619	769,108	809,023	751,346
Curriculum & Staff Development	1,398,843	996,325	686,205	617,232	721,885
Instructional Leadership	1,241,337	1,340,998	852,361	674,621	744,833
School Leadership	4,556,759	4,319,808	3,554,521	3,394,809	3,198,537
Guidance, Counseling & Evaluation Services	1,998,017	1,900,469	1,716,783	1,690,045	1,638,156
Social Work Services	30,568	21,440	13,509	13,496	13,705
Health Services	576,922	551,486	486,303	452,943	419,092
Student (Pupil) Transportation	1,908,247	1,930,398	1,794,154	1,498,484	1,499,965
Food Services	4,266,347	4,002,992	3,342,361	3,084,262	2,985,073
Cocurricular/Extracurricular Activities	3,170,817	2,890,925	2,513,579	2,472,586	2,164,103
General Administration	2,964,157	2,914,831	2,176,094	2,097,686	2,094,458
Plant Maintenance & Operations	6,533,316	6,152,406	5,481,657	5,052,860	4,576,693
Security & Monitoring Services	877,774	466,857	362,091	283,778	345,225
Data Processing Services	1,289,225	1,104,847	755,113	1,084,782	822,653
Community Services	144,714	119,087	98,686	99,755	96,421
Debt Service	8,814,444	6,532,577	7,812,344	7,960,833	8,315,035
Facilities Acquisition & Construction	-	-	-	-	-
Payments to Juvenile Justice Alternative Ed. Prg.	38,982	27,768	20,826	17,444	17,889
Other Intergovernmental Charges	295,399	262,215	241,842	230,644	225,026
Child Care Fund	582,286	643,931	592,011	586,630	607,313
Total Expenses.....	\$ 82,964,131	\$ 79,205,570	\$ 68,311,577	\$ 64,836,730	\$ 60,985,800
Beginning Net Position	\$ (1,582,287)	\$ (4,912,523)	\$ (3,374,248)	\$ (7,048,907)	\$ (4,160,204)
Prior Period Adjustment ^{(b)(c)}	(260,017)	-	(7,659,059)	341,449	(2,143,883)
Increase/(Decrease) In Net Position	5,148,068	3,330,236	6,120,784	3,333,210	(744,820)
Ending Net Position.....	\$ 3,305,764	\$ (1,582,287)	\$ (4,912,523)	\$ (3,374,248)	\$ (7,048,907)

^(a) Audited financial operations for all governmental activities in accordance with GASB Statement No. 34.

^(b) See Note 3 of the District's Audited Financial Statements for the year ended August 31, 2014.

^(c) See Note 19 of the District's Audited Financial Statements for the year ended August 31, 2015.

APPENDIX B

**GENERAL INFORMATION REGARDING
THE DISTRICT AND ITS ECONOMY**

GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY

Little Elm Independent School District (the "District") consists of approximately 38.79 square miles. The District is a recreational and residential area that includes a portion of Garza-Little Elm Reservoir. The District experienced rapid residential growth in previous years due to its proximity to the reservoir. The Town of Little Elm (the "Town") lies within the District. The 2010 census population for the Town was 25,898, an increase of 610% over the 2000 census population of 3,646. The current estimated District population is 36,014. The District had an enrollment of 7,594 as of January 12, 2018.

The District is governed by a seven member Board of Trustees (the "Board"). All of the Trustees are elected in single-member districts and serve three-year staggered terms with elections being held every year. Board policy and decisions are decided by a majority vote of the Board. The Superintendent of Schools is selected by the Board; other District officials are employed as a result of action by the Superintendent and the Board.

The District owns and operates nine instructional facilities which are fully accredited by the Texas Education Agency. Students attend classes in air-conditioned schools complete with cafeterias, library/media centers and gymnasiums. The number and types of instructional facilities are as follows:

Elementary Schools	5
Middle Schools	2
STEM Academy	1
High Schools	<u>1</u>
Total	<u>9</u>

DISTRICT ENROLLMENT INFORMATION

Scholastic Enrollment History

<u>Year</u>	<u>Enrollment</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change</u>
2007/08	5,409	234	4.52%
2008/09	5,855	446	8.25%
2009/10	6,112	257	4.39%
2010/11	6,245	133	2.18%
2011/12	6,344	99	1.59%
2012/13	6,416	72	1.13%
2013/14	6,637	221	3.44%
2014/15	6,891	254	3.83%
2015/16	7,175	284	4.12%
2016/17	7,395	220	3.07%
2017/18 ^(a)	7,594	199	2.69%

Source: District Records.

^(a) As of January 12, 2018.

Projected Student Enrollment

<u>Year</u>	<u>Enrollment</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change</u>
2018/19	7,764	170	2.24%
2019/20	7,953	189	2.43%
2020/21	8,251	298	3.75%
2021/22	8,606	355	4.30%
2022/23	8,866	260	3.02%

Source: District Projections.

Student Enrollment By Grades

<u>Year</u>	<u>EE/PK</u>	<u>K</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>	<u>Total</u>
2007/08	272	459	466	450	462	423	390	392	386	386	436	347	295	245	5,409
2008/09	357	502	485	475	481	457	466	383	431	402	416	380	328	292	5,855
2009/10	397	509	520	478	475	498	472	465	388	422	436	393	356	303	6,112
2010/11	394	543	528	511	473	475	494	451	440	397	458	403	370	308	6,245
2011/12	233	552	554	549	521	488	481	491	468	451	418	429	368	341	6,344
2012/13	217	553	556	538	537	522	476	474	482	467	482	398	393	321	6,416
2013/14	226	512	551	570	537	521	524	483	481	494	611	492	299	336	6,637
2014/15	237	538	548	584	590	548	533	523	498	497	618	521	371	285	6,891
2015/16	247	570	561	569	609	592	546	520	533	504	613	578	374	359	7,175
2016/17	255	551	601	566	587	621	618	539	516	547	602	559	405	428	7,395
2017/18 ^(a)	234	562	570	605	610	629	618	619	542	526	587	527	494	471	7,594

Source: District Records.

^(a) As of January 12, 2018.

Student Enrollment By School Type

<u>Year</u>	<u>Elementary Schools (Grades EE-5)</u>	<u>Junior High / Middle Schools (Grades 6-8)</u>	<u>STEM Academy (Grades K-8)^(a)</u>	<u>High School (Grades 9-12)</u>	<u>Total Enrollment</u>
2007/08	2,922	1,164	--	1,323	5,409
2008/09	3,223	1,216	--	1,416	5,855
2009/10	3,349	1,275	--	1,488	6,112
2010/11	3,418	1,288	--	1,539	6,245
2011/12	3,379	1,408	--	1,557	6,344
2012/13	3,399	1,423	--	1,594	6,416
2013/14	3,441	1,458	--	1,738	6,637
2014/15	3,237	1,186	673	1,795	6,891
2015/16	3,330	1,220	728	1,927	7,175
2016/17	3,378	1,260	762	1,995	7,395
2017/18 ^(b)	3,403	1,357	755	2,079	7,594

Source: District Records.

^(a) Prestwick STEM Academy opened Fall 2014.

^(b) As of January 12, 2018.

EMPLOYMENT OF THE DISTRICT

Teachers	483
Administrators	59
Teacher Aids & Secretaries	96
Auxiliary Employees	126
Other	<u>120</u>
Total Number of Employees	<u>884</u>

The District employs a staff of approximately 884 faculty and staff. Beginning with the 2017/18 school year, entry level teachers without advanced degrees earn \$50,000 annually. Teachers with longevity or advanced degrees can earn between \$54,000 and \$59,000 annually. All teachers receive life and health insurance benefits worth approximately \$351 monthly.

Source: District Records.

PRESENT SCHOOL FACILITIES

<u>Name of School</u>	<u>Current Enrollment^(a)</u>	<u>Total Capacity</u>	<u>(Under)/ Over Capacity</u>	<u>Grades Served</u>
Little Elm High School	<u>2,079</u>	<u>2,500</u>	<u>(421)</u>	9-12
Total High Schools	<u>2,079</u>	<u>2,500</u>	<u>(421)</u>	
Prestwick STEM	<u>755</u>	<u>832</u>	<u>(77)</u>	K-8
Total STEM Academy	<u>755</u>	<u>832</u>	<u>(77)</u>	
Lakeside Middle School	<u>853</u>	<u>920</u>	<u>(67)</u>	7-8
Colin Powell Sixth Grade Center	<u>504</u>	<u>500</u>	<u>4</u>	6
Total Middle Schools	<u>1,357</u>	<u>1,420</u>	<u>(63)</u>	
Brent Elementary School	<u>689</u>	<u>934</u>	<u>(245)</u>	EE/PK, K-5
Cesar Chavez Elementary School	<u>733</u>	<u>934</u>	<u>(201)</u>	EE/PK, K-5
Hackberry Elementary School	<u>637</u>	<u>912</u>	<u>(275)</u>	EE/PK, K-5
Lakeview Elementary School	<u>601</u>	<u>912</u>	<u>(311)</u>	EE/PK, K-5
Oak Point Elementary School	<u>743</u>	<u>912</u>	<u>(169)</u>	EE/PK, K-5
Total Elementary Schools	<u>3,403</u>	<u>4,604</u>	<u>(1,201)</u>	
GRAND TOTAL	<u>7,594</u>	<u>9,356</u>	<u>(1,762)</u>	

^(a) As of January 12, 2018.

Source: District Records.

GENERAL ECONOMIC INFORMATION REGARDING DENTON COUNTY

Denton County (the "County") encompasses an area of 911 square miles in north central Texas. It borders Dallas and Tarrant counties on the South and Cooke and Grayson counties on the north. The County is traversed by Interstate Highway 35, United States Highways 77, 377 and 380 and State Highways 114 and 121. The County is a center for higher education, which includes two major universities, the University of North Texas and Texas Woman's University. Several growing urban centers are located in the County, including the cities of Denton, Lewisville, Carrollton, Flower Mound, The Colony and Roanoke. The County's 2010 census population was 662,614, increasing 53.04% since 2000. The County's current estimated population is 814,560.

Education

The County is served by seventeen independent school districts, all of which have been accredited by the Accreditation Division of the Texas Education Agency, and three institutions of higher learning.

The University of North Texas ("UNT") was established in 1890 as Texas Normal College and Teacher Training Institute. Today, the University has an enrollment of approximately 37,979. While the majority of UNT's students attend classes on the 900-acre Denton campus, UNT also offers numerous courses at many off-campus sites throughout the Dallas/Fort Worth metroplex. UNT is divided into 12 colleges and schools and currently offers 101 bachelor's, 82 master's and 37 doctoral degree programs. The Denton campus includes Discovery Park, UNT's nearly 300-acre research park. UNT employs approximately 4,000 faculty and staff.

Texas Woman's University ("TWU") is the nation's largest university primarily for women. Established in 1901, as the Girls Industrial College, TWU has a dual mission: to provide a liberal education and to prepare young women "for the practical industries of the age" with a specialized education. TWU today offers a comprehensive catalog of academic studies, including baccalaureate, master's and doctoral degrees. Men have been permitted at the college since 1972. With the main campus in Denton and health science centers in Dallas and Houston, TWU currently serves approximately 15,000 students. TWU offers bachelor's degrees in 32 fields of study, master's degrees in 38 and doctorates in 16 separate areas.

The County's community college, North Central Texas College ("NCTC"), has its main campus in Gainesville, Texas. NCTC offers technical, occupational and vocational classes at its Denton County campus in Corinth. NCTC was founded in 1924 and is the oldest continuously operating public two-year college in the State of Texas.

Economy

The economy of the County is primarily composed of educational services, health and social services, manufacturing and general retail trade. Organizations in these sectors employ over 20,000 people. Wholesale trade and hospitality jobs also play major roles. The city of Denton employs more than 1,300 people, 300 of whom are public safety personnel. Notable businesses headquartered in Denton include truck manufacturer Peterbilt, beauty supplier Sally Beauty Company, and jewelry producer Jostens.

Denton County sits atop a portion of the Barnett Shale, a geological formation believed to contain large quantities of natural gas. The County has benefited from tax revenue related to gas drilling and production.

Largest Employers In Denton County

<u>Company</u>	<u>Product/Service</u>	<u>Employees</u>
University of North Texas	Higher Education System	8,887
Denton Independent School District	Public Education System	4,417
Wal-Mart	Retail	3,722
Frito Lay	Food Distribution	2,500
Peterbilt Motors	Heavy Duty Truck Manufacturing	2,314
Northwest ISD	Public Education System	2,246
Lewisville Independent School District	Public Education System	2,061
Nebraska Furniture Mart	Retail Store	2,000
Texas Woman's University	Higher Education System	1,787
Denton County	County Government	1,700
Denton State School	State Government	1,700
City of Denton	City Government	1,383
Texas Health Presbyterian Hospital	Medical Facility	1,076
Denton Regional Medical Center	Medical Facility	1,000
Amazon	Retail Trade	1,000

Source: Office of Economic Development, Denton County.

Healthcare

Denton County is served by several major hospitals and surgical centers. Denton Regional Medical Center and Texas Health Resources Presbyterian Hospital are the two largest full service hospitals. Both are located in the city of Denton and each employ approximately 800 employees and are licensed with more than 200 beds and emergency services. North Texas Hospital, an ambulatory outpatient surgical center, and Mayhill Hospital, a 55-bed inpatient adult and senior behavioral health and physical rehabilitation hospital, also serve the surrounding community. Additionally, the area is served by emergency and urgent care facilities and by specialized inpatient and outpatient treatment facilities.

Transportation

The Denton Airport ("DTO"), located within the City of Denton, offers a full range of aeronautic services. DTO serves a number of major companies for transportation of cargo, personnel, vendors and prospective clients. The DTO is also the base of operations for law enforcement and search and rescue operations, including CareFlight. As one of only three FAA-designated super-reliever airports in Texas, DTO relieves general aviation traffic from DFW International Airport. It also serves as a major mid-continent refueling center, with appropriate services to accommodate business users.

Denton County also has easy access to Dallas-Fort Worth International Airport, the fourth busiest passenger airport in the United States, which offers a variety of flights with direct service to Europe, Mexico, Canada, Central and South America, and Asia. Additionally, Dallas Love Field, located just 40 minutes driving time from the city of Denton, is the city of Dallas's secondary airport and serves as a major hub for Southwest Airlines, which has its corporate headquarters on airport grounds. Delta Airlines, United Airlines and Virgin America Airlines also offer service from Love Field.

Alliance Airport, the first industrial airport in the U.S., operates on a 414-acre site in northern Tarrant County. The facility features a 9,600-foot runway, soon to be extended to 13,000-feet. With direct rail and interstate access, more than 150,000 tons of cargo pass through Alliance each year. Both international and domestic air freight companies utilize the strategic advantages of Fort Worth Alliance Airport, including Burlington Northern Santa Fe Railway's multimillion-dollar intermodal facility, the FedEx Southwest Regional Sorting Hub, immediate access to NAFTA highway, Foreign Trade Zone #196 and U.S. Customs clearance 24/7/365.

LABOR FORCE STATISTICS

Comparative Unemployment Rates

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018*</u>
Town of Little Elm	3.5%	2.7%	3.8%	3.7%	3.7%
Denton County	4.4%	3.6%	3.4%	3.3%	3.0%
State of Texas	5.1%	4.5%	4.6%	4.3%	3.7%
United States of America	6.2%	5.3%	4.9%	4.4%	3.6%

Source: Labor Market Information Department, Texas Workforce Commission.

* As of May 31, 2018.

APPENDIX C

**FORM OF LEGAL OPINION
OF BOND COUNSEL**

[CLOSING DATE]

\$23,885,000
LITTLE ELM INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BONDS
SERIES 2018A

WE HAVE ACTED as bond counsel for Little Elm Independent School District (the "District"), in connection with the bonds hereinafter described (the "Bonds"):

LITTLE ELM INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018A, dated July 15, 2018, in the aggregate principal amount of \$23,885,000.

The Bonds mature, bear interest, are subject to redemption prior to maturity, and may be transferred and exchanged as set out in the Bonds and in the order (the "Bond Order") adopted by the Board of Trustees of the District on June 18, 2018 authorizing their issuance and the pricing certificate (the "Pricing Certificate") executed as authorized therein (the Bond Order and the Pricing Certificate are collectively referred to as the "Order" herein).

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

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of proceedings pertaining to the Bonds and the bonds being refunded, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the District; customary certificates of officers, agents and representatives of the District and other public officials; and other certified showings relating to the authorization and issuance of the Bonds. We have

also examined such applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), court decisions, Treasury Regulations and published rulings of the Internal Revenue Service (the "Service") as we have deemed relevant. We have also examined executed Bond No. ICI-1 of this issue. Capitalized terms used herein, unless otherwise defined, have the meanings set forth in the Order.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

- (A) The transcript of proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective, and therefore, the Bonds constitute valid and legally binding obligations of the District; and
- (B) A continuing ad valorem tax, without limit as to rate or amount, has been levied on all taxable property in the District and pledged irrevocably to the payment of the principal of and interest on the Bonds.

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

IT IS OUR FURTHER OPINION THAT:

- (1) Interest on the Bonds is excludable from gross income for federal income tax purposes under existing law; and
- (2) The Bonds are not "private activity bonds" within the meaning of the Code, and interest on the Bonds is not subject to the alternative minimum tax on individuals.

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

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

Owners of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit, and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Bonds).

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

APPENDIX D

**AUDITED FINANCIAL STATEMENTS FOR
THE FISCAL YEAR ENDED AUGUST 31, 2017**

Members:
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC
ACCOUNTANTS
TEXAS SOCIETY OF CERTIFIED
PUBLIC ACCOUNTANTS

**HANKINS, EASTUP, DEATON,
TONN & SEAY**
A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

902 NORTH LOCUST
P.O. BOX 977
DENTON, TX 76202-0977
TEL. (940) 387-8563
FAX (940) 383-4746

Independent Auditors' Report

To the Board of Trustees
Little Elm Independent School District
Little Elm, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Little Elm Independent School District (the District), as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standard* 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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Other Matters

Required Supplementary Information


Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* on pages 5 through 11 and the *pension information schedules* on pages 56 through 58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Little Elm Independent School District's basic financial statements. The combining and individual nonmajor fund financial statements and the required TEA schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance, and is also not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements, the required TEA schedules, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, the required TEA schedules, and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2017 on our consideration of Little Elm Independent School District's internal control over financial reporting and on our test 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 Little Elm Independent School District's internal control over financial reporting and compliance.


Hankins, Eastup, Deaton, Tonn & Seay, PC
Denton, Texas

December 6, 2017

**LITTLE ELM INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2017
(UNAUDITED)**

As management of Little Elm Independent School District, we offer readers of the District's financial statement this narrative overview and analysis of the financial activities of the District for the year ended August 31, 2017. Please read this narrative in conjunction with the independent auditors' report on page 3, and the District's Basic Financial Statements that begin on page 15.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of Little Elm Independent School District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal period by \$3,305,764 (net position). Of this amount, \$(4,773,602) represents negative unrestricted net position.
- The District's total net position increased by \$5,148,068 during the fiscal year.
- As of the close of the current fiscal period, the District's governmental funds reported combined ending fund balances of \$42,585,645. 46% of this total amount, \$19,670,314, is unassigned and available for use within the District's policies.
- At the end of the current fiscal period, unassigned fund balance for the general fund was \$19,670,314 or 31.4% of the total general fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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 15 through 17). 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 18) 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. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, 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 31) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

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

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 15. 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, deferred outflows of resources, liabilities and deferred inflows of resources at the end of the year while the Statement of Activities includes all revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting (the basis used by private sector companies).

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

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

In the Statement of Net Position and the Statement of Activities, we divide the District into two kinds of activities:

- **Governmental activities**—Most of the District's basic services are reported here, including the instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services, and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these activities.
- **Business-type activities**—The District charges a fee to “customers” to help it cover all or most of the cost of services it provides in its child care operation.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 18 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 No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District's two kinds of funds-government and proprietary-use different accounting approaches.

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

Proprietary funds—The District reports the activities for which it charges users (whether outside customers or other units of the District) in proprietary funds using the same accounting methods employed in the Statement of Net Position and the Statement of Activities. In fact, the District's enterprise funds (one category of propriety funds) are the business-type activities reported in the government-wide statements but containing more detail and additional information, such as cash flows.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities and for scholarships. The District's fiduciary activity is reported in a separate Statement of Fiduciary Net Position on page 29. 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 this fund are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following analysis of comparative balances and changes therein is presented for the current and prior year's operations and a discussion of significant changes in the accounts. The 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 \$(1,658,083) to \$3,221,747. 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 \$(4,777,338) at August 31, 2017. This increase in governmental net position was the result of the District's revenues exceeding expenses by \$5,139,847.

Table I
NET POSITION

	Governmental Activities		Business-type Activities		Total	
	2016	2017	2016	2017	2016	2017
Current and other assets	\$ 60,960,335	\$ 55,231,793	\$ (10,828)	\$ 9,533	\$ 60,949,507	\$ 55,241,326
Capital assets	138,161,785	151,596,267	91,750	80,281	138,253,535	151,676,548
Total assets	199,122,120	206,828,060	80,922	89,814	199,203,042	206,917,874
Deferred outflows of resources	12,823,230	13,539,963	-	-	12,823,230	13,539,963
Total assets and deferred outflows of resources	211,945,350	220,368,023	80,922	89,814	212,026,272	220,457,837
Long-term liabilities	206,927,505	202,877,427	-	-	206,927,505	202,877,427
Other liabilities	5,674,173	11,804,937	5,126	5,797	5,679,299	11,810,734
Total liabilities	212,601,678	214,682,364	5,126	5,797	212,606,804	214,688,161
Deferred inflows of resources	1,001,755	2,463,912	-	-	1,001,755	2,463,912
Total liabilities and deferred inflows of resources	213,603,433	217,146,276	5,126	5,797	213,608,559	217,152,073
Net Position:						
Net investments in capital assets	(2,069,461)	2,236,539	91,750	80,281	(1,977,711)	2,316,820
Restricted	5,550,019	5,762,546	-	-	5,550,019	5,762,546
Unrestricted	(5,138,641)	(4,777,338)	(15,954)	3,736	(5,154,595)	(4,773,602)
Total Net Position	\$ (1,658,083)	\$ 3,221,747	\$ 75,796	\$ 84,017	\$ (1,582,287)	\$ 3,305,764

Table II
CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Total	
	2016	2017	2016	2017	2016	2017
Revenues:						
Program Revenues:						
Charges for services	\$ 1,790,986	\$ 4,094,095	\$ 578,123	\$ 590,507	\$ 2,369,109	\$ 4,684,602
Operating grants and contributions	9,428,469	8,216,172	-	-	9,428,469	8,216,172
General Revenues:						
Maintenance and operations taxes	31,654,164	37,932,185	-	-	31,654,164	37,932,185
Debt service taxes	10,035,719	12,054,026	-	-	10,035,719	12,054,026
State aid	25,262,226	23,446,772	-	-	25,262,226	23,446,772
Other grants and contributions	1,853,297	653,548	-	-	1,853,297	653,548
Investment earnings	198,520	438,764	-	-	198,520	438,764
Miscellaneous	1,734,302	686,130	-	-	1,734,302	686,130
Total Revenue	81,957,683	87,521,692	578,123	590,507	82,535,806	88,112,199
Expenses:						
Instruction, curriculum and media services	44,022,535	43,674,820	-	-	44,022,535	43,674,820
Instructional and school leadership	5,660,806	5,798,096	-	-	5,660,806	5,798,096
Student support services	4,403,793	4,513,754	-	-	4,403,793	4,513,754
Child nutrition	4,002,992	4,266,347	-	-	4,002,992	4,266,347
Cocurricular activities	2,890,925	3,170,817	-	-	2,890,925	3,170,817
General administration	2,914,831	2,964,157	-	-	2,914,831	2,964,157
Plant maintenance, security and data processing	7,724,110	8,700,315	-	-	7,724,110	8,700,315
Community services	119,087	144,714	-	-	119,087	144,714
Childcare services	-	-	643,931	582,286	643,931	582,286
Debt services	6,532,577	8,814,444	-	-	6,532,577	8,814,444
Intergovernmental charges	289,983	334,381	-	-	289,983	334,381
Total Expenses	78,561,639	82,381,845	643,931	582,286	79,205,570	82,964,131
Increase (Decrease) in Net Position	3,396,044	5,139,847	(65,808)	8,221	3,330,236	5,148,068
Net Position - beginning of year	(5,054,127)	(1,658,083)	141,604	75,796	(4,912,523)	(1,582,287)
Prior period adjustment	-	(260,017)	-	-	-	(260,017)
Net Position - end of year	\$ (1,658,083)	\$ 3,221,747	\$ 75,796	\$ 84,017	\$ (1,582,287)	\$ 3,305,764

The District notes the following highlights for the 2016-2017 school year in response to changes in personnel and continued growth in student enrollment.

- The District maintained its contract with a professional demographer in an effort to plan for future facility needs.
- The District maintained the employer's health insurance contribution of \$325 per month.
- The District operated an Energy Education Plan and an Energy Manager in an effort to conserve energy and reduce energy costs.
- The Board of Trustees approved a property tax rate of \$1.54/\$100 of value (1.17 for M&O and .37 for Debt Service).
- The District maintained an employee induction program for new teachers that provides training and staff development.
- The District maintained its status of "Superior Achievement" according to the Financial Integrity Rating System of Texas.

The cost of all governmental activities for the current fiscal year was \$82,381,845. However, as shown in the Statement of Activities on pages 16 and 17, the amount that our taxpayers ultimately financed for these activities through District taxes was \$49,986,211 because some of the costs were paid by those who directly benefited from the programs (\$4,094,095) or by other governments and organizations that subsidized certain programs with grants and contributions (\$8,216,172) or by State equalization funding (\$23,446,772), or by other grants and contributions (\$653,548).

THE DISTRICT'S FUNDS

As the District completed the fiscal year, its governmental funds (as presented in the balance sheet on page 18) reported a combined fund balance of \$42,585,645, which is \$12,141,541 less than last year's total of \$54,727,186. Included in this year's total change in fund balance is an increase of \$742,466 in the District's General Fund. The primary reason for the General Fund's increase was increased revenues in excess of expenditures.

Over the course of the year, the Board of Trustees revised the District's budget several times. These budget amendments fall into three categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect the actual beginning balances (versus the amounts we estimated in August 2016). The second category includes changes that the Board made during the year to reflect new information regarding revenue sources and expenditure needs. The third category involves 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 \$27,786,140 reported on page 18 differs from the General Fund's budgetary fund balance of \$21,958,074 reported in the budgetary comparison schedule on page 25. This is principally due to cost savings achieved during the year throughout all functions.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At August 31, 2017, the District's governmental activities had \$151,596,267 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 \$13,434,482 or 9.7 percent, more than last year.

This year's major additions were building renovations and additions.

More detailed information about the District's capital assets is presented in Note 4 to the financial statements.

Debt Administration

At August 31, 2017, the District had \$188,005,972 in bonds, capital leases and maintenance tax notes outstanding (including accreted interest on bonds) versus \$193,466,590 last year—a decrease of 2.82 percent. The District's general obligation bond rating is AAA (as a result of guarantees of the Texas Permanent School Fund), according to national rating agencies.

More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District took actions for 2017-2018 to compensate for some increases in costs and continued increases in enrollment:

- The Board adopted an \$82.3 million appropriations budget including General Operating, Child Nutrition, and Debt Service.
- Certified Taxable Property Values increased \$526.3 million from \$2,819,398,964 to \$3,345,743,154 from 2016 to 2017.
- Student enrollment increased 143 students from 7,381 to 7,524 students from the beginning of the 16-17 school year to the beginning of the 17-18 school year.
- The Board adopted a total tax rate of \$1.54/\$100 of taxable property value (\$1.17 for M&O and \$.37 for Debt Service).

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 Little Elm Independent School District, 300 Lobo Lane, Little Elm, Texas 75068, (972) 947-9340.

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BASIC FINANCIAL STATEMENTS

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LITTLE ELM INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2017

EXHIBIT A-1

		1	2	3
		Primary Government		
Data			Business	
Control		Governmental	Type	
Codes		Activities	Activities	Total
ASSETS				
1110	Cash and Cash Equivalents	\$ 49,770,613	\$ 8,700	\$ 49,779,313
1220	Property Taxes Receivable (Delinquent)	1,153,643	-	1,153,643
1230	Allowance for Uncollectible Taxes	(74,987)	-	(74,987)
1240	Due from Other Governments	4,206,310	-	4,206,310
1290	Other Receivables, net	59,993	833	60,826
1410	Prepayments	116,221	-	116,221
	Capital Assets:			
1510	Land	10,742,680	-	10,742,680
1520	Buildings, Net	116,080,805	80,281	116,161,086
1530	Furniture and Equipment, Net	5,234,068	-	5,234,068
1580	Construction in Progress	19,538,714	-	19,538,714
1000	Total Assets	206,828,060	89,814	206,917,874
DEFERRED OUTFLOWS OF RESOURCES				
1701	Deferred Charges on Bond Refundings	5,410,637	-	5,410,637
1705	Deferred Outflows Related to TRS	8,129,326	-	8,129,326
1700	Total Deferred Outflows of Resources	13,539,963	-	13,539,963
LIABILITIES				
2110	Accounts Payable	6,043,456	2,102	6,045,558
2140	Accrued Interest Payable	237,445	-	237,445
2150	Payroll Deductions & Withholdings	1,263	-	1,263
2160	Accrued Wages Payable	3,088,974	2,336	3,091,310
2200	Accrued Expenses	219,958	1,359	221,317
2300	Unearned Revenue	2,213,841	-	2,213,841
	Noncurrent Liabilities			
2501	Due Within One Year	5,149,739	-	5,149,739
2502	Due in More Than One Year	182,856,233	-	182,856,233
2540	Net Pension Liability (District's Share)	14,871,455	-	14,871,455
2000	Total Liabilities	214,682,364	5,797	214,688,161
DEFERRED INFLOWS OF RESOURCES				
2605	Deferred Inflows Related to TRS	2,463,912	-	2,463,912
2600	Total Deferred Inflows of Resources	2,463,912	-	2,463,912
NET POSITION				
3200	Net Investment in Capital Assets	2,236,539	80,281	2,316,820
	Restricted:			
3820	Restricted for Federal and State Programs	1,228,413	-	1,228,413
3850	Restricted for Debt Service	4,534,133	-	4,534,133
3900	Unrestricted	(4,777,338)	3,736	(4,773,602)
3000	Total Net Position	\$ 3,221,747	\$ 84,017	\$ 3,305,764

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

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

Data Control Codes	1	Program Revenues	
		3	4
	Expenses	Charges for Services	Operating Grants and Contributions
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
11 Instruction	\$ 41,423,078	\$ 1,606,520	\$ 3,536,965
12 Instructional Resources and Media Services	852,899	-	36,792
13 Curriculum and Staff Development	1,398,843	48,137	140,983
21 Instructional Leadership	1,241,337	-	222,853
23 School Leadership	4,556,759	3,147	250,301
31 Guidance, Counseling and Evaluation Services	1,998,017	-	309,902
32 Social Work Services	30,568	-	375
33 Health Services	576,922	-	33,515
34 Student (Pupil) Transportation	1,908,247	-	465,080
35 Food Services	4,266,347	1,530,693	2,347,577
36 Extracurricular Activities	3,170,817	657,789	65,195
41 General Administration	2,964,157	174	191,717
51 Facilities Maintenance and Operations	6,533,316	247,635	199,210
52 Security and Monitoring Services	877,774	-	4,347
53 Data Processing Services	1,289,225	-	66,502
61 Community Services	144,714	-	114,257
72 Debt Service - Interest on Long Term Debt	8,662,376	-	230,601
73 Debt Service - Bond Issuance Cost and Fees	152,068	-	-
95 Payments to Juvenile Justice Alternative Ed. Prg.	38,982	-	-
99 Other Intergovernmental Charges	295,399	-	-
[TG] Total Governmental Activities:	82,381,845	4,094,095	8,216,172
BUSINESS-TYPE ACTIVITIES:			
01 Child Care	582,286	590,507	-
[TB] Total Business-Type Activities:	582,286	590,507	-
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 82,964,131	\$ 4,684,602	\$ 8,216,172

Data
Control
Codes

General Revenues:

Taxes:

MT	Property Taxes, Levied for General Purposes
DT	Property Taxes, Levied for Debt Service
SF	State Aid - Formula Grants
GC	Grants and Contributions not Restricted
IE	Investment Earnings
MI	Miscellaneous Local and Intermediate Revenue
TR	Total General Revenues
CN	Change in Net Position
NB	Net Position - Beginning
PA	Prior Period Adjustment
NE	Net Position--Ending

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

Net (Expense) Revenue and Changes in Net Position		
6	7	8
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (36,279,593)	\$ -	\$ (36,279,593)
(816,107)	-	(816,107)
(1,209,723)	-	(1,209,723)
(1,018,484)	-	(1,018,484)
(4,303,311)	-	(4,303,311)
(1,688,115)	-	(1,688,115)
(30,193)	-	(30,193)
(543,407)	-	(543,407)
(1,443,167)	-	(1,443,167)
(388,077)	-	(388,077)
(2,447,833)	-	(2,447,833)
(2,772,266)	-	(2,772,266)
(6,086,471)	-	(6,086,471)
(873,427)	-	(873,427)
(1,222,723)	-	(1,222,723)
(30,457)	-	(30,457)
(8,431,775)	-	(8,431,775)
(152,068)	-	(152,068)
(38,982)	-	(38,982)
(295,399)	-	(295,399)
(70,071,578)	-	(70,071,578)
-	8,221	8,221
-	8,221	8,221
(70,071,578)	8,221	(70,063,357)
37,932,185	-	37,932,185
12,054,026	-	12,054,026
23,446,772	-	23,446,772
653,548	-	653,548
438,764	-	438,764
686,130	-	686,130
75,211,425	-	75,211,425
5,139,847	8,221	5,148,068
(1,658,083)	75,796	(1,582,287)
(260,017)	-	(260,017)
\$ 3,221,747	\$ 84,017	\$ 3,305,764

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2017

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
ASSETS			
1110 Cash and Cash Equivalents	\$ 30,400,825	\$ 4,472,752	\$ 13,316,981
1220 Property Taxes - Delinquent	834,043	319,600	-
1230 Allowance for Uncollectible Taxes (Credit)	(54,213)	(20,774)	-
1240 Receivables from Other Governments	3,876,110	-	-
1290 Other Receivables	59,932	-	-
1410 Prepayments	115,826	-	-
1000 Total Assets	<u>\$ 35,232,523</u>	<u>\$ 4,771,578</u>	<u>\$ 13,316,981</u>
LIABILITIES			
2110 Accounts Payable	\$ 1,333,886	\$ -	\$ 4,439,759
2150 Payroll Deductions and Withholdings Payable	1,263	-	-
2160 Accrued Wages Payable	2,922,507	-	-
2200 Accrued Expenditures	197,455	-	-
2300 Unearned Revenues	2,211,442	-	-
2000 Total Liabilities	<u>6,666,553</u>	<u>-</u>	<u>4,439,759</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	779,830	298,826	-
2600 Total Deferred Inflows of Resources	<u>779,830</u>	<u>298,826</u>	<u>-</u>
FUND BALANCES			
Nonspendable Fund Balance:			
3430 Prepaid Items	115,826	-	-
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	-	-
3470 Capital Acquisition and Contractual Obligation	-	-	3,662,600
3480 Retirement of Long-Term Debt	-	4,472,752	-
Committed Fund Balance:			
3545 Local Grants	-	-	-
3545 Campus Activities	-	-	-
3545 Textbooks	-	-	-
Assigned Fund Balance:			
3550 Construction	-	-	5,214,622
3590 Other Assigned Fund Balance	8,000,000	-	-
3600 Unassigned Fund Balance	19,670,314	-	-
3000 Total Fund Balances	<u>27,786,140</u>	<u>4,472,752</u>	<u>8,877,222</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 35,232,523</u>	<u>\$ 4,771,578</u>	<u>\$ 13,316,981</u>

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

EXHIBIT C-1

Other Funds	Total Governmental Funds
\$ 1,580,055	\$ 49,770,613
-	1,153,643
-	(74,987)
330,200	4,206,310
61	59,993
395	116,221
<u>\$ 1,910,711</u>	<u>\$ 55,231,793</u>
\$ 269,811	\$ 6,043,456
-	1,263
166,467	3,088,974
22,503	219,958
2,399	2,213,841
<u>461,180</u>	<u>11,567,492</u>
-	1,078,656
-	1,078,656
395	116,221
1,228,413	1,228,413
-	3,662,600
-	4,472,752
30,047	30,047
164,730	164,730
25,946	25,946
-	5,214,622
-	8,000,000
-	19,670,314
<u>1,449,531</u>	<u>42,585,645</u>
<u>\$ 1,910,711</u>	<u>\$ 55,231,793</u>

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

Total Fund Balances - Governmental Funds	\$ 42,585,645
1 Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund financial statements.	209,298,359
2 Accumulated depreciation has not been included in the fund financial statements..	(57,702,092)
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 68 in the amount of \$14,871,455, a Deferred Inflow of Resources related to TRS in the amount of \$2,463,912, and a Deferred Outflow of Resources related to TRS in the amount of \$8,129,326. This results in a decrease in Net Position in the amount of \$9,206,041.	(9,206,041)
4 Bonds payable, capital leases payable and the maintenance tax note payable are not included in the fund financial statements.	(153,793,925)
5 Accreted interest payable on capital appreciation bonds has not been included in the fund financial statements.	(24,358,385)
6 Deferred loss on bond refunding has not been included in the fund financial statements.	5,410,637
7 Bond discounts and premiums were not recognized in the fund financial statements.	(9,853,662)
8 Interest on outstanding debt is accrued in the government-wide financial statements, whereas in the fund financial statements interest expenditures are reported when due.	(237,445)
9 Property tax revenue reported as unavailable revenue in the fund financial statements is recognized as revenue in the government-wide financial statements.	1,078,656
19 Net Position of Governmental Activities	\$ 3,221,747

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

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

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 39,289,017	\$ 11,979,360	\$ 168,795
5800 State Program Revenues	26,567,437	230,601	-
5900 Federal Program Revenues	1,698,456	-	-
5020 Total Revenues	67,554,910	12,209,961	168,795
EXPENDITURES:			
Current:			
0011 Instruction	36,002,844	-	-
0012 Instructional Resources and Media Services	672,880	-	-
0013 Curriculum and Instructional Staff Development	1,254,606	-	-
0021 Instructional Leadership	1,026,127	-	-
0023 School Leadership	4,317,840	-	-
0031 Guidance, Counseling and Evaluation Services	1,710,672	-	-
0032 Social Work Services	30,193	-	-
0033 Health Services	539,874	-	-
0034 Student (Pupil) Transportation	1,501,635	-	-
0035 Food Services	125,673	-	-
0036 Extracurricular Activities	1,884,881	-	-
0041 General Administration	2,839,094	-	-
0051 Facilities Maintenance and Operations	6,024,615	-	-
0052 Security and Monitoring Services	919,422	-	-
0053 Data Processing Services	1,229,722	-	-
0061 Community Services	49,522	-	-
Debt Service:			
0071 Principal on Long Term Debt	986,702	4,203,560	-
0072 Interest on Long Term Debt	217,674	7,864,120	-
0073 Bond Issuance Cost and Fees	500	151,568	-
Capital Outlay:			
0081 Facilities Acquisition and Construction	928,937	-	17,152,174
Intergovernmental:			
0095 Payments to Juvenile Justice Alternative Ed. Prg.	38,982	-	-
0099 Other Intergovernmental Charges	295,399	-	-
6030 Total Expenditures	62,597,794	12,219,248	17,152,174
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	4,957,116	(9,287)	(16,983,379)
OTHER FINANCING SOURCES (USES):			
7901 Refunding Bonds Issued	-	8,985,000	-
7912 Sale of Real and Personal Property	350	-	-
7915 Transfers In	-	-	4,215,000
7916 Premium or Discount on Issuance of Bonds	-	984,184	-
8911 Transfers Out (Use)	(4,215,000)	-	-
8949 Other (Uses)	-	(9,817,529)	-
7080 Total Other Financing Sources (Uses)	(4,214,650)	151,655	4,215,000
1200 Net Change in Fund Balances	742,466	142,368	(12,768,379)
0100 Fund Balance - September 1 (Beginning)	27,043,674	4,330,384	21,645,601
3000 Fund Balance - August 31 (Ending)	\$ 27,786,140	\$ 4,472,752	\$ 8,877,222

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

Other Funds	Total Governmental Funds
\$ 2,276,877	\$ 53,714,049
435,058	27,233,096
3,935,221	5,633,677
6,647,156	86,580,822

1,889,040	37,891,884
27	672,907
155,100	1,409,706
178,002	1,204,129
3,834	4,321,674
215,591	1,926,263
375	30,568
-	539,874
-	1,501,635
3,770,596	3,896,269
599,673	2,484,554
20,137	2,859,231
-	6,024,615
-	919,422
-	1,229,722
72,777	122,299
-	5,190,262
-	8,081,794
-	152,068
-	18,081,111
-	38,982
-	295,399
6,905,152	98,874,368
(257,996)	(12,293,546)

-	8,985,000
-	350
8,657	4,223,657
-	984,184
(8,657)	(4,223,657)
-	(9,817,529)
-	152,005
(257,996)	(12,141,541)
1,707,527	54,727,186
\$ 1,449,531	\$ 42,585,645

LITTLE ELM 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	\$ (12,141,541)
Current year capital asset additions are expenditures in the fund financial statements, but they are shown as increases in capital assets in the government-wide financial statements. The net effect of reclassifying the current year capital asset additions is to increase net position.	18,807,463
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 in the government-wide financial statements.	(5,372,981)
Current year long-term debt principal payments on bonds payable, notes payable, and capital leases payable are expenditures in the governmental fund financial statements, but are shown as reductions in long-term debt in the government-wide financial statements.	7,040,679
Current year interest accretion on capital appreciation bonds is not recognized in the fund financial statements, but is shown as an increase in long-term debt in the government-wide financial statements.	(1,700,884)
The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 8/31/2016 caused the ending net position to increase in the amount of \$1,309,535. These contributions were replaced with the District's additional GASB 68 pension expense for the year of \$2,440,334, which caused a net decrease in the change in net position. The impact of all of these is to decrease the change in net position by \$1,130,799.	(1,130,799)
Revenues from property taxes are shown as unearned in the fund financial statements until they are considered available to finance current expenditures, but such revenues are recognized when assessed, net of an allowance for uncollectible amounts, in the government-wide financial statements.	519,680
Current year amortization of the premium/discount on bonds payable is not recorded in the fund financial statements, but is shown as a reduction in long-term debt in the government-wide financial statements.	(26,413)
The premium on the current year issuance of bonds is recorded as other resources in the fund financial statements, but is capitalized in the government-wide financial statements.	(984,184)
Current year issuances of bonds are shown as other resources in the fund financial statements, but are shown as increases in long-term debt in the government-wide financial statements.	(8,985,000)
Current year amortization of deferred charge on bond refunding is not recorded in the fund financial statements, but is shown as a reduction of the deferred loss in the government-wide financial statements.	(726,274)
Interest expense on outstanding debt is accrued in the government-wide financial statements, whereas in the fund financial statements, interest expenditures are reported when due.	22,572
The current year payment to the escrow agent for refunding debt is an other financing use in the fund financial statements, but is reported as a reduction in long-term debt in the government-wide financial statements. The payment of \$9,817,529 included the payment to refund bonds of \$9,010,000 plus accreted interest and premiums of \$1,106,420 and a deferred gain on bond refundings of \$298,891.	9,817,529
Change in Net Position of Governmental Activities	\$ 5,139,847

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

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

EXHIBIT C-5

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
		Original	Final		
	REVENUES:				
5700	Total Local and Intermediate Sources	\$ 36,246,174	\$ 38,983,174	\$ 39,289,017	\$ 305,843
5800	State Program Revenues	24,159,105	26,777,512	26,567,437	(210,075)
5900	Federal Program Revenues	1,250,000	1,555,839	1,698,456	142,617
5020	Total Revenues	61,655,279	67,316,525	67,554,910	238,385
	EXPENDITURES:				
	Current:				
0011	Instruction	35,957,335	37,913,974	36,002,844	1,911,130
0012	Instructional Resources and Media Services	656,534	709,568	672,880	36,688
0013	Curriculum and Instructional Staff Development	1,098,750	1,379,486	1,254,606	124,880
0021	Instructional Leadership	1,231,317	1,183,829	1,026,127	157,702
0023	School Leadership	4,190,966	4,540,014	4,317,840	222,174
0031	Guidance, Counseling and Evaluation Services	1,744,670	1,843,175	1,710,672	132,503
0032	Social Work Services	31,000	33,500	30,193	3,307
0033	Health Services	537,190	592,531	539,874	52,657
0034	Student (Pupil) Transportation	1,759,449	1,791,629	1,501,635	289,994
0035	Food Services	91,524	147,964	125,673	22,291
0036	Extracurricular Activities	1,680,284	2,180,970	1,884,881	296,089
0041	General Administration	2,881,746	3,078,792	2,839,094	239,698
0051	Facilities Maintenance and Operations	6,307,699	6,800,829	6,024,615	776,214
0052	Security and Monitoring Services	690,832	1,166,966	919,422	247,544
0053	Data Processing Services	1,229,307	1,567,163	1,229,722	337,441
0061	Community Services	39,290	57,501	49,522	7,979
	Debt Service:				
0071	Principal on Long Term Debt	986,702	986,702	986,702	-
0072	Interest on Long Term Debt	217,684	217,684	217,674	10
0073	Bond Issuance Cost and Fees	500	500	500	-
	Capital Outlay:				
0081	Facilities Acquisition and Construction	-	1,656,948	928,937	728,011
	Intergovernmental:				
0095	Payments to Juvenile Justice Alternative Ed. Prg.	36,000	42,000	38,982	3,018
0099	Other Intergovernmental Charges	286,500	295,400	295,399	1
6030	Total Expenditures	61,655,279	68,187,125	62,597,794	5,589,331
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(870,600)	4,957,116	5,827,716
	OTHER FINANCING SOURCES (USES):				
7912	Sale of Real and Personal Property	-	-	350	350
8911	Transfers Out (Use)	-	(4,215,000)	(4,215,000)	-
7080	Total Other Financing Sources (Uses)	-	(4,215,000)	(4,214,650)	350
1200	Net Change in Fund Balances	-	(5,085,600)	742,466	5,828,066
0100	Fund Balance - September 1 (Beginning)	27,043,674	27,043,674	27,043,674	-
3000	Fund Balance - August 31 (Ending)	\$ 27,043,674	\$ 21,958,074	\$ 27,786,140	\$ 5,828,066

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

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

EXHIBIT D-1

	Business-Type Activities
	Total Enterprise Funds
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 8,700
Other Receivables	833
Total Current Assets	<u>9,533</u>
Noncurrent Assets:	
Capital Assets:	
Buildings and Improvements	114,687
Depreciation on Buildings	(34,406)
Total Noncurrent Assets	<u>80,281</u>
Total Assets	<u>89,814</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	2,102
Accrued Wages Payable	2,336
Accrued Expenses	1,359
Total Liabilities	<u>5,797</u>
NET POSITION	
Net Investment in Capital Assets	80,281
Unrestricted Net Position	3,736
Total Net Position	<u>\$ 84,017</u>

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

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

	Business-Type Activities
	Total Enterprise Funds
<hr/>	
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 590,507
Total Operating Revenues	<u>590,507</u>
OPERATING EXPENSES:	
Payroll Costs	522,477
Professional and Contracted Services	6,136
Supplies and Materials	33,794
Other Operating Costs	8,410
Depreciation Expense	<u>11,469</u>
Total Operating Expenses	<u>582,286</u>
Operating Income	8,221
Total Net Position - September 1 (Beginning)	<u>75,796</u>
Total Net Position - August 31 (Ending)	<u><u>\$ 84,017</u></u>

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

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

	Business-Type Activities
	Total Enterprise Funds
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 589,984
Cash Payments for Payroll Costs	(519,923)
Cash Payments for Professional Services	(6,136)
Cash Payments for Supplies and Materials	(35,677)
Cash Payments for Other Costs	(8,410)
Net Cash Provided by Operating Activities	<u>19,838</u>
Net Increase in Cash and Cash Equivalents	19,838
Cash and Cash Equivalents at Beginning of Year	<u>(11,138)</u>
Cash and Cash Equivalents at End of Year	<u>\$ 8,700</u>
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Provided by Operating Activities:</u>	\$ 8,221
Operating Income:	
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	11,469
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Other Receivables	(523)
Increase (decrease) in Accounts Payable	(1,883)
Increase (decrease) in Accrued Wages Payable	1,217
Increase (decrease) in Accrued Expenses	1,337
Net Cash Provided by Operating Activities	<u>\$ 19,838</u>

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

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

	Private Purpose Trust Funds	Agency Fund
ASSETS		
Cash and Cash Equivalents	\$ -	\$ 124,458
Other Receivables	-	15
Total Assets	<u>-</u>	<u>\$ 124,473</u>
LIABILITIES		
Due to Student Groups	-	\$ 124,473
Total Liabilities	<u>-</u>	<u>\$ 124,473</u>

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

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

EXHIBIT E-2

	Private Purpose Trust Funds
ADDITIONS:	
Local and Intermediate Sources	\$ -
Total Additions	<u>-</u>
DEDUCTIONS:	
Other Operating Costs	<u>220,804</u>
Total Deductions	<u>220,804</u>
Change in Net Position	(220,804)
 Total Net Position - September 1 (Beginning)	 <u>220,804</u>
 Total Net Position - August 31 (Ending)	 <u><u>\$ -</u></u>

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

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Little Elm Independent School District's (the "District") combined financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide (FAR). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the District are described below.

A. REPORTING ENTITY

The Board of Trustees, a seven member group, has fiscal accountability over all activities related to public elementary and secondary education within the jurisdiction of the District. The board of trustees are elected by the public. The trustees as a body corporate have the exclusive power and duty to govern and oversee the management of the public schools of the district. All powers and duties not specifically delegated by statute to the Texas Education Agency (Agency) or to the State Board of Education are reserved for the trustees, and the Agency may not substitute its judgment for the lawful exercise of those powers and duties by the trustees. The District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards.

The District's basic financial statements include the accounts of all District operations. The criteria for including organizations as component units within the District's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is fiscal dependency by the organization on the District

Based on the aforementioned criteria, Little Elm Independent School District has no component units.

B. BASIS OF PRESENTATION

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

Fund Financial Statements:

The District segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The District has presented the following major governmental funds:

1. **General Fund** - This fund is established to account for resources financing the fundamental operations of the District, in partnership with the community, in enabling and motivating students to reach their full potential. All revenues and expenditures not required to be accounted for in other funds are included here. This is a budgeted fund and any fund balances are considered resources available for current operations. Fund balances may be appropriated by the Board of Trustees to implement its responsibilities.
2. **Debt Service Fund** - This fund is established to account for payment of principal and interest on long-term general obligation debt and other long-term debts for which a tax has been dedicated. This is a budgeted fund. Any unused sinking fund balances are transferred to the General Fund after all of the related debt obligations have been met.
3. **Capital Projects Fund** - This fund is established to account for proceeds, from the sale of bonds and other resources to be used for Board authorized acquisition, construction, or renovation, as well as, furnishings and equipping of major capital facilities.

Additionally, the District reports the following fund types:

1. **Special Revenue Funds** - These funds are established to account for federally financed or expenditures legally restricted for specified purposes. In many special revenue funds, any unused balances are returned to the grantor at the close of specified project periods. For funds in this fund type, project accounting is employed to maintain integrity for the various sources of funds.
2. **Enterprise Fund** - The District utilizes an enterprise fund to account for the Districts' activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities. The District uses this fund to account for its child care program, because the child care program is self-supporting and does not require subsidies from the general fund.
3. **Private Purpose Trust Fund** - This fund is used to report trust arrangements under which principal and income benefit individuals, private organizations, or other governments not reported in other fiduciary fund types. This fund is not budgeted.
4. **Agency Funds** - These custodial funds are used to account for activities of student groups and other organizational activities requiring clearing accounts. Financial resources for the Agency funds are recorded as assets and liabilities; therefore, these funds do not include revenues and expenditures and have no fund equity. If any unused resources are declared surplus by the student groups, they are transferred to the General Fund with a recommendation to the Board for an appropriate utilization through a budgeted program.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

C. MEASUREMENT FOCUS/BASIS OF ACCOUNTING

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets, deferred outflows of resources and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The District considers property taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

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.

The revenue susceptible to accrual are property taxes, charges for services, interest income and intergovernmental revenues. All other Governmental Fund Type revenues are recognized when received.

Revenues from state and federal grants are recognized as earned when the related program expenditures are incurred. Funds received but unearned are reflected as unearned revenues, and funds expended but not yet received are shown as receivables.

Revenue from investments, including governmental external investment pool, is based upon fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Most investments are reported at amortized cost when the investments have remaining maturities of one year or less at time of purchase. External investment pools are permitted to report short-term debt investments at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer, or other factors. For that purpose, a pool's short-term investments are those with remaining maturities of up to ninety days.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

In accordance with the FAR, the District has adopted and installed an accounting system which exceeds the minimum requirements prescribed by the State Board of Education and approved by the State Auditor. Specifically, the District's accounting system uses codes and the code structure presented in the Accounting Code Section of the FAR.

D. BUDGETARY CONTROL

Formal budgetary accounting is employed for all required Governmental Fund Types, as outlined in TEA's FAR module, and is presented on the modified accrual basis of accounting consistent with generally accepted accounting principles. The budget is prepared and controlled at the function level within each organization to which responsibility for controlling operations is assigned.

The official school budget is prepared for adoption for required Governmental Fund Types prior to August 20 of the preceding fiscal year for the subsequent fiscal year beginning September 1. The budget is formally adopted by the Board of Trustees at a public meeting held at least ten days after public notice has been given. The budget is prepared by fund, function, object, and organization. The budget is controlled at the organizational level by the appropriate department head or campus principal within Board allocations. Therefore, organizations may transfer appropriations as necessary without the approval of the board unless the intent is to cross fund, function or increase the overall budget allocations. Control of appropriations by the Board of Trustees is maintained within Fund Groups at the function code level and revenue object code level.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, Debt Service Fund and Child Nutrition Fund. The special revenue funds adopt project-length budgets which do not correspond to the District's fiscal year. Each annual budget is presented on the modified accrual basis of accounting which is consistent with generally accepted accounting principles. The budget is amended throughout the year by the Board of Trustees. Such amendments are reflected in the official minutes of the Board.

E. ENCUMBRANCE ACCOUNTING

The District employs encumbrance accounting, whereby encumbrances for goods or purchased services are documented by purchase orders and contracts. An encumbrance represents a commitment of Board appropriation related to unperformed contracts for goods and services. The issuance of a purchase order or the signing of a contract creates an encumbrance but does not represent an expenditure for the period, only a commitment to expend resources. Appropriations lapse at August 31 and encumbrances outstanding at that time are either canceled or appropriately provided for in the subsequent year's budget. There were no outstanding encumbrances at August 31, 2017 that were subsequently provided for in the 2017-18 budget.

F. PREPAID ITEMS

Prepaid balances are for payments made by the District in the current year to provide services occurring in the subsequent fiscal year, and the nonspendable fund balance has been recognized to signify that a portion of fund balance is not available for other subsequent expenditures.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

G. CAPITAL ASSETS

Capital assets, which includes property, plant, equipment, and infrastructure assets, are reported in the governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for propriety funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment.

Assets capitalized have an original cost of \$5,000 or more and over one-year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	40 Years
Furniture and Equipment	5-10 Years

H. COMPENSATED ABSENCES

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the District. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

I. CASH EQUIVALENTS

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

J. NET POSITION

Net position represents the difference between assets, deferred outflows of resources, deferred inflows of resources and liabilities. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation's adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Unrestricted net position is available for general governmental uses. When both restricted and unrestricted net position is available, restricted net position is expended before unrestricted net position if such use is consistent with the restricted purpose.

K. LONG-TERM OBLIGATIONS

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

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

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.

L. 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 fiscal 2017, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years,

During the year ended August 31, 2017, the District participated in the Texas Association of School Boards Risk Management Fund (the Fund). The Fund was created and is operated under provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The following are Funds the District participated in during the year ended August 31, 2017.

Workers' Compensation Aggregate Deductible

The District met its statutory workers' compensation obligations through participation in the TASB Risk Management Fund. The Fund's Workers Compensation Program is authorized by Chapter 504, Texas Labor Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members and their injured employees.

The District participates in the Fund's reimbursable aggregate deductible program. As such, the member is responsible for a certain amount of claims liability as outlined on the member's Contribution and Coverage Summary document. After the member's deductible has been met, the Fund is responsible for additional claims liability. The District's 2017 deductible was \$175,055.

The Fund and its members are protected against higher than expected claims cost through the purchase of stop loss coverage for any claim in excess of the Fund's self-insured retention of \$2.0 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2016, the fund carries a discounted reserve of \$51,843,324 for future development on reported claims and claims that have been incurred but not yet reported. For the year-ended August 31, 2017, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contributions and reimbursable aggregate deductibles.

The Fund engages the services of independent auditors to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2016, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

Changes in the workers compensation claims liability amounts in fiscal year 2017 is presented below:

Fiscal Year	September 1 Claims Liability	Claims and Changes in Estimates	Claims Payments	August 31 Claims Liability
2017	\$88,979	\$147,138	\$85,780	\$150,337

Unemployment Compensation Pool

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

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore there is no need for specific or aggregate stop loss coverage for the Unemployment Compensation pool. For the year ended August 31, 2017, the Fund anticipates that Little Elm ISD has no additional liability beyond the contractual obligation for payment of contribution.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2016, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

Auto, Liability and Property Programs

During the year ended August 31, 2017, Little Elm ISD participated in the following TASB Risk Management Fund (the Fund) programs:

Auto Liability
Auto Physical Damage
Legal Liability
Privacy & Information Security
Property

The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for its Auto, Liability and Property programs. The terms and limits of the stop-loss program vary by line of coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended August 31, 2017, the Fund anticipates Little Elm ISD has no additional liability beyond the contractual obligations for payment of contributions.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2016, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

M. ESTIMATES

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

NOTE 2. FUND BALANCE

The District has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent.

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

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The District has classified prepaid items as being nonspendable as these items are not expected to be converted to cash.
- 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 the District's bonded debt and are restricted through debt covenants. Unspent bond proceeds are restricted for future capital acquisition programs. Federal and State grant resources are restricted because their use is restricted pursuant to the mandates of the Federal or State grants.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the District's Board of Trustees. The Board of Trustees establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This can also be done through adoption and amendment of the budget. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Board of Trustees have committed resources as of August 31, 2017 for campus activities, textbooks, and local grants.
- Assigned: This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Trustees or through the Board of Trustees delegating this responsibility to other individuals in the District. Under the District's adopted policy, only the Board of Trustees may assign amounts for specific purposes. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. At August 31, 2017, the District has assigned \$8.0 million of the General Fund fund balance for future capital projects, payroll, and general operating expenses and \$5,214,622 of the Capital Projects Fund for future construction.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

- Unassigned: This classification includes all amounts not included in other spendable classifications, including the residual fund balance for the General Fund.

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 Board of Trustees has provided otherwise in its commitment or assignment actions.

The details of the fund balances are included in the Governmental Funds Balance Sheet (page 18) and are described below:

General Fund

The General Fund has unassigned fund balance of \$19,670,314 at August 31, 2017. Prepayments of \$115,826 are considered nonspendable fund balance. \$8,000,000 has been assigned for future capital projects, payroll, and general operating expenditures.

Other Major Funds

The Debt Service Fund has restricted funds of \$4,472,752 at August 31, 2017 consisting primarily of property tax collections that are restricted for debt service payments on bonded debt.

The Capital Projects Fund has restricted funds of \$3,662,600 at August 31, 2017 consisting primarily of unspent bond funds and \$5,214,622 of fund balance assigned for future construction.

Other Funds

The fund balance of \$164,730 of the Campus Activity Fund and \$25,946 Textbook Funds and \$30,047 local grants (special revenue funds) are shown as committed due to Board policy committing those funds to campus activities, textbooks, and local grants. The fund balance of \$1,228,808 in the Food Service Fund is shown as restricted for food service operations. The fund balance in the State Textbook Fund is shown as committed for textbooks.

NOTE 3. DEPOSITS AND INVESTMENTS

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

1. Cash Deposits:

At August 31, 2017, the carrying amount of the District's deposits in checking accounts and interest-bearing savings accounts was \$21,365,964, which includes \$9,032 cash on hand. The combined bank balance was \$22,903,706. The District's cash deposits at August 31, 2017 were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

2. Investments:

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

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy. That policy addresses the following risks:

- a. Custodial Credit Risk – Deposits: In the case of deposits, this is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. As of August 31, 2017, the District's cash balances in the bank totaled \$22,903,706. This entire amount was either collateralized with securities held by the District's financial institution's agent in the District's name or covered by FDIC insurance. Thus, the District's deposits were not exposed to custodial credit risk at August 31, 2017.
- b. Custodial Credit Risk - Investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At August 31, 2017, the District held investments in four public funds investment pools (TexPool, TexSTAR, Lonestar and Texas Class). Investments in external investment pools are considered unclassified as to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.
- c. Credit Risk: This is the risk that an issuer or other counterparty to an investment will be unable to fulfill its obligations. The rating of securities by nationally recognized rating agencies is designed to give an indication of credit risk. The credit quality rating for the four investment pools range from AAA (Standard & Poor's) to AAAM (Standard & Poor's).
- d. Interest Rate Risk: This is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase. The weighted average maturity for both TexPool and TexStar is less than 60 days.
- e. Foreign Currency Risk: This is the risk that exchange rates will adversely affect the fair value of an investment. At August 31, 2017, the District was not exposed to foreign currency risk.
- f. Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of the District's investment in a single issuer (i.e., lack of diversification). Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. Investment pools and government securities are excluded from the 5 percent disclosure requirement.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

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

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

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

<u>Name</u>	<u>Carrying Amount</u>	<u>Market Value</u>
TexPool	\$ 4,347,391	\$ 4,347,391
TexSTAR	1,392,471	1,392,471
Lonestar	12,337,497	12,337,497
Texas Class	<u>10,460,447</u>	<u>10,460,447</u>
Total	<u>\$28,537,806</u>	<u>\$28,537,806</u>

Fair Value Measurements

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 below.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements 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 judgement and considers factors specific to each asset or liability.

The District's investment in Texpool, TexStar, Lone Star, and Texas Class (statewide 2a7-like external investment pools) are not required to be measured at fair value but are measured at amortized cost.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

NOTE 4. CAPITAL ASSETS

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

	Balance September 1	Additions/ Completions	Retirement/ Adjustments	Balance August 31
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 10,742,680	\$ -	\$ -	\$ 10,742,680
Construction in Progress	3,317,336	17,414,840	(1,193,462)	19,538,714
Total capital assets, not being depreciated	14,060,016	17,414,840	(1,193,462)	30,281,394
Capital assets, being depreciated:				
Buildings	167,908,727	1,859,732	-	169,768,459
Furniture and Equipment	8,522,153	726,353	-	9,248,506
Total capital assets, being depreciated	176,430,880	2,586,085	-	179,016,965
Less accumulated depreciation for:				
Buildings	(49,033,503)	(4,654,151)	-	(53,687,654)
Furniture and Equipment	(3,295,608)	(718,830)	-	(4,014,438)
Total accumulated depreciation	(52,329,111)	(5,372,981)	-	(57,702,092)
Total capital assets being depreciated, net	124,101,769	(2,786,896)	-	121,314,873
Governmental activities capital assets, net	<u>\$138,161,785</u>	<u>\$14,627,944</u>	<u>\$(1,193,462)</u>	<u>\$151,596,267</u>
Business-type activities:				
Buildings and Improvements	\$ 114,687	\$ -	\$ -	\$ 114,687
Totals at historic cost	114,687	-	-	114,687
Less accumulated depreciation for:				
Buildings and Improvements	(22,937)	(11,469)	-	(34,406)
Total accumulated depreciation	(22,937)	(11,469)	-	(34,406)
Business-type activities capital assets net	<u>\$ 91,750</u>	<u>\$ (11,469)</u>	<u>\$ -</u>	<u>\$ 80,281</u>

Depreciation expense was charged as direct expense to programs of the District as follows:

Governmental activities:	
Instruction	\$2,911,734
Instructional Resources & Media Services	161,377
Curriculum & Instructional Staff Development	17,947
Instructional Leadership	14,499
School Leadership	110,836
Guidance, Counseling & Evaluation Services	24,004
Health Services	20,079
Student (Pupil) Transportation	406,612
Food Services	411,311
Cocurricular/Extracurricular Activities	667,796
General Administration	42,712
Plant Maintenance and Operations	518,344
Security and Monitoring Services	38,485
Data Processing Services	25,832
Community Services	1,413
Total depreciation expense-Governmental activities	<u>\$5,372,981</u>
Business-type activities:	
Child Care	\$ 11,469
Total depreciation expense Business-type activities	<u>\$ 11,469</u>

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

NOTE 5. MAINTENANCE TAX NOTE

The District is obligated under a maintenance tax note, which is an obligation of the General Fund.

A summary of changes in the maintenance tax note for the year ended August 31, 2017 is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Amount Outstanding 9-1-16</u>	<u>Issued Current Year</u>	<u>Retired Current Year</u>	<u>Amount Outstanding 8-31-17</u>	<u>Due Within One Year</u>
Maintenance Tax Note	4.25%	<u>\$4,215,000</u>	<u>\$ -</u>	<u>\$195,000</u>	<u>\$4,020,000</u>	<u>\$200,000</u>

Presented below is a summary of the maintenance tax note requirements to maturity:

<u>Year Ended August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2018	\$ 200,000	\$ 143,638	\$ 343,638
2019	200,000	139,638	339,638
2020	205,000	134,638	339,638
2021	210,000	129,513	339,513
2022	220,000	123,213	343,213
2023-2027	1,205,000	505,737	1,710,737
2028-2032	1,450,000	258,035	1,708,035
2033	330,000	14,025	344,025
	<u>\$4,020,000</u>	<u>\$1,448,437</u>	<u>\$5,468,437</u>

NOTE 6. CAPITAL LEASES

The District is obligated under three leases; two for equipment, and one for buses, accounted for as capital leases. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one, which transfers benefits and risks of ownership to the lease.

The following schedule lists personal property leased:

<u>Description</u>	<u>Interest Rate</u>	<u>Date of Agreement</u>	<u>Original Property Value</u>
Buses	1.99%	8/18/2003	\$3,732,284
Computers	2.10%	3/24/2016	665,324
Computers	2.30%	3/24/2016	1,851,964
Total			<u>\$6,249,572</u>

The lease terms range from three to ten years. The terms call for annual payments over the life of the leases. The capital lease obligations are payable from the General Fund.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

The following schedule shows the future minimum lease payments under the capitalized lease together with the present value of the net minimum lease payments as of August 31, 2017:

Years Ending August 31,	Annual Lease Payments
2018	\$1,058,083
2019	1,058,082
2020	886,535
2021	408,174
2022	408,174
Thereafter	<u>408,174</u>
Total future minimum lease payments	4,227,222
Less: Amount representing interest	<u>(232,486)</u>
Present value of net minimum lease payments	<u>\$3,994,736</u>

NOTE 7. LONG-TERM DEBT

Long-term debt includes par bonds, capital appreciation (deep discount) serial bonds, maintenance tax notes and four capital leases. All long-term debt represents transactions in the District's governmental activities.

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

The following is a summary of the changes in the District's Long-term Debt for the year ended August 31, 2017:

Description	Interest Rate Payable	Amounts Outstanding 9/1/16	Additions	Refunded/ Retired	Amounts Outstanding 8/31/17	Due Within One Year
Bonded Indebtedness:						
1995A School Bldg.	5.90%	\$ 90,000	\$ -	\$ -	\$ 90,000	\$ -
1999 School Bldg. & Ref.	6.22%	1,525,078	-	150,816	1,374,262	144,661
2002 School Bldg. & Ref.	6.29%	2,975,742	-	815,815	2,159,927	766,497
2003 School Bldg. & Ref.	5.93%	51,929	-	51,929	-	-
2008A School Building	4.00%	7,335,000	-	5,550,000	1,785,000	100,000
2008B Refunding	4.00%	865,000	-	145,000	720,000	135,000
2010 Refunding	4.25%	19,960,000	-	550,000	19,410,000	490,000
2012 Refunding	5.00%	48,265,000	-	3,565,000	44,700,000	-
2013 School Bldg. & Ref.	5.00%	5,880,000	-	-	5,880,000	-
2014 Refunding	4.25%	4,960,000	-	-	4,960,000	-
2015A Refunding	4.00%	11,095,000	-	480,000	10,615,000	495,000
2015B Refunding	4.00%	8,410,000	-	30,000	8,380,000	30,000
2016 School Bldg. & Ref.	5.00%	38,595,000	-	1,730,000	36,865,000	1,750,000
2017 School Refunding	4.00%	-	8,985,000	145,000	8,840,000	60,000
Total Bonded Indebtedness		<u>150,007,749</u>	<u>8,985,000</u>	<u>13,213,560</u>	<u>145,779,189</u>	<u>3,971,158</u>
Maintenance Tax Notes	4.25%	4,215,000	-	195,000	4,020,000	200,000
Capital Leases Payable	1.99%-5.36%	4,786,438	-	791,702	3,994,736	978,581
Accreted Interest Payable		25,153,941	1,700,884	2,496,440	24,358,385	-
Discount/Premium on Issuance of Debt		<u>9,303,462</u>	<u>984,184</u>	<u>433,984</u>	<u>9,853,662</u>	-
Total Other Obligations		<u>43,458,841</u>	<u>2,685,068</u>	<u>3,917,126</u>	<u>42,226,783</u>	<u>1,178,581</u>
Total Obligations of District		<u>\$193,466,590</u>	<u>\$11,670,068</u>	<u>\$17,130,686</u>	<u>\$188,005,972</u>	<u>\$5,149,739</u>

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

The 1995A, 1999, 2002, 2003, 2008A, 2008B, 2010, 2012 and 2013 bond series include outstanding capital appreciation bonds in the principal amount of \$10,219,189. The bonds mature variously beginning in 2018 through 2042. Interest accrues on these bonds each February 15 and August 15, even though the interest is not paid until maturity. The accrued interest of \$24,358,385 is accounted for as Accreted Interest Payable-Capital Appreciation Bonds.

General Obligation Bonds are direct obligations issued on a pledge of the general taxing power for the payment of the debt obligations of the District. General Obligation Bonds require the District to compute, at the time taxes are levied, the rate of tax required to provide (in each year bonds are outstanding) a fund to pay interest and principal at maturity. The District is in compliance with this requirement.

There are a number of limitations and restrictions contained in the various general obligation bonds indentures. The District is in compliance with all significant limitations and restrictions at August 31, 2017.

Presented below is a summary of general obligation bond requirements to maturity:

Year Ended August 31,	Principal	Interest	Total Requirements
2018	\$ 3,971,158	\$ 7,992,878	\$ 11,964,036
2019	3,998,818	7,900,713	11,899,531
2020	4,000,216	7,902,809	11,903,025
2021	3,822,589	7,936,847	11,759,436
2022	3,766,267	7,988,914	11,755,181
2023-2027	15,653,638	41,255,469	56,909,107
2028-2032	29,911,503	26,667,509	56,579,012
2033-2037	42,560,000	14,390,025	56,950,025
2038-2042	<u>38,095,000</u>	<u>4,224,525</u>	<u>42,319,525</u>
	<u>\$145,779,189</u>	<u>\$126,259,689</u>	<u>\$272,038,878</u>

NOTE 8. DEBT ISSUANCE AND DEFEASED BONDS OUTSTANDING

In May 2017 the District issued \$8,985,000 (par value) in unlimited school building and tax refunding bonds (current interest bonds) to advance refund \$9,010,000 of unlimited tax school building and refunding bonds. The bonds were issued at a premium of \$984,184, and, after paying issuance costs of \$151,655 the net proceeds were \$9,817,529. The net proceeds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments on the refunded bonds until the bonds mature. The advanced refunding met the requirements of an in-substance debt defeasance and the unlimited tax school building bonds were removed from the District's General Long-Term Debt. The advance refunding resulted in a present value economic gain (difference between present value of debt service payments on the old and new debt) of \$964,352.

In the current and prior years, the District issued refunding bonds to defease certain outstanding bonds for the purpose of consolidation and to achieve debt service savings. The District has placed the proceeds from the refunding issues in irrevocable escrow accounts with a trust agent to ensure payment of debt service on the refunded bonds.

Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. Although defeased, the refunded debt from those earlier issues will not be actually retired until the call dates have come due or until maturity if they are not callable issues. On August 31, 2017, \$16,115,000 of bonds outstanding are considered defeased.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

The District's deferred charges on bond refundings are as follows:

Balance – August 31, 2016	\$6,435,802
Current year gain on bond refunding	(298,891)
Current year amortization	<u>(726,274)</u>
Balance – August 31, 2017	<u>\$5,410,637</u>

NOTE 9. PROPERTY TAXES

Property taxes are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The District levies its taxes on October 1 on the assessed (appraised) value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. The assessed value of the property tax roll upon which the levy for the 2016-17 fiscal year was based was \$3,245,898. Taxes are delinquent if not paid by June 30. Delinquent taxes are subject to both penalty and interest charges plus 15 % delinquent collection fees for attorney costs.

The tax rates assessed for the year ended August 31, 2017, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.17 and \$0.37 per \$100 valuation, respectively, for a total of \$1.54 per \$ 100 valuation.

Current tax collections for the year ended August 31, 2017 were 99.26% of the year-end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the General and Debt Service Funds are based on historical experience in collecting 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. As of August 31, 2017, property taxes receivable, net of estimated uncollectible taxes, totaled \$779,830 and \$298,826 for the General and Debt Service Funds, respectively.

Property taxes are recorded as receivables and unavailable revenues at the time the taxes are assessed. Revenues are recognized as the related ad valorem taxes are collected. Additional amounts estimated to be collectible in time to be a resource for payment of obligations incurred during the fiscal year and therefore susceptible to accrual in accordance with Generally Accepted Accounting Principles have been recognized as revenue.

NOTE 10. DEFINED BENEFIT PENSION PLAN

Plan Description. Little Elm 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). TRS's defined benefit pension plan is 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.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

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 above.

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

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

Contribution Rates

	<u>2016</u>	<u>2017</u>
Member	7.2%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%

Little Elm ISD FY2017 Employer Contributions	\$ 1,309,535
Little Elm ISD FY2017 Member Contributions	\$ 3,189,828
Little Elm ISD 2017 NECE On-Behalf Contributions	\$ 2,053,526

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

As the non-employer contributing entity for public education, 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 the 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:

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

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

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

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

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

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

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

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

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

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 Expectation			2.2%
Alpha	0%		1.0%
Total	100%		8.7%

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

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

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
Little Elm ISD's proportionate share of the net pension liability:	\$23,015,998	\$14,871,455	\$7,963,231

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2017, Little Elm Independent School District reported a liability of \$14,871,455 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to Little Elm Independent School District. The amount recognized by Little Elm 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 Little Elm Independent School District were as follows:

District's Proportionate share of the collective net pension liability	\$14,871,455
State's proportionate share that is associated with the District	<u>23,843,301</u>
Total	<u>\$38,714,756</u>

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

At August 31, 2016 the employer's proportion of the collective net pension liability was 0.0393544%, an increase of 0.0012704% from its proportionate share of 0.038084% at August 31, 2015.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

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, Little Elm Independent School District recognized pension expense of \$2,474,366 and revenue of \$2,474,366 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 233,182	\$ 444,053
Changes in actuarial assumptions	453,255	412,217
Difference between projected and actual investment earnings	2,865,750	1,606,466
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	3,267,604	1,176
Contributions paid to TRS subsequent to the measurement date	1,309,535	-
Total	\$8,129,326	\$2,463,912

\$1,309,535 reported as deferred outflows of resources resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended August 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	Pension Expense Amount
2018	\$ 756,992
2019	756,992
2020	1,560,224
2021	695,274
2022	456,550
Thereafter	129,847

NOTE 11. SCHOOL DISTRICT RETIREE HEALTH PLAN

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

**LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017**

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% as of September 1, 2013 and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal year 2017, 2016, and 2015. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For the years ended August 31, 2017, 2016, and 2015, the State's contributions to TRS-Care were \$396,967, \$406,252, and \$363,871, respectively, the active member contributions were \$269,272, \$264,064, and \$236,516, respectively, and the school district's contribution were \$245,143, \$223,645, and \$200,130, respectively, which equaled the required contributions each year.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. These on-behalf payments are recognized as equal revenues and expenditures/expenses by the District. For the year ended August 31, 2017, the contribution made on behalf of the District was \$193,273.

NOTE 12. HEALTH CARE

During the year ended August 31, 2017, employees of Little Elm Independent School District were covered by the TRS-Active Care health insurance plan (the Plan). The District contributed \$325 per month per employee to the Plan and employees, at their option, authorized payroll withholdings to pay any additional contribution and contributions for dependents. All contributions were paid to a self-funded pool. The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreement.

NOTE 13. DUE FROM OTHER GOVERNMENTS

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

<u>Fund</u>	<u>State Grant</u>	<u>Federal Grants</u>	<u>Total</u>
General Fund	\$3,876,110	\$ -	\$3,876,110
Special Revenue	-	330,200	330,200
Total	<u>\$3,876,110</u>	<u>\$330,200</u>	<u>\$4,206,310</u>

NOTE 14. LITIGATION AND CONTINGENCIES

The District participates in numerous state and Federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at August 31, 2017 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

NOTE 15. REVENUES FROM LOCAL AND INTERMEDIATE SOURCES

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

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
Property Taxes	\$37,365,155	\$ -	\$11,847,037	\$ -	\$49,212,192
Food Sales	-	1,530,693	-	-	1,530,693
Investment Income	200,509	4,948	69,460	168,795	443,712
Penalties, interest and other tax related income	191,476	-	62,863	-	254,339
Co-curricular student activities	104,913	696,866	-	-	801,779
Other	1,426,964	44,370	-	-	1,471,334
Total	<u>\$39,289,017</u>	<u>\$2,276,877</u>	<u>\$11,979,360</u>	<u>\$168,795</u>	<u>\$53,714,049</u>

NOTE 16. UNEARNED REVENUE

Unearned revenue at year-end consisted of the following:

	General Fund	Special Revenue Funds	Total
Tuition and Fees	\$ 16,545	\$ -	\$ 16,545
Devise Protection Plan	132,968	-	132,968
Grant Funds	31,000	2,399	33,399
Insurance Proceeds	2,030,929	-	2,030,929
	<u>\$2,211,442</u>	<u>\$ 2,399</u>	<u>\$2,213,841</u>

NOTE 17. GENERAL FUND FEDERAL SOURCE REVENUES

<u>Program or Source</u>	<u>CFDA Number</u>	<u>Amount</u>	<u>Total Grant or Entitlement</u>
General Fund:			
Impact Aid	84.041	\$ 520,288	\$ 520,288
Watershed Protection & Flood Control	10.904	73,778	73,778
SHARS		1,035,551	1,035,551
Indirect Costs		68,839	68,839
Total for General Fund		<u>\$1,698,456</u>	<u>\$1,698,456</u>

NOTE 18. GOVERNMENTAL FUNDS EXPENDITURES

Expenditures reported in the governmental funds are generally recorded when a liability is incurred, as under accrual accounting, and reported in the statement of revenues, expenditures, and changes in fund balances according to function or general operational area.

**LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017**

The following presents Little Elm ISD's expenditures according to the nature of the transactions.

		General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
6100	Payroll Costs	\$48,345,832	\$2,694,729	\$ -	\$ -	\$51,040,561
6200	Professional and contracted services	6,719,021	414,765	-	-	7,133,786
6300	Supplies and materials	3,298,174	3,421,105	-	-	6,719,279
6400	Other operating costs	1,479,253	269,901	-	-	1,749,154
6500	Debt service expenditures	1,204,877	-	12,219,248	-	13,424,125
6600	Capital outlay	<u>1,550,637</u>	<u>104,652</u>	<u>-</u>	<u>17,152,174</u>	<u>18,807,463</u>
	Total governmental expenditures	<u>\$62,597,794</u>	<u>\$6,905,152</u>	<u>\$12,219,248</u>	<u>\$17,152,174</u>	<u>\$98,874,368</u>

NOTE 19. INTERFUND TRANSFERS

During the year ended August 31, 2017, the District transferred \$4,215,000 from the District's General Fund to the District's Capital Projects Fund as a fund balance transfer to cover construction and renovation projects. The District also transferred \$8,657 from the Campus Activity Fund to Local Grants Fund (both special revenue funds) to transfer certain contributions.

NOTE 20. CONSTRUCTION COMMITMENTS

As of August 31, 2017, the District had entered into a construction contract for construction at its high school totaling \$17,710,939. At August 31, 2017, there was \$2,350,437 remaining costs under this contract. These costs will be paid from the District's Capital Projects Fund.

NOTE 21. PRIOR PERIOD ADJUSTMENT

The District recorded a prior period adjustment in the government-wide financial statements to reflect additional interest amounts. The adjustment reduced beginning net position by \$260,017.



RBC Capital Markets

PAYING AGENT/REGISTRAR AGREEMENT

between

LITTLE ELM INDEPENDENT SCHOOL DISTRICT

and

UMB BANK N.A.

Pertaining to

Little Elm Independent School District
Unlimited Tax School Building Bonds
Series 2018A

Dated as of July 15, 2018

TABLE OF CONTENTS

Page

ARTICLE I

APPOINTMENT OF BANK AS PAYING AGENT AND REGISTRAR

Section 1.01. Appointment	1
Section 1.02. Compensation	1
Section 1.03. Anti-Boycott Verification	2
Section 1.04. Iran, Sudan and Foreign Terrorist Organizations	2
Section 1.05. Form 1295 Exemption	2

ARTICLE II

DEFINITIONS

Section 2.01. Definitions	2
Section 2.02. Other Definitions	4

ARTICLE III

PAYING AGENT

Section 3.01. Duties of Paying Agent	4
Section 3.02. Payment Dates	4

ARTICLE IV

REGISTRAR

Section 4.01. Transfer and Exchange	4
Section 4.02. The Bonds	5
Section 4.03. Form of Register	5
Section 4.04. List of Owners	5
Section 4.05. Cancellation of Bonds	5
Section 4.06. Mutilated, Destroyed, Lost, or Stolen Bonds	6
Section 4.07. Transaction Information to Issuer	6

ARTICLE V

THE BANK

Section 5.01. Duties of Bank	7
Section 5.02. Reliance on Documents, Etc	7
Section 5.03. Recitals of Issuer	8
Section 5.04. May Hold Bonds	8

Section 5.05. Money Held by Bank	8
Section 5.06. Indemnification	8
Section 5.07. Interpleader	9
Section 5.08. Merger, Conversion, Consolidation, or Succession.....	9

ARTICLE VI

MISCELLANEOUS PROVISIONS

Section 6.01. Amendment.....	9
Section 6.02. Assignment	9
Section 6.03. Notices	9
Section 6.04. Effect of Headings	9
Section 6.05. Successors and Assigns.....	9
Section 6.06. Separability	10
Section 6.07. Benefits of Agreement	10
Section 6.08. Entire Agreement	10
Section 6.09. Counterparts.....	10
Section 6.10. Termination.....	10
Section 6.11. Governing Law	10

ANNEX "A" - Schedule Of Fees For Service As Paying Agent/Registrar	A- 1
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PAYING AGENT/REGISTRAR AGREEMENT

THIS PAYING AGENT/REGISTRAR AGREEMENT (the or this "Agreement"), dated as of July 15, 2018 is by and between Little Elm Independent School District (the "Issuer"), and UMB Bank N.A., a national banking association duly organized and existing under the laws of the United States of America, in its capacity as paying agent and registrar hereunder (the "Bank").

WHEREAS, the Issuer has duly authorized and provided for the issuance of its Unlimited Tax School Building Bonds, Series 2018A (the "Bonds"), in an aggregate principal amount of \$23,885,000 to be issued as registered securities without coupons; and

WHEREAS, all things necessary to make the Bonds the valid obligations of the Issuer, in accordance with their terms, will be taken upon the issuance and delivery thereof; and

WHEREAS, the Issuer is desirous that the Bank act as the Paying Agent of the Issuer in paying the principal, redemption premium, if any, and interest on the Bonds, in accordance with the terms thereof, and that the Bank act as Registrar for the Bonds; and

WHEREAS, the Issuer has duly authorized the execution and delivery of this Agreement; and all things necessary to make this Agreement the valid agreement of the Issuer, in accordance with its terms, have been done.

NOW, THEREFORE, it is mutually agreed as follows:

ARTICLE I

APPOINTMENT OF BANK AS PAYING AGENT AND REGISTRAR

Section 1.01. Appointment. (a) The Issuer hereby appoints the Bank to act as Paying Agent with respect to the Bonds in paying to the Owners of the Bonds the principal, redemption premium, if any, and interest on all or any of the Bonds.

(b) The Issuer hereby appoints the Bank as Registrar with respect to the Bonds.

(c) The Bank hereby accepts its appointment, and agrees to act as, the Paying Agent and Registrar.

Section 1.02. Compensation. (a) As compensation for the Bank's services as Paying Agent/Registrar, the Issuer hereby agrees, so long as this Agreement is in effect, to pay the Bank the fees and amounts set forth in Annex A hereto for so long as the principal of and interest on, or redemption price of, the Bonds is unpaid.

(b) In addition, the Issuer agrees to reimburse the Bank upon its request for all reasonable expenses, disbursements, and advances incurred or made by the Bank in accordance with any of the provisions hereof, including the reasonable compensation and the expenses and disbursements of its agents and counsel.

Section 1.03. Anti-Boycott Verification. The Bank represents that, to the extent this Agreement constitutes a contract for goods or services within the meaning of Section 2270.002 of the Texas Government Code, as amended, solely for purposes of compliance with Chapter 2270 of the Texas Government Code, and subject to applicable Federal law, neither the Bank nor any wholly owned subsidiary, majority-owned subsidiary, parent company or affiliate of the Bank (i) boycotts Israel or (ii) will boycott Israel through the term of this Agreement. The terms “boycotts Israel” and “boycott Israel” as used in this paragraph have the meanings assigned to the term “boycott Israel” in Section 808.001 of the Texas Government Code, as amended.

Section 1.04. Iran, Sudan and Foreign Terrorist Organizations. The Bank represents that, as of the date of this Agreement, to the extent this Agreement constitutes a governmental contract within the meaning of Section 2252.151 of the Texas Government Code, as amended, solely for purposes of compliance with Chapter 2252 of the Texas Government Code, and except to the extent otherwise required by applicable federal law, neither the Bank nor any wholly owned subsidiary, majority-owned subsidiary, parent company or affiliate of the Bank is an entity listed by the Texas Comptroller of Public Accounts under Sections 2252.153 or 2270.0201 of the Texas Government Code.

Section 1.05. Form 1295 Exemption. For purposes of Section 2252.908, Texas Government Code, as amended, the Bank hereby certifies that it is a wholly owned subsidiary of a publicly traded business entity. The term “business entity” as used in this paragraph means any entity recognized by law through which business is conducted, including a sole proprietorship, partnership, or corporation.

ARTICLE II

DEFINITIONS

Section 2.01. Definitions. For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires, the following terms have the following meanings when used in this Agreement:

“Bank” means UMB Bank, N.A., Dallas, Texas.

“Bond” or “Bonds” means any or all of the Issuer’s Unlimited Tax School Building Bonds, Series 2018A, dated July 15, 2018.

“Bond Order” means the resolution, order or ordinance of the governing body of the Issuer, certified by the Secretary of the governing body of the Issuer or any other officer of the Issuer, pursuant to which the Bonds are issued and delivered to the Bank.

“Designated Payment/Transfer Office” means the corporate trust office of the Bank located in Dallas, Texas, or at such other location as designated by the Paying Agent/Registrar. The Bank will notify the Issuer in writing of any change in the location of the Designated Payment/Transfer Office.

“Financial Advisor” means RBC Capital Markets.

“Fiscal Year” means the fiscal year of the Issuer.

“Issuer Request” and “Issuer Order” means a written request or order signed in the name of the Issuer by an authorized representative of the Issuer and delivered to the Bank.

“Legal Holiday” means a day on which the Bank is required or authorized by applicable law to be closed.

“Order” means the order adopted by the Board of Trustees of the Issuer authorizing the issuance and delivery of the Bonds together with the pricing certificate executed pursuant to such Order.

“Owner” means the Person in whose name a Bond is registered in the Register.

“Paying Agent” means the Bank when it is performing the functions associated with the terms in this Agreement.

“Person” means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization, or government or any agency or political subdivision of a government.

“Predecessor Bonds” of any particular Bond means every previous Bond evidencing all or a portion of the same obligation as that evidenced by such particular Bond (and, for the purposes of this definition, any Bond registered and delivered under Section 4.06 in lieu of a mutilated, lost, destroyed or stolen Bond shall be deemed to evidence the same obligation as the mutilated, lost, destroyed or stolen Bond).

“Pricing Certificate” means the pricing certificate executed on April 3, 2018, pursuant to the Order, setting forth the terms of the Bonds.

“Record Date” means, with respect to the Bonds, the close of business on the last Business Day of the month next preceding an Interest Payment Date or such other date as specified in the Pricing Certificate.

“Register” means a register in which the Issuer shall provide for the registration and transfer of Bonds.

“Responsible Officer” when used with respect to the Bank means the Chairman or Vice Chairman of the Board of Directors, the Chairman or Vice Chairman of the Executive Committee of the Board of Directors, the President, any Vice President, the Secretary, any Assistant Secretary, the Treasurer, any Assistant Treasurer, the Cashier, any Assistant Cashier, any Trust Officer or Assistant Trust Officer, or any other officer of the Bank customarily performing functions similar to those performed by any of the above designated officers and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject.

“Stated Maturity” means the date or dates specified in the Bond Order as the fixed date on which the principal of the Bonds is due and payable or the date fixed in accordance with the

terms of the Bond Order for redemption of the Bonds, or any portion thereof, prior to the fixed maturity date.

Section 2.02. Other Definitions. The terms "Bank", "Issuer" and "Agreement" have the meanings assigned to them in the opening paragraph of this Agreement.

ARTICLE III

PAYING AGENT

Section 3.01. Duties of Paying Agent. (a) The Bank, as Paying Agent and on behalf of the Issuer, provided adequate funds shall have been provided to it for such purpose on behalf of the Issuer, shall pay to the Owner at the Stated Maturity and upon the surrender of the Bond or Bonds so maturing at the Designated Payment/Transfer Office, the amount of the Bond or Bonds then maturing, and redemption premium, if any, at the Designated Payment/Transfer Office provided that the Bank shall have been provided by or on behalf of the Issuer adequate funds to make such payment.

(b) The Bank, as Paying Agent and on behalf of the Issuer, shall pay interest when due on the Bonds to each Owner of the Bonds (or their Predecessor Bonds) as shown in the Register at the close of business on the Record Date, provided that the Bank shall have been provided by or on behalf of the Issuer adequate funds to make such payments; such payments shall be made by computing the amount of interest to be paid each Owner, preparing the checks, and mailing the checks on each payment date addressed to the addresses thereof as appearing on the Register on the Record Date.

Section 3.02. Payment Dates. The Issuer hereby instructs the Bank to pay the principal of, redemption premium, if any, and interest on the Bonds at the dates specified in the Order.

ARTICLE IV

REGISTRAR

Section 4.01. Transfer and Exchange. (a) The Bank, as Registrar and on behalf of the Issuer, shall keep the Register at the Bank Office, and the Designated Payment/Transfer Office, and subject to such reasonable written regulations as the Issuer may prescribe, which regulations shall be furnished the Bank herewith or subsequent hereto by Issuer Order, the Issuer shall provide for the registration and transfer of the Bonds. The Bank is hereby appointed "Registrar" for the purpose of registering and transferring the Bonds as herein provided. The Bank agrees to maintain the Register while it is Registrar.

(b) The Bank as Registrar hereby agrees that at any time while any Bond is outstanding, the Owner may deliver such Bond to the Designated Payment/Transfer Office for transfer or exchange, accompanied by instructions from the Owner, or the duly authorized designee of the Owner, designating the persons, the maturities, and the principal amounts to and in which such Bond is to be transferred and the addresses of such persons; the Bank shall thereupon, within not more than three (3) business days, register and deliver such Bond or Bonds as provided in such instructions. The provisions of the Order shall control the procedures for

transfer or exchange set forth herein to the extent such procedures are in conflict with the provisions of the Order.

(c) Every Bond surrendered for transfer or exchange shall be duly endorsed or be accompanied by a written instrument of transfer, the signature on which has been guaranteed in a manner acceptable to the Paying Agent/Registrar and in form satisfactory to the Bank, duly executed by the Owner thereof or his attorney duly authorized in writing.

(d) The Bank may request any supporting documentation it feels necessary to effect a re-registration.

Section 4.02. The Bonds. The Issuer shall provide an adequate inventory of unregistered Bonds to facilitate transfers. The Bank covenants that it will maintain the unregistered Bonds in safekeeping and will use reasonable care in maintaining such unregistered Bonds in safekeeping, which shall be not less than the care it maintains for debt securities of other governments or corporations for which it serves as registrar, or which it maintains for its own securities.

Section 4.03. Form of Register. (a) The Bank as Registrar will maintain the records of the Register in accordance with the Bank's general practices and procedures in effect from time to time. The Bank shall not be obligated to maintain such Register in any form other than a form which the Bank has currently available and utilizes at the time.

(b) The Register may be maintained in written form or in any other form capable of being converted into written form within a reasonable time.

Section 4.04. List of Owners. (a) The Bank will provide the Issuer at any time requested by the Issuer, upon payment of the cost, if any, of reproduction, a copy of the information contained in the Register. The Issuer may also inspect the information in the Register at any time the Bank is customarily open for business, provided that reasonable time is allowed the Bank to provide an up-to-date listing or to convert the information into written form.

(b) Unless otherwise required by law, the Bank will not release or disclose the content of the Register to any person other than to, or at the written request of, an authorized officer or employee of the Issuer. Upon receipt of a subpoena or court order, the Bank will notify the Issuer so that the Issuer may contest the subpoena or court order.

(c) At all times, while the Bank is the Registrar, the Bank shall maintain and have available a copy of the Register at its office in Dallas, Texas.

Section 4.05. Cancellation of Bonds. All Bonds surrendered for payment, redemption, transfer, exchange, or replacement, if surrendered to the Bank, shall be promptly canceled by it and, if surrendered to the Issuer, shall be delivered to the Bank and, if not already canceled, shall be promptly canceled by the Bank. The Issuer may at any time deliver to the Bank for cancellation any Bonds previously certified or registered and delivered which the Issuer may have acquired in any manner whatsoever, and all Bonds so delivered shall be promptly canceled by the Bank. All canceled Bonds held by the Bank shall be disposed of pursuant to the Securities Exchange Act of 1934.

Section 4.06. Mutilated, Destroyed, Lost, or Stolen Bonds. (a) Subject to the provisions of this Section 4.06, the Issuer hereby instructs the Bank to deliver fully registered Bonds in exchange for or in lieu of mutilated, destroyed, lost, or stolen Bonds as long as the same does not result in an overissuance.

(b) If (i) any mutilated Bond is surrendered to the Bank at the Designated Payment/Transfer Office, or the Issuer and the Bank receives evidence to their satisfaction of the destruction, loss, or theft of any Bond, and (ii) there is delivered to the Issuer and the Bank such security or indemnity as may be required by the Bank to save and hold each of them harmless, then in the absence of notice to the Issuer or the Bank that such Bond has been acquired by a bona fide purchaser, the Issuer shall execute, and upon its request the Bank shall register and deliver, in exchange for or in lieu of any such mutilated, destroyed, lost, or stolen Bond, a new Bond of the same stated maturity and of like tenor and principal amount bearing a number not contemporaneously outstanding.

(c) Every new Bond issued pursuant to this Section in lieu of any mutilated, destroyed, lost, or stolen Bond shall constitute a replacement of the prior obligation of the Issuer, whether or not the mutilated, destroyed, lost, or stolen Bond shall be at any time enforceable by anyone, and shall be entitled to all the benefits of the Order equally and ratably with all other outstanding Bonds.

(d) Upon the satisfaction of the Bank and the Issuer that a Bond has been mutilated, destroyed, lost, or stolen, and upon receipt by the Bank and the Issuer of such indemnity or security as they may require, the Bank shall cancel the Bond number on the Bond registered with a notation in the Register that said Bond has been mutilated, destroyed, lost, or stolen; and a new Bond shall be issued of the same series and of like tenor and principal amount bearing a number, according to the Register, not contemporaneously outstanding.

(e) The Bank may charge the Owner the Bank's fees and expenses in connection with issuing a new Bond in lieu of or exchange for a mutilated, destroyed, lost, or stolen Bond.

(f) The Issuer hereby accepts the Bank's current blanket bond for lost, stolen, or destroyed Bonds and any future substitute blanket bond for lost, stolen, or destroyed Bonds that the Bank may arrange, and agrees that the coverage under any such blanket bond is acceptable to it and meets the Issuer's requirements as to security or indemnity. The Bank need not notify the Issuer of any changes in the security or other company giving such bond or the terms of any such bond, provided that the amount of such bond is not reduced below the amount of the bond on the date of execution of this Agreement. The blanket bond then utilized by the Bank for lost, stolen, or destroyed Bonds by the Bank is available for inspection by the Issuer on request.

Section 4.07. Transaction Information to Issuer. The Bank will, within a reasonable time after receipt of written request from the Issuer, furnish the Issuer information as to the Bonds it has paid pursuant to Section 3.01; Bonds it has delivered upon the transfer or exchange of any Bonds pursuant to Section 4.01; and Bonds it has delivered in exchange for or in lieu of mutilated, destroyed, lost, or stolen Bonds pursuant to Section 4.06 of this Agreement.

ARTICLE V

THE BANK

Section 5.01. Duties of Bank. The Bank undertakes to perform the duties set forth herein and in accordance with the Order and agrees to use reasonable care in the performance thereof. The Bank hereby agrees to use the funds deposited with it for payment of the principal of, redemption premium, if any, and interest on the Bonds to pay the Bonds as the same shall become due and further agrees to establish and maintain all accounts and funds as may be required for the Bank to function as Paying Agent. The Bank is also authorized to transfer funds relating to the closing and initial delivery of the Bonds in the manner described in the closing memorandum prepared by the Issuer's Financial Advisor or other agent on behalf of the Issuer. The Bank may act on a facsimile or email transmission of the closing memorandum acknowledged by the Issuer's Financial Advisor or the Issuer as the final closing memorandum. The Bank shall not be liable for any losses, costs or expenses arising directly or indirectly from the Bank's reliance upon and compliance with such instructions.

Section 5.02. Reliance on Documents, Etc. (a) The Bank may conclusively rely, as to the truth of the statements and correctness of the opinions expressed therein, on certificates or opinions furnished to the Bank.

(b) The Bank shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it shall be proved that the Bank was negligent in ascertaining the pertinent facts.

(c) No provisions of this Agreement shall require the Bank to expend or risk its own funds or otherwise incur any financial liability for performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity satisfactory to it against such risks or liability is not assured to it.

(d) The Bank may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, certificate, note, security, or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. Without limiting the generality of the foregoing statement, the Bank need not examine the ownership of any Bonds, but is protected in acting upon receipt of Bonds containing an endorsement or instruction of transfer or power of transfer which appears on its face to be signed by the Owner or an attorney-in-fact of the Owner. The Bank shall not be bound to make any investigation into the facts or matters stated in a resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, certificate, note, security, or other paper or document supplied by Issuer.

(e) The Bank may consult with counsel, and the written advice of such counsel or any opinion of counsel shall be full and complete authorization and protection with respect to any action taken, suffered, or omitted by it hereunder in good faith and in reliance thereon.

(f) The Bank may exercise any of the powers hereunder and perform any duties hereunder either directly or by or through agents or attorneys and the Bank.

Section 5.03. Recitals of Issuer. (a) The recitals contained herein and in the Bonds shall be taken as the statements of the Issuer, and the Bank assumes no responsibility for their correctness.

(b) The Bank shall in no event be liable to the Issuer, any Owner, or any other Person for any amount due on any Bond except as otherwise expressly provided herein with respect to the liability of the Bank for its duties under this Agreement.

Section 5.04. May Hold Bonds. The Bank, in its individual or any other capacity, may become the Owner or pledgee of Bonds and may otherwise deal with the Issuer with the same rights it would have if it were not the Paying Agent/Registrar, or any other agent.

Section 5.05. Money Held by Bank. (a) Money held by the Bank hereunder need not be segregated from any other funds provided appropriate accounts are maintained.

(b) The Bank shall be under no liability for interest on any money received by it hereunder.

(c) Subject to the provisions of Title 6, Texas Property Code, any money deposited with the Bank for the payment of the principal or redemption premium, if any, of or interest on any Bond and remaining unclaimed for three years after final maturity of the Bond will be paid by the Bank to the Issuer, and the Owner of such Bond shall thereafter look only to the Issuer for payment thereof, and all liability of the Bank with respect to such monies shall thereupon cease.

(d) The Bank will comply with the reporting requirements of Chapter 74 of the Texas Property Code.

(e) When the Bank is not the Owner of all of the Bonds outstanding, the Bank shall deposit any moneys received from the Issuer into a trust account to be held in a fiduciary capacity for the payment of the Bonds, with such moneys in the account that exceed the deposit insurance available to the Issuer provided by the Federal Deposit Insurance Corporation to be fully collateralized with securities or obligations that are eligible under the laws of the State of Texas and to the extent practicable under the laws of the United States of America to secure and be pledged as collateral for trust accounts until the principal and interest on the Bonds have been presented for payment and paid to the owner thereof. Payments made from such trust account shall be made by check drawn on such trust account unless the owner of such Bonds shall, at its own expense and risk, request such other medium of payment.

Section 5.06. Indemnification. To the extent permitted by law, the Issuer agrees to indemnify the Bank, its officers, directors, employees, and agents for, and hold them harmless against, any loss, liability, or expense incurred without negligence or bad faith on their part arising out of or in connection with its acceptance or administration of the Bank's duties hereunder, and under Article V of the Order, including the cost and expense (including its counsel fees) of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties under this Agreement.

Section 5.07. Interpleader. The Issuer and the Bank agree that the Bank may seek adjudication of any adverse claim, demands or controversy over its persons as well as funds on deposit in the appropriate state or federal court located in the State of Texas; waive personal service of any process; and agree that service of process by certified or registered mail, return receipt requested, to the address set forth in this Agreement shall constitute adequate service. The Issuer and the Bank further agree that the Bank has the right to file a Bill of Interpleader in any court of competent jurisdiction within the State of Texas to determine the rights of any person claiming any interest herein.

Section 5.08. Merger, Conversion, Consolidation, or Succession. Any corporation into which the Paying Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion, or consolidation to which the Paying Agent shall be a party, or any corporation succeeding to all or substantially all of the corporate trust business of the Paying Agent shall be the successor of the Paying Agent hereunder without the execution or filing of any paper or any further act on the part of either of the parties hereto.

ARTICLE VI

MISCELLANEOUS PROVISIONS

Section 6.01. Amendment. This Agreement may be amended only by an agreement in writing signed by both of the parties hereof.

Section 6.02. Assignment. This Agreement may not be assigned by either party without the prior written consent of the other.

Section 6.03. Notices. Any request, demand, authorization, direction, notice, consent, waiver, or other document provided or permitted hereby to be given or furnished to the Issuer or the Bank shall be mailed or delivered to the Issuer or the Bank, respectively, at the addresses shown below:

- (a) if to the Issuer: Little Elm Independent School District
1900 Walker Lane
Little Elm, Texas 75068
Attention: Superintendent
- (b) if to the Bank: UMB Bank, N.A.
928 Grand Blvd., 4th Floor
Kansas City, MO 64106
Attn: Corporate Trust Operations

Section 6.04. Effect of Headings. The Article and Section headings herein are for convenience only and shall not affect the construction hereof.

Section 6.05. Successors and Assigns. All covenants and agreements herein by the Issuer shall bind its successors and assigns, whether so expressed or not.

Section 6.06. Separability. If any provision herein shall be invalid, illegal, or unenforceable, the validity, legality, and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 6.07. Benefits of Agreement. Nothing herein, express or implied, shall give to any Person, other than the parties hereto and their successors hereunder, any benefit or any legal or equitable right, remedy, or claim hereunder.

Section 6.08. Entire Agreement. This Agreement and the Order constitute the entire agreement between the parties hereto relative to the Bank acting as Paying Agent/Registrar, and if any conflict exists between this Agreement and the Order, the Order shall govern.

Section 6.09. Counterparts. This Agreement may be executed in any number of counterparts, each which shall be deemed an original and all of which shall constitute one and the same Agreement.

Section 6.10. Termination. (a) This Agreement will terminate on the date of final payment by the Bank issuing its checks for the final payment of principal, redemption premium, if any, and interest of the Bonds.

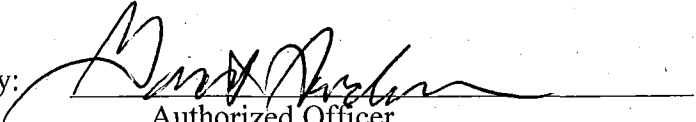
(b) This Agreement may be earlier terminated upon sixty (60) days written notice by either party, provided that no termination shall be effective until a successor has been appointed by the Issuer and has accepted the duties imposed by this Agreement.

(c) The provisions of Section 1.02 and of Article V shall survive and remain in full force and effect following the termination of this Agreement.

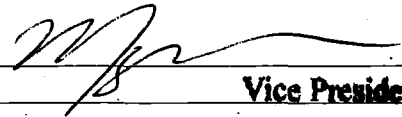
Section 6.11. Governing Law. This Agreement shall be construed in accordance with and governed by the laws of the State of Texas.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first written above.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT

By: 
Authorized Officer

UMB BANK N.A.
as Paying Agent/Registrar

By: 
Title: Vice President

ANNEX "A"

SCHEDULE OF FEES FOR SERVICE AS PAYING AGENT/REGISTRAR

Annex A

July 25, 2018



FEES AND EXPENSES

FOR:

**Little Elm Independent School District
Unlimited Tax School Building Bonds,
Series 2018A**

Fees for services are as follows:

Acceptance Fee:	WAIVED
------------------------	---------------

A one-time fee payable at closing to cover the review of governing documents, communication with financing team, set-up of account records and customary duties and responsibilities relating to the closing.

Annual Paying Agent/Registrar Fee:	\$400.00
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Annual fee to cover the duties and responsibilities of the Paying Agent/Registrar related to the administration of the transaction including the maintenance of account records on various systems, the monitoring of required compliance items, payment of debt services and all routine duties as contemplated by the governing documents.

- First year annual fee is payable in advance on the closing date and annually thereafter until termination.
- A \$300 fee will be billed for Optional Redemptions at the time of service.

Extraordinary Services/ Miscellaneous Fees:
--

The fees, charges and expenses specified herein are for the typical and customary services as Bond Registrar and Paying Agent. UMB may also charge for typical out-of-pocket expenses and other expenses connected with paying agent and registrar services for bond issues of similar size and type such as; postage, supplies, bond redemptions, courier, wire transfer and long distance telephone. Fees for additional or extraordinary services not now part of the customary services provided, such as special services during defaults, additional government reporting requirements, or document amendments will be charged at the then current rates for such services. Extraordinary expenses, such as legal fees and travel expenses, shall be invoiced to the client based upon the actual out of pocket cost to the Agent/Trustee. UMB reserves the right to renegotiate its current fee schedule to correspond with changing economic conditions, inflation, and changing requirements relating to the day to day service delivery. Final acceptance of the appointment is subject to approval of authorized officers of UMB Bank, N.A. and full review and execution of all documentation related hereto. Fees paid in advance are not subject to proration. Execution of the governing documents constitutes agreement to the fee schedule noted above.

GENERAL AND NO-LITIGATION CERTIFICATE

We, the undersigned, officers and officials of the Little Elm Independent School District (the "District") do hereby certify the following information:

I. GENERAL

1.1. This certificate relates to the issuance, sale and delivery of the Little Elm Independent School District Unlimited Tax School Building Bonds, Series 2018A (the "Bonds"). Unless otherwise designated, all capitalized terms used herein shall have the meanings assigned to such terms in the order (the "Order") authorizing the issuance of the Bonds.

1.2. The District is a validly existing independent school district operating under and subject to the Constitution and laws of the State of Texas and the District is currently in good standing with and accredited by the Texas Education Agency; the Board of Trustees of the District duly manages and governs the operations of the District; and no changes have been made in the boundaries of the District since the approval by the Attorney General of the State of Texas of the most recent series of obligations issued by the District.

1.3. As of the date hereof, the duly qualified and acting members and officers of the Board of Trustees and certain other officials of the District were as follow:

Melissa Myers	President
David Montemayor	Vice President
Jason Olson	Secretary
Alex Flores	Trustee
Dan Blackwood	Trustee
DeLeon English	Trustee
LeAnna Harding	Trustee
Daniel Gallagher	Superintendent
Grant Anderson	Associate Superintendent and Chief Financial Officer

1.4. The taxable value of property in the District as shown by its official tax rolls for tax year 2018, being its latest approved official assessment rolls, is \$3,929,181,701 which amount is net of the amount of any exemptions to which property otherwise subject to taxation was entitled pursuant to applicable provisions of the Constitution and laws of the State of Texas.

1.5. The total unlimited outstanding tax-supported bond indebtedness of the District as of the date hereof, including the Bonds, is \$304,824,189.

1.6. The statement of tax collections set forth in Table 5 - PROPERTY TAX RATES AND COLLECTIONS of the District's Official Statement, is true and correct, such Table 5 being incorporated herein by reference.

1.7. The District is authorized to levy a maintenance tax held at a rate of \$1.50 per \$100 assessed valuation of taxable property in the District, pursuant to an election held on February 2, 2002, pursuant to Section 45.003, Texas Education Code, as amended.

1.8. A true and correct statement of the combined debt service of the District, with respect to all of the District's outstanding unlimited tax obligations is set forth in the Table 11 - "OUTSTANDING UNLIMITED TAX DEBT SERVICE" of the District's Official Statement, such table being incorporated herein by reference.

1.9. The District is not in default in the payment of principal or interest on any of its outstanding obligations.

1.10. Neither the corporate existence nor boundaries of the District nor the title of its present officers to their respective offices is being contested, and no authority or proceedings for the issuance of the Bonds have been repealed, revoked, or rescinded.

1.11. A true and correct statement of the debt service tax rate for the District is set forth in Table 6 - "TAX RATE DISTRIBUTION" of the District's Official Statement, such table being incorporated herein by reference.

1.12. Demonstration of the District's compliance with Section 45.0031, Texas Education Code, as amended, is set forth on Exhibit A attached hereto and incorporated herein, and the data shown thereon is hereby certified to be true and correct as shown on the official records of the District.

1.13. With respect to the contracts contained within this transcript of proceedings, all disclosure filings and acknowledgments required by Section 2252.908, Texas Government Code, and the rules of the Texas Ethics Commission related to said provision, have been made.

II. OFFICIAL STATEMENT

2.1. The descriptions and statements of or pertaining to the District contained in the Official Statement for the Bonds, and any addenda, supplement, or amendment thereto, on the date of the Official Statement, on the date of sale of the Bonds, and on the date of the delivery of the Bonds, being the date hereof, were and are true and correct in all material respects.

2.2. Insofar as the District and its affairs, including its financial affairs, are concerned, the Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

2.3. Insofar as the descriptions and statements, including financial data, of or pertaining to entities other than the District and their activities contained in the Official Statement are concerned, such statements and data have been obtained from sources that the District believes to be reliable, and the District has no reason to believe that they are untrue in any material respect.

2.4. There has been no material adverse change in the financial condition of the District since the date of the last audited financial statements of the District.

III. NO LITIGATION AND SIGNATURE IDENTIFICATION

3.1. No litigation is pending or, to our knowledge, threatened in any court restraining, enjoining or in any other manner affecting the issuance or delivery of the Bonds, affecting the provision made for the payment of or security for the Bonds including the levy or the collection of the ad valorem taxes pledged or to be pledged to pay the principal of and interest on the Bonds, or the pledge thereof, or affecting, in any way, the right of the District to pay such amounts from the sources pledged, or in any way contesting or affecting directly or indirectly the validity of the Bonds, the Order or the proceedings related to the issuance of the Bonds, the powers of the District or contesting the authorization of the Bonds or the Order, or affecting the authority of the District to carry out the terms and provisions of the Order or other authorizing proceeding, and the covenants and agreements therein, and each of them or affecting the corporate existence or boundaries of the District, or the title of the officers or members of the board of trustees or any of them to their respective positions, or contesting in any way the accuracy, completeness or fairness of the Preliminary Official Statement or the Official Statement relating to the Bonds.

3.2. We officially executed and signed the Bonds, including the initial Bonds delivered to the purchaser of the Bonds (the "Initial Bonds"), by manual signature or by causing facsimiles of our manual signatures to be imprinted, lithographed or otherwise reproduced on each of the Bonds, and we hereby adopt said facsimile signatures as our own, respectively, and declare that said facsimile signatures constitute our signatures the same as if we had manually signed each of the Bonds.

3.3. The Bonds, including the Initial Bonds, are substantially in the form, and have been duly executed and signed in the manner prescribed in the Order.

3.4. At the time we so executed and signed the Bonds we were, and at the time of executing this certificate we are, the duly chosen, qualified, and acting officers indicated therein and authorized to execute the same.

3.5. We have caused the official seal of the District to be impressed, printed, or lithographed on each of the Bonds; and said seal on the Bonds has been duly adopted as, and is hereby declared to be, the official seal of the District.

[Execution Page Follows]

EXECUTED AS OF August 14, 2018.

Manual Signatures

Official Titles

Melissa Myers

President, Board of Trustees
Little Elm Independent School District

Jason Olson

Secretary, Board of Trustees
Little Elm Independent School District

Daniel Gallagher

Superintendent
Little Elm Independent School District

Grant Anderson

Associate Superintendent and
Chief Financial Officer

STATE OF TEXAS §
 §
COUNTY OF DENTON §

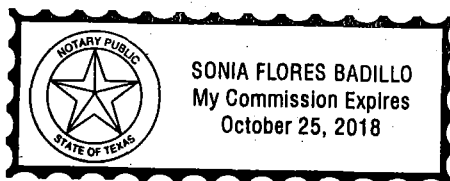
Before me, the undersigned authority, on this day personally appeared Melissa Myers, President, Jason Olson, Secretary, Daniel Gallagher, Superintendent, and Grant Anderson, Associate Superintendent and Chief Financial Officer, respectively, of the Little Elm Independent School District, each known to me to be such person who signed the above in my presence, and each acknowledged to me that such person executed the above and foregoing Certificate for the purposes stated therein.

Given under my hand and seal of office this

June 18, 2018

Sonia Flores Badillo
Notary Public, State of Texas

[SEAL]



School District Test in Compliance with
Texas Education Code Section 45.003 (e) and Chapter 46
in connection with the issuance of
Little Elm Independent School District
Unlimited Tax School Building Bonds, Series 2018A

Run Date
07/26/2018

		SOURCE		
TAV	Local taxable assessed value for current Fiscal Year levy	District	\$ 4,714,833.603	TAV
CF	Tax Collection Percentage-Use 90% (preferred by AG) or 3 yr avg if >90%	District	100.00%	CF
MDS	Maximum Annual Debt Service, excluding those bonds voted before 4-1-91 and issued before 9-1-92 or bonds issued to refund such bonds	District	\$ 21,652,173.91	MDS
BTR	Revenues at \$.50 Tax Rate: \$.50 * TAV/100 * CF	Formula	\$ 23,574,168.02	BTR
T1A	Tier I Assistance	TEA	\$ -	T1A
FYA	Instructional Facilities Allotment	TEA	\$ -	FYA
T3A	Tier III Assistance	TEA	\$ -	T3A

BOND TEST #1: 45.003 (e) without state aid

(0.50) x TAV/100 x CF >= MDS

\$ 23,574,168.02 (0.50) x TAV/100 x CF
\$ 21,652,173.91 MDS

BOND TEST #1 PASS

BOND TEST #2: 45.003 (e) using Tier 1 aid

BTR + T1A >= MDS

\$ 23,574,168.02 BTR + T1A
\$ 21,652,173.91 MDS

BOND TEST #2 PASS

BOND TEST #3: 45.003 (e) using Instructional Facilities Allotment

BTR + FYA >= MDS

\$ 23,574,168.02 BTR + FYA
\$ 21,652,173.91 MDS

BOND TEST #3 PASS

BOND TEST #4: 45.003 (e) using Tier III aid

BTR + T3A >= MDS

\$ 23,574,168.02 BTR + T3A
\$ 21,652,173.91 MDS

BOND TEST #4 PASS

BOND TEST #5: 45.003 (e) using a combination of Tier III aid and Instructional Facilities Allotment

BTR + T3A + FYA >= MDS

\$ 23,574,168.02 BTR + T3A + FYA
\$ 21,652,173.91 MDS

BOND TEST #5 PASS

BOND TEST #6: 45.003 (e) using a combination of Tier 1 aid, Tier 3 aid, and Instructional Facilities Allotment

BTR + T1A + T3A + FYA >= MDS

\$ 23,574,168.02 BTR + T1A + T3A + FYA
\$ 21,652,173.91 MDS

BOND TEST #6 PASS

Maximum Annual Debt Service	\$ 21,652,173.91	
Less: Revenues Generated by \$0.50	23,574,168.02	
Total State Funds Needed	\$ -	
Less: Instructional Facilities Allotment	-	No
Less: Existing Debt Allotment Fund	-	No
Total Tier I Funds Needed	\$ -	
Total Tier I Funds Available	-	
Total Excess/(Shortage) of Tier I Funds Available	\$ -	

2018 CERTIFIED TOTALS

Property Count: 22,723

S10 - LITTLE ELM ISD
Grand Totals

7/14/2018

3:35:05PM

Land		Value			
Homesite:		1,135,422,674			
Non Homesite:		446,444,412			
Ag Market:		77,558,035			
Timber Market:		0	Total Land	(+)	1,659,425,121
Improvement		Value			
Homesite:		3,334,373,523			
Non Homesite:		221,082,972	Total Improvements	(+)	3,555,456,495
Non Real		Count	Value		
Personal Property:	632		99,764,596		
Mineral Property:	0		0		
Autos:	0		0	Total Non Real	(+)
			Market Value	=	99,764,596
					5,314,646,212
Ag	Non Exempt	Exempt			
Total Productivity Market:	77,558,035	0			
Ag Use:	158,605	0	Productivity Loss	(-)	77,399,430
Timber Use:	0	0	Appraised Value	=	5,237,246,782
Productivity Loss:	77,399,430	0			
			Homestead Cap	(-)	65,955,941
			Assessed Value	=	5,171,290,841
			Total Exemptions Amount (Breakdown on Next Page)	(-)	456,457,238
			Net Taxable	=	4,714,833,603

Freeze	Assessed	Taxable	Actual Tax	Ceiling	Count		
DP	21,497,572	18,261,046	203,560.83	203,560.83	93		
OV65	763,974,717	669,070,179	7,509,606.17	7,527,985.21	2,524		
Total	785,472,289	687,331,225	7,713,167.00	7,731,546.04	2,617	Freeze Taxable	(-) 687,331,225
Tax Rate	1.540000						
Transfer	Assessed	Taxable	Post % Taxable	Adjustment	Count		
DP	262,803	227,803	227,803	0	1		
OV65	53,347,685	47,828,023	36,398,346	11,429,677	155		
Total	53,610,488	48,055,826	36,626,149	11,429,677	156	Transfer Adjustment	(-) 11,429,677
			Freeze Adjusted Taxable	=			4,016,072,701

APPROXIMATE LEVY = (FREEZE ADJUSTED TAXABLE * (TAX RATE / 100)) + ACTUAL TAX
 69,560,686.60 = 4,016,072,701 * (1.540000 / 100) + 7,713,167.00

Tax Increment Finance Value: 0
 Tax Increment Finance Levy: 0.00

Little Elm Independent School District
Analysis of 50.0-Cent Provision
Non-Exempt Debt Service Schedule

Year Ending 8/31	Fixed Rate Non-Exempt Debt Service Outstanding	Plus: Series 2018A Bonds - Non-Exempt Debt Service			Total Non-Exempt Debt Service
		Principal	Interest	Total	
2018	\$ 13,552,298.85	\$ -	\$ -	\$ -	\$ 13,552,298.85
2019	18,677,581.25	1,440,000.00	988,695.97	2,428,695.97	21,106,277.22
2020	19,938,323.91	780,000.00	933,850.00	1,713,850.00	21,652,173.91
2021	18,014,985.67	410,000.00	902,650.00	1,312,650.00	19,327,635.67
2022	18,010,731.25	425,000.00	886,250.00	1,311,250.00	19,321,981.25
2023	18,013,231.25	440,000.00	869,250.00	1,309,250.00	19,322,481.25
2024	18,352,056.25	465,000.00	847,250.00	1,312,250.00	19,664,306.25
2025	18,355,656.25	490,000.00	824,000.00	1,314,000.00	19,669,656.25
2026	18,353,606.25	510,000.00	799,500.00	1,309,500.00	19,663,106.25
2027	18,353,806.25	540,000.00	774,000.00	1,314,000.00	19,667,806.25
2028	18,352,556.25	565,000.00	747,000.00	1,312,000.00	19,664,556.25
2029	18,353,956.25	595,000.00	718,750.00	1,313,750.00	19,667,706.25
2030	18,355,668.75	625,000.00	689,000.00	1,314,000.00	19,669,668.75
2031	18,355,281.25	645,000.00	664,000.00	1,309,000.00	19,664,281.25
2032	18,352,800.00	675,000.00	638,200.00	1,313,200.00	19,666,000.00
2033	18,353,975.00	700,000.00	611,200.00	1,311,200.00	19,665,175.00
2034	18,352,862.50	730,000.00	583,200.00	1,313,200.00	19,666,062.50
2035	18,351,637.50	755,000.00	554,000.00	1,309,000.00	19,660,637.50
2036	18,353,025.00	790,000.00	523,800.00	1,313,800.00	19,666,825.00
2037	18,356,575.00	820,000.00	492,200.00	1,312,200.00	19,668,775.00
2038	18,405,925.00	850,000.00	459,400.00	1,309,400.00	19,715,325.00
2039	18,440,350.00	885,000.00	425,400.00	1,310,400.00	19,750,750.00
2040	18,445,350.00	920,000.00	390,000.00	1,310,000.00	19,755,350.00
2041	18,441,375.00	960,000.00	353,200.00	1,313,200.00	19,754,575.00
2042	18,443,325.00	995,000.00	314,800.00	1,309,800.00	19,753,125.00
2043	18,333,700.00	1,035,000.00	275,000.00	1,310,000.00	19,643,700.00
2044	18,336,450.00	1,080,000.00	233,600.00	1,313,600.00	19,650,050.00
2045	18,334,200.00	1,120,000.00	190,400.00	1,310,400.00	19,644,600.00
2046	18,335,450.00	1,165,000.00	145,600.00	1,310,600.00	19,646,050.00
2047	18,333,200.00	1,215,000.00	99,000.00	1,314,000.00	19,647,200.00
2048	18,335,200.00	1,260,000.00	50,400.00	1,310,400.00	19,645,600.00
	<u>\$ 565,345,139.68</u>	<u>\$ 23,885,000.00</u>	<u>\$ 16,983,595.97</u>	<u>\$ 40,868,595.97</u>	<u>\$ 606,213,735.65</u>

Maximum Non-Exempt Debt Service (Year Ending August 31, 2020)	\$21,652,173.91
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LITTLE ELM INDEPENDENT SCHOOL DISTRICT

July 15, 2018

The Attorney General of Texas
William P. Clements Building
300 West 15th Street, 7th Floor
Austin, Texas 78701
Attention: Public Finance Section

Comptroller of Public Accounts
Thomas Jefferson Rusk Building
208 East 10th Street, Room 448
Austin, Texas 78701
Attention: Melissa Mora
Bond Registration

Re: Little Elm Independent School District Unlimited Tax School Building Bonds,
Series 2018A

To the Attorney General:

The executed Initial Bond of the captioned series has been or soon will be delivered to you for examination and approval. In this connection, enclosed herewith is a General and No-Litigation Certificate executed and completed except as to date. When the Initial Bond has received your approval and is ready for delivery to the Comptroller of Public Accounts for registration, this letter will serve as your authority to insert the date of your approval in the General and No-Litigation Certificate and deliver the Initial Bond to the Comptroller.

Should litigation in any way affecting such Bonds develop, the undersigned will notify you at once by telephone and telecommunication. You may be assured, therefore, that there is no such litigation at the time the Initial Bond is finally approved by you, unless you have been advised otherwise.

To the Comptroller:

The approved Initial Bond of the captioned series will be delivered to you by the Attorney General of Texas. You are hereby requested to register the Initial Bond as required by law and by the proceedings authorizing such Initial Bond.

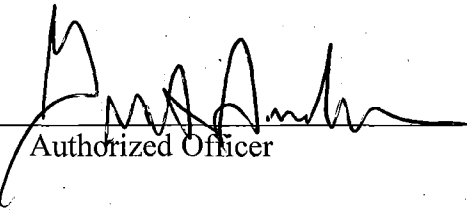
Following registration, you are hereby authorized and directed to notify and deliver the Initial Bond to Bracewell LLP, Dallas, Texas.

Please deliver to Bracewell LLP, Dallas, Texas, five copies of each of the following:

1. Attorney General's approving opinion; and
2. Comptroller's signature certificate.

Sincerely,

LITTLE ELM INDEPENDENT
SCHOOL DISTRICT



Authorized Officer

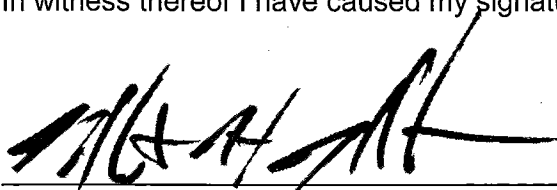
July 27, 2018

PSF CERTIFICATE

Under the authority granted by Article 7, Section 5 of the Texas Constitution and Subchapter C of Chapter 45 of the Texas Education Code, the payment, when due, of the principal of and interest on the issuance by the Little Elm Independent School District of its Unlimited Tax School Building Bonds, Series 2018A, dated July 15, 2018, in the principal amount of \$23,885,000.00 is guaranteed by the corpus of the Permanent School Fund of the State pursuant to the bond guarantee program administered by the Texas Education Agency. This guarantee shall be removed in its entirety upon defeasance of such bonds.

[Reference is hereby made to the continuing disclosure agreement of the Texas Education Agency, set forth in Section I of the Agency's Investment Procedure Manual and the Agency's commitment letter for the guarantee. Such disclosure agreement has been made with respect to the bond guarantee program, in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission, for the benefit of the holders and beneficial owners of the bonds.]*

In witness thereof I have caused my signature to be placed in facsimile on this bond.



Mike Morath
Commissioner of Education

This statement authorizes the use of my signature to be placed in facsimile on the above bonds.

*The bracketed paragraph should be omitted from bond issues which aggregate less than \$1,000,000, as such offerings are totally exempted from Rule 15c2-12.

S&P Global Ratings

500 North Akard Street
Ross Tower, Suite 3200
Dallas, TX 75201
tel (214) 871-1400
reference no.: 1534754

July 13, 2018

Little Elm Independent School District
300 Lobo Lane
Little Elm, TX 75068
Attention: Mr. Grant Anderson, Chief Financial Officer

Re: *US\$22,695,000 Little Elm Independent School District, Texas, Unlimited Tax School Building Bonds, Series 2018A, dated: July 15, 2018, due: August 15, 2048*

Dear Mr. Anderson:

Pursuant to your request for an S&P Global Ratings rating on the above-referenced obligations, S&P Global Ratings has assigned a rating of "AAA". S&P Global Ratings views the outlook for this rating as stable. A copy of the rationale supporting the rating is enclosed.

This letter constitutes S&P Global Ratings' permission for you to disseminate the above-assigned ratings to interested parties in accordance with applicable laws and regulations. However, permission for such dissemination (other than to professional advisors bound by appropriate confidentiality arrangements) will become effective only after we have released the rating on standardandpoors.com. Any dissemination on any Website by you or your agents shall include the full analysis for the rating, including any updates, where applicable.

To maintain the rating, S&P Global Ratings must receive all relevant financial and other information, including notice of material changes to financial and other information provided to us and in relevant documents, as soon as such information is available. Relevant financial and other information includes, but is not limited to, information about direct bank loans and debt and debt-like instruments issued to, or entered into with, financial institutions, insurance companies and/or other entities, whether or not disclosure of such information would be required under S.E.C. Rule 15c2-12. You understand that S&P Global Ratings relies on you and your agents and advisors for the accuracy, timeliness and completeness of the information submitted in connection with the rating and the continued flow of material information as part of the surveillance process. Please send all information via electronic delivery to: pubfin_statelocalgovt@spglobal.com. If SEC rule 17g-5 is applicable, you may post such information on the appropriate website. For any information not available in electronic format or posted on the applicable website,

Please send hard copies to:

S&P Global Ratings
Public Finance Department
55 Water Street
New York, NY 10041-0003

The rating is subject to the Terms and Conditions, if any, attached to the Engagement Letter applicable to the rating. In the absence of such Engagement Letter and Terms and Conditions, the rating is subject to the attached Terms and Conditions. The applicable Terms and Conditions are incorporated herein by reference.

S&P Global Ratings is pleased to have the opportunity to provide its rating opinion. For more information please visit our website at www.standardandpoors.com. If you have any questions, please contact us. Thank you for choosing S&P Global Ratings.

Sincerely yours,

S&P Global Ratings
a division of Standard & Poor's Financial Services LLC

mb
enclosures

cc: ***Mr. Derek Honea, Director***
RBC Capital Markets

S&P Global Ratings

500 North Akard Street
Ross Tower, Suite 3200
Dallas, TX 75201
tel (214) 871-1400
reference no.: 1534754

July 13, 2018

Little Elm Independent School District
300 Lobo Lane
Little Elm, TX 75068
Attention: Mr. Grant Anderson, Chief Financial Officer

**Re: US\$22,695,000 Little Elm Independent School District, Texas, Unlimited Tax School
Building Bonds, Series 2018A, dated: July 15, 2018, due: August 15, 2048**

Dear Mr. Anderson:

Pursuant to your request for an Standard & Poor's Ratings Services ("Ratings Services") underlying rating (SPUR) on the above-referenced obligations, S&P Global Ratings has assigned a SPUR of "AA-". S&P Global Ratings views the outlook for this rating as stable. A copy of the rationale supporting the rating is enclosed.

This letter constitutes S&P Global Ratings' permission for you to disseminate the above-assigned ratings to interested parties in accordance with applicable laws and regulations. However, permission for such dissemination (other than to professional advisors bound by appropriate confidentiality arrangements) will become effective only after we have released the rating on standardandpoors.com. Any dissemination on any Website by you or your agents shall include the full analysis for the rating, including any updates, where applicable.

To maintain the rating, S&P Global Ratings must receive all relevant financial and other information, including notice of material changes to financial and other information provided to us and in relevant documents, as soon as such information is available. Relevant financial and other information includes, but is not limited to, information about direct bank loans and debt and debt-like instruments issued to, or entered into with, financial institutions, insurance companies and/or other entities, whether or not disclosure of such information would be required under S.E.C. Rule 15c2-12. You understand that S&P Global Ratings relies on you and your agents and advisors for the accuracy, timeliness and completeness of the information submitted in connection with the rating and the continued flow of material information as part of the surveillance process. Please send all information via electronic delivery to: pubfin_statelocalgovt@spglobal.com. If SEC rule 17g-5 is applicable, you may post such information on the appropriate website. For any information not available in electronic format or posted on the applicable website,

Please send hard copies to:

S&P Global Ratings
Public Finance Department
55 Water Street
New York, NY 10041-0003

The rating is subject to the Terms and Conditions, if any, attached to the Engagement Letter applicable to the rating. In the absence of such Engagement Letter and Terms and Conditions, the rating is subject to the attached Terms and Conditions. The applicable Terms and

Conditions are incorporated herein by reference.

S&P Global Ratings is pleased to have the opportunity to provide its rating opinion. For more information please visit our website at www.standardandpoors.com. If you have any questions, please contact us. Thank you for choosing S&P Global Ratings.

Sincerely yours,

S&P Global Ratings
a division of Standard & Poor's Financial Services LLC

mb
enclosures

cc: **Mr. Derek Honea, Director**
RBC Capital Markets

LITTLE ELM INDEPENDENT SCHOOL DISTRICT

July 15, 2018

UMB Bank, N.A.
5910 North Central Expwy, Suite 1900
Dallas, Texas 75206
Attention: Corporate Trust Department

Re: Little Elm Independent School District Unlimited Tax School Building Bonds,
Series 2018A (the "Bonds")

Ladies and Gentlemen:

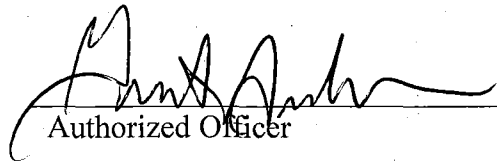
The Issuer and the Underwriters of the captioned series of Bonds have designated your bank as the place, and as their agent, for the delivery and payment of the captioned Bonds. The initial Bond of this series (the "Initial Bond") is being delivered to you and you are hereby authorized and directed to hold the Initial Bond for safekeeping pending said delivery and payment.

Upon your receipt of the final unqualified legal opinion of Bracewell LLP, as to the validity of the Bonds, and upon receipt of payment therefor, you are authorized and directed to cancel the Initial Bond and to deliver the definitive Bonds to DTC on behalf of the Underwriters.

You are further authorized and directed to remit all of the aforesaid proceeds received from the delivery and payment of the Bonds as further directed by RBC Capital Markets, Financial Advisor to the District.

Sincerely,

LITTLE ELM INDEPENDENT SCHOOL DISTRICT



Authorized Officer

REGISTERED
No. 1

REGISTERED
\$1,440,000

United States of America
State of Texas

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BOND
SERIES 2018A

INTEREST RATE	MATURITY DATE	CLOSING DATE	CUSIP NUMBER
4.000%	August 15, 2019	August 16, 2018	537096 X95

Little Elm Independent School District (the "District"), in Denton County, State of Texas, for value received, hereby promises to pay to

CEDE & CO.

or registered assigns, on the Maturity Date specified above, the sum of

ONE MILLION FOUR HUNDRED FORTY-THOUSAND DOLLARS

unless the payment of the principal hereof shall have been paid or provided for, and to pay interest on such principal amount from the later of the Closing Date specified above or the most recent interest payment date to which interest has been paid or provided for until payment of such principal amount has been paid or provided for, at the per annum rate of interest specified above, computed on the basis of a 360-day year of twelve 30-day months, such interest to be paid semiannually on February 15 and August 15 of each year, commencing February 15, 2019.

The principal of this Bond shall be payable without exchange or collection charges in lawful money of the United States of America upon presentation and surrender of this Bond at the corporate trust office in Dallas, Texas, or such other location designated by the Paying Agent/Registrar (the "Designated Payment/Transfer Office"), of UMB Bank N.A. as initial Paying Agent/Registrar, or, with respect to a successor paying agent/registrar, at the Designated Payment/Transfer Office of such successor. Interest on this Bond is payable by check dated as of the interest payment date, mailed by the Paying Agent/Registrar to the registered owner at the address shown on the registration books kept by the Paying Agent/Registrar, or by such other customary banking arrangements acceptable to the Paying Agent/Registrar and the person to whom interest is to be paid; provided, however, that such person shall bear all risk and expense of such other customary banking arrangements. For the purpose of the payment of interest on this Bond, the registered owner shall be the person in whose name this Bond is registered at the close of business on the "Record Date," which shall be the last business day of the month next preceding such interest payment date. In the event of a nonpayment of interest on a scheduled payment date, and for thirty days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the special payment date of the past due interest (the "Special Payment Date," which date shall be

REGISTERED
No. 2

REGISTERED
\$780,000

United States of America
State of Texas

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BOND
SERIES 2018A

<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>CLOSING DATE</u>	<u>CUSIP NUMBER</u>
4.000%	August 15, 2020	August 16, 2018	537096 Y29

Little Elm Independent School District (the "District"), in Denton County, State of Texas, for value received, hereby promises to pay to

CEDE & CO.

or registered assigns, on the Maturity Date specified above, the sum of

SEVEN HUNDRED EIGHTY THOUSAND DOLLARS

unless the payment of the principal hereof shall have been paid or provided for, and to pay interest on such principal amount from the later of the Closing Date specified above or the most recent interest payment date to which interest has been paid or provided for until payment of such principal amount has been paid or provided for, at the per annum rate of interest specified above, computed on the basis of a 360-day year of twelve 30-day months, such interest to be paid semiannually on February 15 and August 15 of each year, commencing February 15, 2019.

The principal of this Bond shall be payable without exchange or collection charges in lawful money of the United States of America upon presentation and surrender of this Bond at the corporate trust office in Dallas, Texas, or such other location designated by the Paying Agent/Registrar (the "Designated Payment/Transfer Office"), of UMB Bank N.A. as initial Paying Agent/Registrar, or, with respect to a successor paying agent/registrar, at the Designated Payment/Transfer Office of such successor. Interest on this Bond is payable by check dated as of the interest payment date, mailed by the Paying Agent/Registrar to the registered owner at the address shown on the registration books kept by the Paying Agent/Registrar, or by such other customary banking arrangements acceptable to the Paying Agent/Registrar and the person to whom interest is to be paid; provided, however, that such person shall bear all risk and expense of such other customary banking arrangements. For the purpose of the payment of interest on this Bond, the registered owner shall be the person in whose name this Bond is registered at the close of business on the "Record Date," which shall be the last business day of the month next preceding such interest payment date. In the event of a nonpayment of interest on a scheduled payment date, and for thirty days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the special payment date of the past due interest (the "Special Payment Date," which date shall be

REGISTERED
No. 3

REGISTERED
\$410,000

United States of America
State of Texas

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BOND
SERIES 2018A

INTEREST RATE	MATURITY DATE	CLOSING DATE	CUSIP NUMBER
4.000%	August 15, 2021	August 16, 2018	537096 Y37

Little Elm Independent School District (the "District"), in Denton County, State of Texas, for value received, hereby promises to pay to

CEDE & CO.

or registered assigns, on the Maturity Date specified above, the sum of

FOUR HUNDRED TEN THOUSAND DOLLARS

unless the payment of the principal hereof shall have been paid or provided for, and to pay interest on such principal amount from the later of the Closing Date specified above or the most recent interest payment date to which interest has been paid or provided for until payment of such principal amount has been paid or provided for, at the per annum rate of interest specified above, computed on the basis of a 360-day year of twelve 30-day months, such interest to be paid semiannually on February 15 and August 15 of each year, commencing February 15, 2019.

The principal of this Bond shall be payable without exchange or collection charges in lawful money of the United States of America upon presentation and surrender of this Bond at the corporate trust office in Dallas, Texas, or such other location designated by the Paying Agent/Registrar (the "Designated Payment/Transfer Office"), of UMB Bank N.A. as initial Paying Agent/Registrar, or with respect to a successor paying agent/registrar, at the Designated Payment/Transfer Office of such successor. Interest on this Bond is payable by check dated as of the interest payment date, mailed by the Paying Agent/Registrar to the registered owner at the address shown on the registration books kept by the Paying Agent/Registrar, or by such other customary banking arrangements acceptable to the Paying Agent/Registrar and the person to whom interest is to be paid; provided, however, that such person shall bear all risk and expense of such other customary banking arrangements. For the purpose of the payment of interest on this Bond, the registered owner shall be the person in whose name this Bond is registered at the close of business on the "Record Date," which shall be the last business day of the month next preceding such interest payment date. In the event of a nonpayment of interest on a scheduled payment date, and for thirty days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the special payment date of the past due interest (the "Special Payment Date," which date shall be

REGISTERED
No. 4

REGISTERED
\$425,000

United States of America
State of Texas

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BOND
SERIES 2018A

<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>CLOSING DATE</u>	<u>CUSIP NUMBER</u>
4.000%	August 15, 2022	August 16, 2018	537096 Y45

Little Elm Independent School District (the "District"), in Denton County, State of Texas, for value received, hereby promises to pay to

CEDE & CO.

or registered assigns, on the Maturity Date specified above, the sum of

FOUR HUNDRED TWENTY-FIVE THOUSAND DOLLARS

unless the payment of the principal hereof shall have been paid or provided for, and to pay interest on such principal amount from the later of the Closing Date specified above or the most recent interest payment date to which interest has been paid or provided for until payment of such principal amount has been paid or provided for, at the per annum rate of interest specified above, computed on the basis of a 360-day year of twelve 30-day months, such interest to be paid semiannually on February 15 and August 15 of each year, commencing February 15, 2019.

The principal of this Bond shall be payable without exchange or collection charges in lawful money of the United States of America upon presentation and surrender of this Bond at the corporate trust office in Dallas, Texas, or such other location designated by the Paying Agent/Registrar (the "Designated Payment/Transfer Office"), of UMB Bank N.A. as initial Paying Agent/Registrar, or, with respect to a successor paying agent/registrar, at the Designated Payment/Transfer Office of such successor. Interest on this Bond is payable by check dated as of the interest payment date, mailed by the Paying Agent/Registrar to the registered owner at the address shown on the registration books kept by the Paying Agent/Registrar, or by such other customary banking arrangements acceptable to the Paying Agent/Registrar and the person to whom interest is to be paid; provided, however, that such person shall bear all risk and expense of such other customary banking arrangements. For the purpose of the payment of interest on this Bond, the registered owner shall be the person in whose name this Bond is registered at the close of business on the "Record Date," which shall be the last business day of the month next preceding such interest payment date. In the event of a nonpayment of interest on a scheduled payment date, and for thirty days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the special payment date of the past due interest (the "Special Payment Date," which date shall be

REGISTERED
No. 5

REGISTERED
\$440,000

United States of America
State of Texas

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BOND
SERIES 2018A

<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>CLOSING DATE</u>	<u>CUSIP NUMBER</u>
5.000%	August 15, 2023	August 16, 2018	537096 Y52

Little Elm Independent School District (the "District"), in Denton County, State of Texas, for value received, hereby promises to pay to

CEDE & CO.

or registered assigns, on the Maturity Date specified above, the sum of

FOUR HUNDRED FORTY THOUSAND DOLLARS

unless the payment of the principal hereof shall have been paid or provided for, and to pay interest on such principal amount from the later of the Closing Date specified above or the most recent interest payment date to which interest has been paid or provided for until payment of such principal amount has been paid or provided for, at the per annum rate of interest specified above, computed on the basis of a 360-day year of twelve 30-day months, such interest to be paid semiannually on February 15 and August 15 of each year, commencing February 15, 2019.

The principal of this Bond shall be payable without exchange or collection charges in lawful money of the United States of America upon presentation and surrender of this Bond at the corporate trust office in Dallas, Texas, or such other location designated by the Paying Agent/Registrar (the "Designated Payment/Transfer Office"), of UMB Bank N.A. as initial Paying Agent/Registrar, or, with respect to a successor paying agent/registrar, at the Designated Payment/Transfer Office of such successor. Interest on this Bond is payable by check dated as of the interest payment date, mailed by the Paying Agent/Registrar to the registered owner at the address shown on the registration books kept by the Paying Agent/Registrar, or by such other customary banking arrangements acceptable to the Paying Agent/Registrar and the person to whom interest is to be paid; provided, however, that such person shall bear all risk and expense of such other customary banking arrangements. For the purpose of the payment of interest on this Bond, the registered owner shall be the person in whose name this Bond is registered at the close of business on the "Record Date," which shall be the last business day of the month next preceding such interest payment date. In the event of a nonpayment of interest on a scheduled payment date, and for thirty days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the special payment date of the past due interest (the "Special Payment Date," which date shall be

REGISTERED
No. 6

REGISTERED
\$465,000

United States of America
State of Texas

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BOND
SERIES 2018A

INTEREST RATE	MATURITY DATE	CLOSING DATE	CUSIP NUMBER
5.000%	August 15, 2024	August 16, 2018	537096 Y60

Little Elm Independent School District (the "District"), in Denton County, State of Texas, for value received, hereby promises to pay to

CEDE & CO.

or registered assigns, on the Maturity Date specified above, the sum of

FOUR HUNDRED SIXTY FIVE THOUSAND DOLLARS

unless the payment of the principal hereof shall have been paid or provided for, and to pay interest on such principal amount from the later of the Closing Date specified above or the most recent interest payment date to which interest has been paid or provided for until payment of such principal amount has been paid or provided for, at the per annum rate of interest specified above, computed on the basis of a 360-day year of twelve 30-day months, such interest to be paid semiannually on February 15 and August 15 of each year, commencing February 15, 2019.

The principal of this Bond shall be payable without exchange or collection charges in lawful money of the United States of America upon presentation and surrender of this Bond at the corporate trust office in Dallas, Texas, or such other location designated by the Paying Agent/Registrar (the "Designated Payment/Transfer Office"), of UMB Bank N.A. as initial Paying Agent/Registrar, or, with respect to a successor paying agent/registrar, at the Designated Payment/Transfer Office of such successor. Interest on this Bond is payable by check dated as of the interest payment date, mailed by the Paying Agent/Registrar to the registered owner at the address shown on the registration books kept by the Paying Agent/Registrar, or by such other customary banking arrangements acceptable to the Paying Agent/Registrar and the person to whom interest is to be paid; provided, however, that such person shall bear all risk and expense of such other customary banking arrangements. For the purpose of the payment of interest on this Bond, the registered owner shall be the person in whose name this Bond is registered at the close of business on the "Record Date," which shall be the last business day of the month next preceding such interest payment date. In the event of a nonpayment of interest on a scheduled payment date, and for thirty days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the special payment date of the past due interest (the "Special Payment Date," which date shall be

REGISTERED
No. 7

REGISTERED
\$490,000

United States of America
State of Texas

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BOND
SERIES 2018A

INTEREST RATE	MATURITY DATE	CLOSING DATE	CUSIP NUMBER
5.000%	August 15, 2025	August 16, 2018	537096 Y78

Little Elm Independent School District (the "District"), in Denton County, State of Texas, for value received, hereby promises to pay to

CEDE & CO.

or registered assigns, on the Maturity Date specified above, the sum of

FOUR HUNDRED NINETY THOUSAND DOLLARS

unless the payment of the principal hereof shall have been paid or provided for, and to pay interest on such principal amount from the later of the Closing Date specified above or the most recent interest payment date to which interest has been paid or provided for until payment of such principal amount has been paid or provided for, at the per annum rate of interest specified above, computed on the basis of a 360-day year of twelve 30-day months, such interest to be paid semiannually on February 15 and August 15 of each year, commencing February 15, 2019.

The principal of this Bond shall be payable without exchange or collection charges in lawful money of the United States of America upon presentation and surrender of this Bond at the corporate trust office in Dallas, Texas, or such other location designated by the Paying Agent/Registrar (the "Designated Payment/Transfer Office"), of UMB Bank N.A. as initial Paying Agent/Registrar, or, with respect to a successor paying agent/registrar, at the Designated Payment/Transfer Office of such successor. Interest on this Bond is payable by check dated as of the interest payment date, mailed by the Paying Agent/Registrar to the registered owner at the address shown on the registration books kept by the Paying Agent/Registrar, or by such other customary banking arrangements acceptable to the Paying Agent/Registrar and the person to whom interest is to be paid; provided, however, that such person shall bear all risk and expense of such other customary banking arrangements. For the purpose of the payment of interest on this Bond, the registered owner shall be the person in whose name this Bond is registered at the close of business on the "Record Date," which shall be the last business day of the month next preceding such interest payment date. In the event of a nonpayment of interest on a scheduled payment date, and for thirty days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the special payment date of the past due interest (the "Special Payment Date," which date shall be

REGISTERED
No. 8

REGISTERED
\$510,000

United States of America
State of Texas

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BOND
SERIES 2018A

<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>CLOSING DATE</u>	<u>CUSIP NUMBER</u>
5.000%	August 15, 2026	August 16, 2018	537096 Y86

Little Elm Independent School District (the "District"), in Denton County, State of Texas, for value received, hereby promises to pay to

CEDE & CO.

or registered assigns, on the Maturity Date specified above, the sum of

FIVE HUNDRED TEN THOUSAND DOLLARS

unless the payment of the principal hereof shall have been paid or provided for, and to pay interest on such principal amount from the later of the Closing Date specified above or the most recent interest payment date to which interest has been paid or provided for until payment of such principal amount has been paid or provided for, at the per annum rate of interest specified above, computed on the basis of a 360-day year of twelve 30-day months, such interest to be paid semiannually on February 15 and August 15 of each year, commencing February 15, 2019.

The principal of this Bond shall be payable without exchange or collection charges in lawful money of the United States of America upon presentation and surrender of this Bond at the corporate trust office in Dallas, Texas, or such other location designated by the Paying Agent/Registrar (the "Designated Payment/Transfer Office"), of UMB Bank N.A. as initial Paying Agent/Registrar, or, with respect to a successor paying agent/registrar, at the Designated Payment/Transfer Office of such successor. Interest on this Bond is payable by check dated as of the interest payment date, mailed by the Paying Agent/Registrar to the registered owner at the address shown on the registration books kept by the Paying Agent/Registrar, or by such other customary banking arrangements acceptable to the Paying Agent/Registrar and the person to whom interest is to be paid; provided, however, that such person shall bear all risk and expense of such other customary banking arrangements. For the purpose of the payment of interest on this Bond, the registered owner shall be the person in whose name this Bond is registered at the close of business on the "Record Date," which shall be the last business day of the month next preceding such interest payment date. In the event of a nonpayment of interest on a scheduled payment date, and for thirty days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the special payment date of the past due interest (the "Special Payment Date," which date shall be

REGISTERED
No. 9

REGISTERED
\$540,000

United States of America
State of Texas

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BOND
SERIES 2018A

<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>CLOSING DATE</u>	<u>CUSIP NUMBER</u>
5.000%	August 15, 2027	August 16, 2018	\$37096 Y94

Little Elm Independent School District (the "District"), in Denton County, State of Texas, for value received, hereby promises to pay to

CEDE & CO.

or registered assigns, on the Maturity Date specified above, the sum of

FIVE HUNDRED FORTY THOUSAND DOLLARS

unless the payment of the principal hereof shall have been paid or provided for, and to pay interest on such principal amount from the later of the Closing Date specified above or the most recent interest payment date to which interest has been paid or provided for until payment of such principal amount has been paid or provided for, at the per annum rate of interest specified above, computed on the basis of a 360-day year of twelve 30-day months, such interest to be paid semiannually on February 15 and August 15 of each year, commencing February 15, 2019.

The principal of this Bond shall be payable without exchange or collection charges in lawful money of the United States of America upon presentation and surrender of this Bond at the corporate trust office in Dallas, Texas, or such other location designated by the Paying Agent/Registrar (the "Designated Payment/Transfer Office"), of UMB Bank N.A. as initial Paying Agent/Registrar, or, with respect to a successor paying agent/registrar, at the Designated Payment/Transfer Office of such successor. Interest on this Bond is payable by check dated as of the interest payment date, mailed by the Paying Agent/Registrar to the registered owner at the address shown on the registration books kept by the Paying Agent/Registrar, or by such other customary banking arrangements acceptable to the Paying Agent/Registrar and the person to whom interest is to be paid; provided, however, that such person shall bear all risk and expense of such other customary banking arrangements. For the purpose of the payment of interest on this Bond, the registered owner shall be the person in whose name this Bond is registered at the close of business on the "Record Date," which shall be the last business day of the month next preceding such interest payment date. In the event of a nonpayment of interest on a scheduled payment date, and for thirty days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the special payment date of the past due interest (the "Special Payment Date," which date shall be

REGISTERED
No. 10

REGISTERED
\$565,000

United States of America
State of Texas

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BOND
SERIES 2018A

<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>CLOSING DATE</u>	<u>CUSIP NUMBER</u>
5.000%	August 15, 2028	August 16, 2018	537096 Z28

Little Elm Independent School District (the "District"), in Denton County, State of Texas, for value received, hereby promises to pay to

CEDE & CO.

or registered assigns, on the Maturity Date specified above, the sum of

FIVE HUNDRED SIXTY-FIVE THOUSAND DOLLARS

unless the payment of the principal hereof shall have been paid or provided for, and to pay interest on such principal amount from the later of the Closing Date specified above or the most recent interest payment date to which interest has been paid or provided for until payment of such principal amount has been paid or provided for, at the per annum rate of interest specified above, computed on the basis of a 360-day year of twelve 30-day months, such interest to be paid semiannually on February 15 and August 15 of each year, commencing February 15, 2019.

The principal of this Bond shall be payable without exchange or collection charges in lawful money of the United States of America upon presentation and surrender of this Bond at the corporate trust office in Dallas, Texas, or such other location designated by the Paying Agent/Registrar (the "Designated Payment/Transfer Office"), of UMB Bank N.A. as initial Paying Agent/Registrar, or, with respect to a successor paying agent/registrar, at the Designated Payment/Transfer Office of such successor. Interest on this Bond is payable by check dated as of the interest payment date, mailed by the Paying Agent/Registrar to the registered owner at the address shown on the registration books kept by the Paying Agent/Registrar, or by such other customary banking arrangements acceptable to the Paying Agent/Registrar and the person to whom interest is to be paid; provided, however, that such person shall bear all risk and expense of such other customary banking arrangements. For the purpose of the payment of interest on this Bond, the registered owner shall be the person in whose name this Bond is registered at the close of business on the "Record Date," which shall be the last business day of the month next preceding such interest payment date. In the event of a nonpayment of interest on a scheduled payment date, and for thirty days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the special payment date of the past due interest (the "Special Payment Date," which date shall be

REGISTERED
No. 11

REGISTERED
\$595,000

United States of America
State of Texas

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BOND
SERIES 2018A

INTEREST RATE	MATURITY DATE	CLOSING DATE	CUSIP NUMBER
5.000%	August 15, 2029	August 16, 2018	537096 Z36

Little Elm Independent School District (the "District"), in Denton County, State of Texas, for value received, hereby promises to pay to

CEDE & CO.

or registered assigns, on the Maturity Date specified above, the sum of

FIVE HUNDRED NINETY-FIVE THOUSAND DOLLARS

unless the payment of the principal hereof shall have been paid or provided for, and to pay interest on such principal amount from the later of the Closing Date specified above or the most recent interest payment date to which interest has been paid or provided for until payment of such principal amount has been paid or provided for, at the per annum rate of interest specified above, computed on the basis of a 360-day year of twelve 30-day months, such interest to be paid semiannually on February 15 and August 15 of each year, commencing February 15, 2019.

The principal of this Bond shall be payable without exchange or collection charges in lawful money of the United States of America upon presentation and surrender of this Bond at the corporate trust office in Dallas, Texas, or such other location designated by the Paying Agent/Registrar (the "Designated Payment/Transfer Office"), of UMB Bank N.A. as initial Paying Agent/Registrar, or, with respect to a successor paying agent/registrar, at the Designated Payment/Transfer Office of such successor. Interest on this Bond is payable by check dated as of the interest payment date, mailed by the Paying Agent/Registrar to the registered owner at the address shown on the registration books kept by the Paying Agent/Registrar, or by such other customary banking arrangements acceptable to the Paying Agent/Registrar and the person to whom interest is to be paid; provided, however, that such person shall bear all risk and expense of such other customary banking arrangements. For the purpose of the payment of interest on this Bond, the registered owner shall be the person in whose name this Bond is registered at the close of business on the "Record Date," which shall be the last business day of the month next preceding such interest payment date. In the event of a nonpayment of interest on a scheduled payment date, and for thirty days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the special payment date of the past due interest (the "Special Payment Date," which date shall be

REGISTERED
No. 12

REGISTERED
\$625,000

United States of America
State of Texas

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BOND
SERIES 2018A

INTEREST RATE	MATURITY DATE	CLOSING DATE	CUSIP NUMBER
4.000%	August 15, 2030	August 16, 2018	537096 Z44

Little Elm Independent School District (the "District"), in Denton County, State of Texas, for value received, hereby promises to pay to

CEDE & CO.

or registered assigns, on the Maturity Date specified above, the sum of

SIX HUNDRED TWENTY-FIVE THOUSAND DOLLARS

unless the payment of the principal hereof shall have been paid or provided for, and to pay interest on such principal amount from the later of the Closing Date specified above or the most recent interest payment date to which interest has been paid or provided for until payment of such principal amount has been paid or provided for, at the per annum rate of interest specified above, computed on the basis of a 360-day year of twelve 30-day months, such interest to be paid semiannually on February 15 and August 15 of each year, commencing February 15, 2019.

The principal of this Bond shall be payable without exchange or collection charges in lawful money of the United States of America upon presentation and surrender of this Bond at the corporate trust office in Dallas, Texas, or such other location designated by the Paying Agent/Registrar (the "Designated Payment/Transfer Office"), of UMB Bank N.A. as initial Paying Agent/Registrar, or, with respect to a successor paying agent/registrar, at the Designated Payment/Transfer Office of such successor. Interest on this Bond is payable by check dated as of the interest payment date, mailed by the Paying Agent/Registrar to the registered owner at the address shown on the registration books kept by the Paying Agent/Registrar, or by such other customary banking arrangements acceptable to the Paying Agent/Registrar and the person to whom interest is to be paid; provided, however, that such person shall bear all risk and expense of such other customary banking arrangements. For the purpose of the payment of interest on this Bond, the registered owner shall be the person in whose name this Bond is registered at the close of business on the "Record Date," which shall be the last business day of the month next preceding such interest payment date. In the event of a nonpayment of interest on a scheduled payment date, and for thirty days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the special payment date of the past due interest (the "Special Payment Date," which date shall be

REGISTERED
No. 13

REGISTERED
\$645,000

United States of America
State of Texas

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BOND
SERIES 2018A

<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>CLOSING DATE</u>	<u>CUSIP NUMBER</u>
4.000%	August 15, 2031	August 16, 2018	537096 Z51

Little Elm Independent School District (the "District"), in Denton County, State of Texas, for value received, hereby promises to pay to

CEDE & CO.

or registered assigns, on the Maturity Date specified above, the sum of

SIX HUNDRED FORTY-FIVE THOUSAND DOLLARS

unless the payment of the principal hereof shall have been paid or provided for, and to pay interest on such principal amount from the later of the Closing Date specified above or the most recent interest payment date to which interest has been paid or provided for until payment of such principal amount has been paid or provided for, at the per annum rate of interest specified above, computed on the basis of a 360-day year of twelve 30-day months, such interest to be paid semiannually on February 15 and August 15 of each year, commencing February 15, 2019.

The principal of this Bond shall be payable without exchange or collection charges in lawful money of the United States of America upon presentation and surrender of this Bond at the corporate trust office in Dallas, Texas, or such other location designated by the Paying Agent/Registrar (the "Designated Payment/Transfer Office"), of UMB Bank N.A. as initial Paying Agent/Registrar, or, with respect to a successor paying agent/registrar, at the Designated Payment/Transfer Office of such successor. Interest on this Bond is payable by check dated as of the interest payment date, mailed by the Paying Agent/Registrar to the registered owner at the address shown on the registration books kept by the Paying Agent/Registrar, or by such other customary banking arrangements acceptable to the Paying Agent/Registrar and the person to whom interest is to be paid; provided, however, that such person shall bear all risk and expense of such other customary banking arrangements. For the purpose of the payment of interest on this Bond, the registered owner shall be the person in whose name this Bond is registered at the close of business on the "Record Date," which shall be the last business day of the month next preceding such interest payment date. In the event of a nonpayment of interest on a scheduled payment date, and for thirty days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the special payment date of the past due interest (the "Special Payment Date," which date shall be

REGISTERED
No. 14

REGISTERED
\$675,000

United States of America
State of Texas

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BOND
SERIES 2018A

<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>CLOSING DATE</u>	<u>CUSIP NUMBER</u>
4.000%	August 15, 2032	August 16, 2018	537096 769

Little Elm Independent School District (the "District"), in Denton County, State of Texas, for value received, hereby promises to pay to

CEDE & CO.

or registered assigns, on the Maturity Date specified above, the sum of

SIX HUNDRED SEVENTY-FIVE THOUSAND DOLLARS

unless the payment of the principal hereof shall have been paid or provided for, and to pay interest on such principal amount from the later of the Closing Date specified above or the most recent interest payment date to which interest has been paid or provided for until payment of such principal amount has been paid or provided for, at the per annum rate of interest specified above, computed on the basis of a 360-day year of twelve 30-day months, such interest to be paid semiannually on February 15 and August 15 of each year, commencing February 15, 2019.

The principal of this Bond shall be payable without exchange or collection charges in lawful money of the United States of America upon presentation and surrender of this Bond at the corporate trust office in Dallas, Texas, or such other location designated by the Paying Agent/Registrar (the "Designated Payment/Transfer Office"), of UMB Bank N.A. as initial Paying Agent/Registrar, or, with respect to a successor paying agent/registrar, at the Designated Payment/Transfer Office of such successor. Interest on this Bond is payable by check dated as of the interest payment date, mailed by the Paying Agent/Registrar to the registered owner at the address shown on the registration books kept by the Paying Agent/Registrar, or by such other customary banking arrangements acceptable to the Paying Agent/Registrar and the person to whom interest is to be paid; provided, however, that such person shall bear all risk and expense of such other customary banking arrangements. For the purpose of the payment of interest on this Bond, the registered owner shall be the person in whose name this Bond is registered at the close of business on the "Record Date," which shall be the last business day of the month next preceding such interest payment date. In the event of a nonpayment of interest on a scheduled payment date, and for thirty days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the special payment date of the past due interest (the "Special Payment Date," which date shall be

REGISTERED
No. 15

REGISTERED
\$700,000

United States of America
State of Texas

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BOND
SERIES 2018A

<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>CLOSING DATE</u>	<u>CUSIP NUMBER</u>
4.000%	August 15, 2033	August 16, 2018	537096 Z77

Little Elm Independent School District (the "District"), in Denton County, State of Texas, for value received, hereby promises to pay to

CEDE & CO.

or registered assigns, on the Maturity Date specified above, the sum of

SEVEN HUNDRED THOUSAND DOLLARS

unless the payment of the principal hereof shall have been paid or provided for, and to pay interest on such principal amount from the later of the Closing Date specified above or the most recent interest payment date to which interest has been paid or provided for until payment of such principal amount has been paid or provided for, at the per annum rate of interest specified above, computed on the basis of a 360-day year of twelve 30-day months, such interest to be paid semiannually on February 15 and August 15 of each year, commencing February 15, 2019.

The principal of this Bond shall be payable without exchange or collection charges in lawful money of the United States of America upon presentation and surrender of this Bond at the corporate trust office in Dallas, Texas, or such other location designated by the Paying Agent/Registrar (the "Designated Payment/Transfer Office"), of UMB Bank N.A. as initial Paying Agent/Registrar, or, with respect to a successor paying agent/registrar, at the Designated Payment/Transfer Office of such successor. Interest on this Bond is payable by check dated as of the interest payment date, mailed by the Paying Agent/Registrar to the registered owner at the address shown on the registration books kept by the Paying Agent/Registrar, or by such other customary banking arrangements acceptable to the Paying Agent/Registrar and the person to whom interest is to be paid; provided, however, that such person shall bear all risk and expense of such other customary banking arrangements. For the purpose of the payment of interest on this Bond, the registered owner shall be the person in whose name this Bond is registered at the close of business on the "Record Date," which shall be the last business day of the month next preceding such interest payment date. In the event of a nonpayment of interest on a scheduled payment date, and for thirty days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the special payment date of the past due interest (the "Special Payment Date," which date shall be

REGISTERED
No. 16

REGISTERED
\$730,000

United States of America
State of Texas

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BOND
SERIES 2018A

INTEREST RATE	MATURITY DATE	CLOSING DATE	CUSIP NUMBER
4.000%	August 15, 2034	August 16, 2018	537096 Z85

Little Elm Independent School District (the "District"), in Denton County, State of Texas, for value received, hereby promises to pay to

CEDE & CO.

or registered assigns, on the Maturity Date specified above, the sum of

SEVEN HUNDRED THIRTY THOUSAND DOLLARS

unless the payment of the principal hereof shall have been paid or provided for, and to pay interest on such principal amount from the later of the Closing Date specified above or the most recent interest payment date to which interest has been paid or provided for until payment of such principal amount has been paid or provided for, at the per annum rate of interest specified above, computed on the basis of a 360-day year of twelve 30-day months, such interest to be paid semiannually on February 15 and August 15 of each year, commencing February 15, 2019.

The principal of this Bond shall be payable without exchange or collection charges in lawful money of the United States of America upon presentation and surrender of this Bond at the corporate trust office in Dallas, Texas, or such other location designated by the Paying Agent/Registrar (the "Designated Payment/Transfer Office"), of UMB Bank N.A. as initial Paying Agent/Registrar, or, with respect to a successor paying agent/registrar, at the Designated Payment/Transfer Office of such successor. Interest on this Bond is payable by check dated as of the interest payment date, mailed by the Paying Agent/Registrar to the registered owner at the address shown on the registration books kept by the Paying Agent/Registrar, or by such other customary banking arrangements acceptable to the Paying Agent/Registrar and the person to whom interest is to be paid; provided, however, that such person shall bear all risk and expense of such other customary banking arrangements. For the purpose of the payment of interest on this Bond, the registered owner shall be the person in whose name this Bond is registered at the close of business on the "Record Date," which shall be the last business day of the month next preceding such interest payment date. In the event of a nonpayment of interest on a scheduled payment date, and for thirty days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the special payment date of the past due interest (the "Special Payment Date," which date shall be

REGISTERED
No. 17

REGISTERED
\$755,000

United States of America
State of Texas

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BOND
SERIES 2018A

<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>CLOSING DATE</u>	<u>CUSIP NUMBER</u>
4.000%	August 15, 2035	August 16, 2018	537096 Z93

Little Elm Independent School District (the "District"), in Denton County, State of Texas, for value received, hereby promises to pay to

CEDE & CO.

or registered assigns, on the Maturity Date specified above, the sum of

SEVEN HUNDRED FIFTY-FIVE THOUSAND DOLLARS

unless the payment of the principal hereof shall have been paid or provided for, and to pay interest on such principal amount from the later of the Closing Date specified above or the most recent interest payment date to which interest has been paid or provided for until payment of such principal amount has been paid or provided for, at the per annum rate of interest specified above, computed on the basis of a 360-day year of twelve 30-day months, such interest to be paid semiannually on February 15 and August 15 of each year, commencing February 15, 2019.

The principal of this Bond shall be payable without exchange or collection charges in lawful money of the United States of America upon presentation and surrender of this Bond at the corporate trust office in Dallas, Texas, or such other location designated by the Paying Agent/Registrar (the "Designated Payment/Transfer Office"), of UMB Bank N.A. as initial Paying Agent/Registrar, or, with respect to a successor paying agent/registrar, at the Designated Payment/Transfer Office of such successor. Interest on this Bond is payable by check dated as of the interest payment date, mailed by the Paying Agent/Registrar to the registered owner at the address shown on the registration books kept by the Paying Agent/Registrar, or by such other customary banking arrangements acceptable to the Paying Agent/Registrar and the person to whom interest is to be paid; provided, however, that such person shall bear all risk and expense of such other customary banking arrangements. For the purpose of the payment of interest on this Bond, the registered owner shall be the person in whose name this Bond is registered at the close of business on the "Record Date," which shall be the last business day of the month next preceding such interest payment date. In the event of a nonpayment of interest on a scheduled payment date, and for thirty days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the special payment date of the past due interest (the "Special Payment Date," which date shall be

REGISTERED
No. 18

REGISTERED
\$790,000

United States of America
State of Texas

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BOND
SERIES 2018A

INTEREST RATE	MATURITY DATE	CLOSING DATE	CUSIP NUMBER
4.000%	August 15, 2036	August 16, 2018	537096 2A6

Little Elm Independent School District (the "District"), in Denton County, State of Texas, for value received, hereby promises to pay to

CEDE & CO.

or registered assigns, on the Maturity Date specified above, the sum of

SEVEN HUNDRED NINETY THOUSAND DOLLARS

unless the payment of the principal hereof shall have been paid or provided for, and to pay interest on such principal amount from the later of the Closing Date specified above or the most recent interest payment date to which interest has been paid or provided for until payment of such principal amount has been paid or provided for, at the per annum rate of interest specified above, computed on the basis of a 360-day year of twelve 30-day months, such interest to be paid semiannually on February 15 and August 15 of each year, commencing February 15, 2019.

The principal of this Bond shall be payable without exchange or collection charges in lawful money of the United States of America upon presentation and surrender of this Bond at the corporate trust office in Dallas, Texas, or such other location designated by the Paying Agent/Registrar (the "Designated Payment/Transfer Office"), of UMB Bank N.A. as initial Paying Agent/Registrar, or, with respect to a successor paying agent/registrar, at the Designated Payment/Transfer Office of such successor. Interest on this Bond is payable by check dated as of the interest payment date, mailed by the Paying Agent/Registrar to the registered owner at the address shown on the registration books kept by the Paying Agent/Registrar, or by such other customary banking arrangements acceptable to the Paying Agent/Registrar and the person to whom interest is to be paid; provided, however, that such person shall bear all risk and expense of such other customary banking arrangements. For the purpose of the payment of interest on this Bond, the registered owner shall be the person in whose name this Bond is registered at the close of business on the "Record Date," which shall be the last business day of the month next preceding such interest payment date. In the event of a nonpayment of interest on a scheduled payment date, and for thirty days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the special payment date of the past due interest (the "Special Payment Date," which date shall be

REGISTERED
No. 19

REGISTERED
\$820,000

United States of America
State of Texas

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BOND
SERIES 2018A

<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>CLOSING DATE</u>	<u>CUSIP NUMBER</u>
4.000%	August 15, 2037	August 16, 2018	537096 2B4

Little Elm Independent School District (the "District"), in Denton County, State of Texas, for value received, hereby promises to pay to

CEDE & CO.

or registered assigns, on the Maturity Date specified above, the sum of

EIGHT HUNDRED TWENTY THOUSAND DOLLARS

unless the payment of the principal hereof shall have been paid or provided for, and to pay interest on such principal amount from the later of the Closing Date specified above or the most recent interest payment date to which interest has been paid or provided for until payment of such principal amount has been paid or provided for, at the per annum rate of interest specified above, computed on the basis of a 360-day year of twelve 30-day months, such interest to be paid semiannually on February 15 and August 15 of each year, commencing February 15, 2019.

The principal of this Bond shall be payable without exchange or collection charges in lawful money of the United States of America upon presentation and surrender of this Bond at the corporate trust office in Dallas, Texas, or such other location designated by the Paying Agent/Registrar (the "Designated Payment/Transfer Office"), of UMB Bank N.A. as initial Paying Agent/Registrar, or, with respect to a successor paying agent/registrar, at the Designated Payment/Transfer Office of such successor. Interest on this Bond is payable by check dated as of the interest payment date, mailed by the Paying Agent/Registrar to the registered owner at the address shown on the registration books kept by the Paying Agent/Registrar, or by such other customary banking arrangements acceptable to the Paying Agent/Registrar and the person to whom interest is to be paid; provided, however, that such person shall bear all risk and expense of such other customary banking arrangements. For the purpose of the payment of interest on this Bond, the registered owner shall be the person in whose name this Bond is registered at the close of business on the "Record Date," which shall be the last business day of the month next preceding such interest payment date. In the event of a nonpayment of interest on a scheduled payment date, and for thirty days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the special payment date of the past due interest (the "Special Payment Date," which date shall be

REGISTERED
No. 20

REGISTERED
\$850,000

United States of America
State of Texas

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BOND
SERIES 2018A

INTEREST RATE	MATURITY DATE	CLOSING DATE	CUSIP NUMBER
4.000%	August 15, 2038	August 16, 2018	537096 2C2

Little Elm Independent School District (the "District"), in Denton County, State of Texas, for value received, hereby promises to pay to

CEDE & CO.

or registered assigns, on the Maturity Date specified above, the sum of

EIGHT HUNDRED FIFTY THOUSAND DOLLARS

unless the payment of the principal hereof shall have been paid or provided for, and to pay interest on such principal amount from the later of the Closing Date specified above or the most recent interest payment date to which interest has been paid or provided for until payment of such principal amount has been paid or provided for, at the per annum rate of interest specified above, computed on the basis of a 360-day year of twelve 30-day months, such interest to be paid semiannually on February 15 and August 15 of each year, commencing February 15, 2019.

The principal of this Bond shall be payable without exchange or collection charges in lawful money of the United States of America upon presentation and surrender of this Bond at the corporate trust office in Dallas, Texas, or such other location designated by the Paying Agent/Registrar (the "Designated Payment/Transfer Office"), of UMB Bank N.A. as initial Paying Agent/Registrar, or, with respect to a successor paying agent/registrar, at the Designated Payment/Transfer Office of such successor. Interest on this Bond is payable by check dated as of the interest payment date, mailed by the Paying Agent/Registrar to the registered owner at the address shown on the registration books kept by the Paying Agent/Registrar, or by such other customary banking arrangements acceptable to the Paying Agent/Registrar and the person to whom interest is to be paid; provided, however, that such person shall bear all risk and expense of such other customary banking arrangements. For the purpose of the payment of interest on this Bond, the registered owner shall be the person in whose name this Bond is registered at the close of business on the "Record Date," which shall be the last business day of the month next preceding such interest payment date. In the event of a nonpayment of interest on a scheduled payment date, and for thirty days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the special payment date of the past due interest (the "Special Payment Date," which date shall be

REGISTERED
No. 21

REGISTERED
\$4,795,000

United States of America
State of Texas

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BOND
SERIES 2018A

INTEREST RATE	MATURITY DATE	CLOSING DATE	CUSIP NUMBER
4.000%	August 15, 2043	August 16, 2018	537096 2D0

Little Elm Independent School District (the "District"), in Denton County, State of Texas, for value received, hereby promises to pay to

CEDE & CO.

or registered assigns, on the Maturity Date specified above, the sum of

FOUR MILLION SEVEN HUNDRED NINETY-FIVE THOUSAND DOLLARS

unless the payment of the principal hereof shall have been paid or provided for, and to pay interest on such principal amount from the later of the Closing Date specified above or the most recent interest payment date to which interest has been paid or provided for until payment of such principal amount has been paid or provided for, at the per annum rate of interest specified above, computed on the basis of a 360-day year of twelve 30-day months, such interest to be paid semiannually on February 15 and August 15 of each year, commencing February 15, 2019.

The principal of this Bond shall be payable without exchange or collection charges in lawful money of the United States of America upon presentation and surrender of this Bond at the corporate trust office in Dallas, Texas, or such other location designated by the Paying Agent/Registrar (the "Designated Payment/Transfer Office"), of UMB Bank N.A. as initial Paying Agent/Registrar, or, with respect to a successor paying agent/registrar, at the Designated Payment/Transfer Office of such successor. Interest on this Bond is payable by check dated as of the interest payment date, mailed by the Paying Agent/Registrar to the registered owner at the address shown on the registration books kept by the Paying Agent/Registrar, or by such other customary banking arrangements acceptable to the Paying Agent/Registrar and the person to whom interest is to be paid; provided, however, that such person shall bear all risk and expense of such other customary banking arrangements. For the purpose of the payment of interest on this Bond, the registered owner shall be the person in whose name this Bond is registered at the close of business on the "Record Date," which shall be the last business day of the month next preceding such interest payment date. In the event of a nonpayment of interest on a scheduled payment date, and for thirty days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the special payment date of the past due interest (the "Special Payment Date," which date shall be

REGISTERED
No. 22

REGISTERED
\$5,840,000

United States of America
State of Texas

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BOND
SERIES 2018A

INTEREST RATE	MATURITY DATE	CLOSING DATE	CUSIP NUMBER
4.000%	August 15, 2048	August 16, 2018	537096 2E8

Little Elm Independent School District (the "District"), in Denton County, State of Texas, for value received, hereby promises to pay to

CEDE & CO.

or registered assigns, on the Maturity Date specified above, the sum of

FIVE MILLION EIGHT HUNDRED FORTY THOUSAND DOLLARS

unless the payment of the principal hereof shall have been paid or provided for, and to pay interest on such principal amount from the later of the Closing Date specified above or the most recent interest payment date to which interest has been paid or provided for until payment of such principal amount has been paid or provided for, at the per annum rate of interest specified above, computed on the basis of a 360-day year of twelve 30-day months, such interest to be paid semiannually on February 15 and August 15 of each year, commencing February 15, 2019.

The principal of this Bond shall be payable without exchange or collection charges in lawful money of the United States of America upon presentation and surrender of this Bond at the corporate trust office in Dallas, Texas, or such other location designated by the Paying Agent/Registrar (the "Designated Payment/Transfer Office"), of UMB Bank N.A. as initial Paying Agent/Registrar, or, with respect to a successor paying agent/registrar, at the Designated Payment/Transfer Office of such successor. Interest on this Bond is payable by check dated as of the interest payment date, mailed by the Paying Agent/Registrar to the registered owner at the address shown on the registration books kept by the Paying Agent/Registrar, or by such other customary banking arrangements acceptable to the Paying Agent/Registrar and the person to whom interest is to be paid; provided, however, that such person shall bear all risk and expense of such other customary banking arrangements. For the purpose of the payment of interest on this Bond, the registered owner shall be the person in whose name this Bond is registered at the close of business on the "Record Date," which shall be the last business day of the month next preceding such interest payment date. In the event of a nonpayment of interest on a scheduled payment date, and for thirty days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the special payment date of the past due interest (the "Special Payment Date," which date shall be

fifteen days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each owner of a Bond appearing on the books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

If the date for the payment of the principal of or interest on this Bond shall be a Saturday, Sunday, legal holiday, or day on which banking institutions in the city where the Paying Agent/Registrar is located are required or authorized by law or executive order to close, the date for such payment shall be the next succeeding day which is not a Saturday, Sunday, legal holiday, or day on which banking institutions are required or authorized to close, and payment on such date shall for all purposes be deemed to have been made on the original date payment was due.

This Bond, dated July 15, 2018 is one of a series of fully registered bonds specified in the title hereof issued in the aggregate principal amount of \$23,885,000 (herein referred to as the "Bonds"), issued pursuant to a certain order of the District (the "Order") (i) the construction, improvement, renovation and equipment of school buildings in the District and acquiring real property therefor, and the purchase of new school buses, and (ii) for paying for the costs of issuing the Bonds.

The Bonds and the interest thereon are payable from the levy of an annual ad valorem tax levied without legal limit as to rate or amount, against all taxable property located within the District and as described and provided in the Order.

The District has reserved the right to redeem the Bonds maturing on and after August 15, 2028, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, before their respective scheduled maturity dates, on August 15, 2027, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the District shall determine the maturities and the amounts thereof to be redeemed, and shall direct the Paying Agent/Registrar to call by lot the Bonds, or portions thereof, for redemption.

The Bonds stated to mature on August 15, 2043 and August 15, 2048 (collectively, the "Term Bonds"), are subject to scheduled mandatory redemption and will be redeemed by the District, at a price equal to the principal amount thereof, without premium, plus accrued interest to the redemption date, out of moneys available for such purpose in the Interest and Sinking Fund, on the dates and in the respective principal amounts as set forth in the following schedule:

\$4,795,000 Term Bond Maturing August 15, 2043

Year	Principal Amount
2039	\$ 885,000
2040	920,000
2041	960,000
2042	995,000
2043 (maturity)	1,035,000

\$5,840,000 Term Bond Maturing August 15, 2048

<u>Year</u>	<u>Principal Amount</u>
2044	\$1,080,000
2045	1,120,000
2046	1,165,000
2047	1,215,000
2048 (maturity)	1,260,000

At least forty-five (45) days prior to each scheduled mandatory redemption date, the Paying Agent/Registrar shall select for redemption by lot, or by any other customary method that results in a random selection, a principal amount of Term Bonds equal to the aggregate principal amount of such Term Bonds to be redeemed and shall call such Term Bonds for redemption on such scheduled mandatory redemption date.

The principal amount of the Term Bonds required to be redeemed on any mandatory sinking fund redemption date shall be reduced, at the option of the District, by the principal amount of any Term Bonds which, at least 45 days prior to the mandatory sinking fund redemption date (i) shall have been acquired by the District at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, or (ii) shall have been redeemed pursuant to an optional redemption and not previously credited to a mandatory sinking fund redemption.

Not less than thirty (30) days prior to a redemption date for the Bonds, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the Owners of the Bonds to be redeemed at the address of the Owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice.

In the Order, the District reserves the right, in the case of an optional redemption, to give notice of its election or direction to redeem Bonds conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date, or (ii) that the District retains the right to rescind such notice at any time on or prior to the scheduled redemption date if the District delivers a certificate of the District to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any Bonds subject to conditional redemption and such redemption has been rescinded shall remain Outstanding, and the rescission of such redemption shall not constitute an Event of Default. Further, in the case of a conditional redemption, the failure of the District to make moneys and/or authorized securities available in part or in whole on or before the redemption date shall not constitute an Event of Default.

Any notice so mailed shall be conclusively presumed to have been duly given, whether or not the registered owner receives such notice. Notice having been so given and subject, in the case of an optional redemption; to any rights or conditions reserved by the District in the notice, the Bonds called for redemption shall become due and payable on the specified redemption date, and notwithstanding that any Bond or portion thereof has not been surrendered for payment, interest on such Bond or portion thereof shall cease to accrue.


As provided in the Order, and subject to certain limitations therein set forth, this Bond is transferable upon surrender of this Bond for transfer at the Designated Payment/Transfer Office with such endorsement or other evidence of transfer as is acceptable to the Paying Agent/Registrar; thereupon, one or more new fully registered Bonds of the same stated maturity, of authorized denominations, bearing the same rate of interest, and for the same aggregate principal amount will be issued to the designated transferee or transferees.

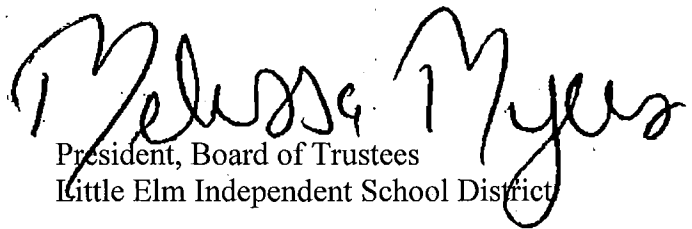
Neither the District nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond called for redemption where such redemption is scheduled to occur within 45 calendar days after the transfer or exchange date; provided, however, such limitation shall not be applicable to an exchange by the registered owner of the uncalled principal balance of a Bond.

The District, the Paying Agent/Registrar, and any other person may treat the person in whose name this Bond is registered as the owner hereof for the purpose of receiving payment as herein provided (except interest shall be paid to the person in whose name this Bond is registered on the Record Date) and for all other purposes, whether or not this Bond be overdue, and neither the District nor the Paying Agent/Registrar shall be affected by notice to the contrary.

IT IS HEREBY CERTIFIED AND RECITED that the issuance of this Bond and the series of which it is a part is duly authorized by law; that all acts, conditions and things required to be done precedent to and for the issuance of the Bonds have been properly done and performed and have happened in regular and due time, form and manner, as required by law; that sufficient and proper provision for the levy and collection of taxes has been made, without limit as to rate or amount, which when collected shall be appropriated exclusively to the timely payment of the principal and maturity amounts of, and interest on the Bonds; and that the total indebtedness of the District, including the Bonds, does not exceed any constitutional or statutory limitation.

IN WITNESS WHEREOF, the District has caused this Bond to be duly executed under its official seal.


Secretary, Board of Trustees
Little Elm Independent School District


President, Board of Trustees
Little Elm Independent School District



SPECIMEN

CERTIFICATE OF PAYING AGENT/REGISTRAR

The records of the Paying Agent/Registrar show that the Initial Bond of this series of bonds was approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas and that this is one of the Bonds referred to in the within-mentioned Order.

UMB BANK, N.A.
as Paying Agent/Registrar

Dated: _____

By: _____
Authorized Signatory

SPECIMEN

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns, and transfers unto

(print or typewrite name, address and Zip Code of transferee): (Social Security or other identifying number: _____) the within Bond and all rights hereunder and hereby irrevocably constitutes and appoints _____ attorney to transfer the within Bond on the books kept for registration hereof, with full power of substitution in the premises.

Dated: _____

Signature Guaranteed By:

Authorized Signatory

NOTICE: The signature on this Assignment must correspond with the name of the registered owner as it appears on the face of the within Bond in every particular and must be guaranteed in a manner acceptable to the Paying Agent/Registrar.

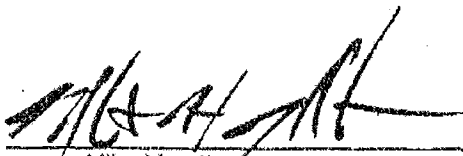
SPECIMEN

PSF CERTIFICATE

Under the authority granted by Article 7, Section 5 of the Texas Constitution and Subchapter C of Chapter 45 of the Texas Education Code, the payment, when due, of the principal of and interest on the issuance by the Little Elm Independent School District of its Unlimited Tax School Building Bonds, Series 2018A, dated July 15, 2018, in the principal amount of \$23,885,000 is guaranteed by the corpus of the Permanent School Fund of the State pursuant to the bond guarantee program administered by the Texas Education Agency. This guarantee shall be removed in its entirety upon defeasance of such bonds.

Reference is hereby made to the continuing disclosure agreement of the Texas Education Agency, set forth in Section I of the Agency's Investment Procedure Manual and the Agency's commitment letter for the guarantee. Such disclosure agreement has been made with respect to the bond guarantee program, in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission, for the benefit of the holders and beneficial owners of the bonds.

In witness thereof I have caused my signature to be placed in facsimile on this bond.



Mike Morath
Commissioner of Education

FEDERAL TAX CERTIFICATE

I, the undersigned officer of the Little Elm Independent School District (the "District"), make this certification for the benefit of all persons interested in the exclusion from gross income for federal income tax purposes of the interest to be paid on the \$23,885,000 Little Elm Independent School District Unlimited Tax School Building Bonds, Series 2018A (the "Bonds"). I do hereby certify as follows in good faith as of the hereinafter defined Issue Date of the Bonds:

1. **Definitions.** Each capitalized term used in this Federal Tax Certificate has the meaning ascribed to such term below or has the meaning or is the amount, as the case may be, specified for such term in this Federal Tax Certificate or in Exhibits to this Federal Tax Certificate and for all purposes hereof has the meaning or is the amount therein specified. All such terms defined in the Code or Regulations that are not defined herein shall for all purposes hereof have the same meanings as given to those terms in the Code and Regulations unless the context clearly requires otherwise.

"Authorizing Document" means the order adopted by the District on June 18, 2018, for purposes of authorizing the issuance of the Bonds and the pricing certificate executed pursuant thereto on July 26, 2018.

"Code" means the Internal Revenue Code of 1986, as amended, and, with respect to a specific section thereof, such reference shall be deemed to include (a) the Regulations promulgated under such section, (b) any successor provision of similar import hereafter enacted, (c) any corresponding provision of any subsequent Internal Revenue Code and (d) the regulations promulgated under the provisions described in (b) and (c).

"Favorable Opinion of Bond Counsel" means an opinion of nationally recognized bond counsel to the effect that an action, or omission of an action, will not adversely affect the excludability from gross income for federal income tax purposes of interest payable on the Bonds.

"Financial Advisor" means RBC Capital Markets, LLC.

"Gross Proceeds" means any Proceeds and any Replacement Proceeds.

"Interest and Sinking Fund" means the "Little Elm Independent School District Unlimited Tax School Building Bonds, Series 2018A Interest and Sinking Fund" created pursuant to the Authorizing Document.

"Investment Proceeds" is defined in section 1.148-1(b) of the Regulations and, generally, consist of any amounts actually or constructively received from investing Proceeds.

"Issuance Costs" means costs to the extent incurred in connection with, and allocable to, the issuance of obligations within the meaning of section 147(g) of the Code. For example, Issuance Costs include the following costs, but only to the extent incurred in connection with, and allocable to, the borrowing: underwriters' spread; counsel fees; financial advisory fees; fees paid to an organization to evaluate the credit quality of an issue; trustee fees; paying agent fees; bond registrar, certification and authentication fees; accounting fees; printing costs for bonds and

offering documents; public approval process costs; engineering and feasibility study costs; guarantee fees, other than qualified guarantees; and similar costs.

“Issue Date” means, with respect to an issue of obligations, the first date on which the District receives the purchase price in exchange for delivery of the evidence of indebtedness representing any obligation.

“Issue Price” has the meaning ascribed to it in section 1.148-1(f) of the Regulations.

“Minor Portion” means that portion of the Gross Proceeds of the Bonds that does not exceed in the aggregate \$100,000.

“Net Proceeds” means Proceeds, less any Proceeds invested in a “reasonably required reserve or replacement fund,” as described in section 148 of the Code.

“Original Issue Discount” means the excess of the Stated Redemption Price at Maturity over the Issue Price.

“Original Issue Premium” means the excess of the Issue Price over the Stated Redemption Price at Maturity.

“Pre-Issuance Accrued Interest” is defined in section 1.148-1(b) of the Regulations and, generally, means amounts representing interest that accrued on an obligation for a period not greater than one year before its Issue Date but only if those amounts are paid within one year after the Issue Date.

“Proceeds” is defined in section 1.148-1(b) of the Regulations and, generally, means any Sale Proceeds and Investment Proceeds.

“Project” means each separate project financed by the Bonds.

“Projects” means, collectively, the projects financed by the Bonds, as generally described in the “Description of Governmental Purpose” paragraph of this Federal Tax Certificate.

“Project Fund” means the fund into which the District will deposit Proceeds of the Bonds to pay the costs of the Projects.

“Regulations” means the applicable proposed, temporary or final Treasury Regulations promulgated under the Code or, to the extent applicable to the Code, under the Internal Revenue Code of 1954, as such regulations may be amended or supplemented from time to time.

“Replacement Proceeds” has the meaning set forth in section 1.148-1(c) of the Regulations and, generally, consist of amounts that have a sufficiently direct nexus to an issue of obligations or the governmental purpose of an issue of obligations to conclude that the amounts would have been used for that governmental purpose if the Proceeds were not used or to be used for that governmental purpose.

“Representative” means Wells Fargo Bank, National Association, as the representative for the Underwriters.

“Sale Proceeds” is defined in section 1.148-1(b) of the Regulations and, generally, consist of any amounts actually or constructively received from the sale (or other disposition) of any obligation, including amounts used to pay underwriters’ discount or compensation and accrued interest other than Pre-Issuance Accrued Interest. Sale Proceeds also include amounts derived from the sale of a right that is associated with any obligation and that is described in section 1.148-4(b)(4) of the Regulations.

“Stated Redemption Price at Maturity” means the amount fixed by the last modification of the purchase agreement and includes interest and other amounts payable at that time (other than any interest based on a fixed rate and payable unconditionally at fixed periodic intervals of one year or less during the entire term of the debt instrument).

“Underwriters” means the group of underwriters that purchased the Bonds.

“Weighted Average Maturity” has the meaning ascribed to it in the “Weighted Average Maturity” paragraph of this Federal Tax Certificate.

“Yield” on (a) an issue of obligations has the meaning set forth in section 1.148-4 of the Regulations and, generally, is the discount rate that when used in computing the present value of all payments of principal, interest, and fees for qualified guarantees to be paid on the obligation produces an amount equal to the Issue Price of such issue and (b) any investment has the meaning set forth in section 1.148-5 of the Regulations and, generally, is the discount rate that when used in computing the present value of all payments of principal and interest to be paid on the investment produces an amount equal to all payments for the investment.

2. **Responsible Officer.** I am the duly chosen, qualified and acting officer of the District for the office shown below my signature; as such, I am familiar with the facts herein certified and I am duly authorized to execute and deliver this Federal Tax Certificate on behalf of the District. I am the officer of the District charged, along with other officers of the District, with responsibility for issuing the Bonds.

3. **Code and Regulations.** I am aware of the provisions of sections 141, 148, 149 and 150 of the Code and the Regulations heretofore promulgated under sections 141, 148, 149 and 150 of the Code. This Federal Tax Certificate is being executed and delivered pursuant to sections 1.141-1 through 1.141-15, 1.148-0 through 1.148-11, 1.149(b)-1, 1.149(d)-1, 1.149(g)-1, 1.150-1 and 1.150-2 of the Regulations.

4. **Reasonable Expectations.** The facts and estimates that are set forth in this Federal Tax Certificate are accurate. The expectations that are set forth in this Federal Tax Certificate are reasonable in light of such facts and estimates. There are no other facts or estimates that would materially change such expectations. In connection with this Federal Tax Certificate, the undersigned has to the extent necessary reviewed the certifications set forth herein with other

representatives of the District as to such accuracy and reasonableness. The undersigned has also relied, to the extent appropriate, on representations set forth in (a) the Issue Price Certificate attached hereto as Exhibit A, and (b) the Certificate of Financial Advisor attached hereto as Exhibit B. The undersigned is aware of no fact, estimate or circumstance that would create any doubt regarding the accuracy or reasonableness of all or any portion of such documents.

5. Description of Governmental Purpose. The District is issuing the Bonds pursuant to the Authorizing Document for the purposes of funding (a) the Projects as described more fully in the Official Statement prepared in connection with the offering of the Bonds and (b) the Issuance Costs of the Bonds. The primary purpose of each transaction undertaken in connection with the issuance of the Bonds is a bona fide governmental purpose. The Projects consist of (i) the construction, improvement, renovation and equipping of school buildings in the District and the acquisition of real property therefor and (ii) the purchase of school buses.

6. Amount and Expenditure of Sale Proceeds of the Bonds.

(a) Amount of Sale Proceeds. The Sale Proceeds of the Bonds is \$25,251,042.70, which is the amount actually or constructively received by the District from the sale (or other disposition) of the Bonds to the Underwriters, including amounts used to pay underwriters' discount or compensation.

(b) Expenditure of Sale Proceeds. The Sale Proceeds of the Bonds will be expended as follows:

(i) The amount of \$25,000,000 will be deposited in the Project Fund and is expected to be disbursed to pay or reimburse the costs of the Projects.

(ii) The amount of \$137,189.79 will be allocated on the Issue Date of the Bonds to the payment of underwriters' discount or compensation.

(iii) The amount of \$113,852.91 will be disbursed to pay other Issuance Costs of the Bonds.

(c) Reimbursement. Other than (i) the amount of \$100,000 and (ii) preliminary expenditures (i.e., architectural, engineering, surveying, soil testing, bond issuance, and similar costs that are incurred prior to commencement of acquisition, construction, or rehabilitation of each Project, other than land acquisition, site preparation, and similar costs incident to commencement of construction) not in excess of 20 percent of the Issue Price of the Bonds, no portion of the amount described in the "Amount and Expenditure of Sale Proceeds of the Bonds—Expenditure of Sale Proceeds" subparagraph above will be disbursed to reimburse the District for any expenditures made by the District prior to the date that is 60 days before the date that the District adopted the Authorizing Document.

(d) No Working Capital. The District will only expend Proceeds of the Bonds for (i) costs that would be chargeable to the capital accounts of each Project if the District's income were subject to federal income taxation; (ii) interest on the Bonds in an amount that does

not cause the aggregate amount of interest paid on all of the Bonds to exceed that amount of interest on the Bonds that is attributable to the period that commences on the Issue Date of the Bonds and ends on the later of (A) the date that is three years from the Issue Date of the Bonds or (B) the date that is one year after the date on which the applicable Project is placed in service; and/or (iii) fees for a qualified guarantee of the Bonds or payment for a qualified hedge on the Bonds.

(e) No Sale of Conduit Loan. No portion of the Sale Proceeds of the Bonds has been or will be used to acquire, finance, or refinance any conduit loan.

(f) No Overburdening. The Proceeds of the Bonds will not exceed the amount necessary to accomplish the governmental purposes of the Bonds and, in fact, are not expected to exceed by any amount the amount of Proceeds allocated to expenditures for the governmental purposes of the Bonds.

(g) Allocations and Accounting. The Proceeds of the Bonds will be allocated to expenditures not later than 18 months after the later of the date the expenditure is made or the date the applicable Project is placed in service, but in no event later than the date that is 60 days after the fifth anniversary of the Issue Date of the Bonds or the retirement of the last Bond, if earlier. The allocation of Proceeds of the Bonds will be made by using a reasonable, consistently applied accounting method. No Proceeds of the Bonds will be allocated to any expenditure to which Proceeds of any other obligations have heretofore been allocated. The District will maintain records and documentation regarding the allocation of expenditures to Proceeds of the Bonds and the investment of Gross Proceeds of the Bonds for at least three years after the close of the final calendar year during which any Bond is outstanding.

7. Pre-Issuance Accrued Interest. There is no Pre-Issuance Accrued Interest on the Bonds.

8. Expenditure of Investment Proceeds. The best estimate of the District is that Investment Proceeds resulting from the investment of any Proceeds of the Bonds pending expenditure of such Proceeds for costs of the Projects will be retained in the Project Fund and disbursed to pay or reimburse project costs in addition to those described in the "Amount and Expenditure of Sale Proceeds of the Bonds" paragraph above.

9. Replacement Proceeds.

(a) No Sinking Funds. Other than the Interest and Sinking Fund, there is no debt service fund, redemption fund, reserve fund, replacement fund, or similar fund reasonably expected to be used directly or indirectly to pay principal or interest on the Bonds.

(b) No Pledged Funds. Other than amounts in the Interest and Sinking Fund, there is no amount that is directly or indirectly pledged, other than solely by reason of the mere availability or preliminary earmarking, to pay principal or interest on the Bonds, or to a guarantor of part or all of the Bonds, such that such pledge provides reasonable assurance that such amount will be available to pay principal or interest on the Bonds if the District encounters

financial difficulty. For purposes of this certification, an amount is treated as so pledged if it is held under an agreement to maintain the amount at a particular level for the direct or indirect benefit of the holders or the guarantor of the Bonds.

(c) No Other Replacement Proceeds. There are no other Replacement Proceeds allocable to the Bonds because the District reasonably expects that the term of the Bonds will not be longer than is reasonably necessary for the governmental purposes of the Bonds. Furthermore, even if the Bonds were outstanding longer than necessary for the purpose of the Bonds, no Replacement Proceeds of the Bonds will arise because the District reasonably expects that no amounts will become available during the period that the Bonds remain outstanding longer than necessary based on the reasonable expectations of the District as to the amounts and timing of future revenues. The Bonds would be issued to achieve the governmental purpose of the Bonds independent of any arbitrage benefit as evidenced by the expectation that the Bonds reasonably would have been issued if the interest on the Bonds were not excludable from gross income (assuming that the hypothetical taxable interest rate would be the same as the actual tax-exempt interest rate).

(d) Weighted Average Economic Life. The Weighted Average Maturity of the Bonds is not greater than 120 percent of the weighted average estimated economic life of the portion of the Projects financed by the Bonds, determined in accordance with section 147(b) of the Code. Such weighted average estimated economic life is determined in accordance with the following assumptions: (i) the weighted average was determined by taking into account the respective costs of each of the assets financed by the Bonds; (ii) the reasonably expected economic life of an asset was determined as of the later of the Issue Date of the Bonds or the date on which such asset is expected to be placed in service (i.e., available for use for the intended purposes of such asset); (iii) the economic lives used in making this determination are not greater than the reasonably expected economic useful lives of the Projects financed by the Bonds allowing for normal wear and tear and assuming prudent and customary maintenance; and (iv) land or any interest therein has not been taken into account in determining the average reasonably expected economic life of such Project, unless 25 percent or more of the Net Proceeds of the Bonds are to be used to finance land.

(e) Permanent School Fund Guarantee. Under the authority granted to the Commissioner of Education of the State of Texas under Article 7, Section 5 of the Texas Constitution and Subchapter C of Chapter 45 of the Texas Education Code, as amended, the payment, when due, of the principal of and interest on the Bonds is guaranteed by the corpus of the Permanent School Fund of the State of Texas (the "PSF"), as set forth in a letter from the Commissioner of Education with respect to the Bonds. The PSF is a perpetual state trust fund authorized for the benefit of the public schools of the State of Texas that is administered by the Texas State Board of Education. The Commissioner of Education has certified in a certificate attached hereto as Exhibit C (the "PSF Certificate"), that the total amount of bonds guaranteed by the PSF (including the Bonds) does not exceed 500 percent of the total costs of the assets held by the PSF on December 16, 2009. In such certificate, the Commissioner of Education also has certified that if the Bonds are defeased, the PSF guarantee will be withdrawn in its entirety. Based on the PSF Certificate, the District represents that: (i) substantially all the corpus of the

PSF consists of, and has at all times since August 15, 1986 consisted of, nonfinancial assets and revenues derived from these assets, gifts and bequests, (ii) the corpus of the PSF may be invaded only to support specifically designated essential governmental functions carried on by political subdivisions with general taxing powers and (iii) substantially all of the available income of the PSF is, and has been at all times since August 16, 1986, required to be applied annually to support designated essential governmental functions. Thus, in accordance with Private Letter Ruling 9031025 (May 7, 1990), the District expects that the PSF does not constitute a pledged fund treated as Replacement Proceeds under section 1.148-1(c)(3) of the Regulations and qualifies as a perpetual trust fund under section 1.148-11(d)(1) of the Regulations. The District further represents that (A) the Bonds are general obligations of a political subdivision of the State of Texas with general taxing powers and the Bonds are not private activity bonds and (B) substantially all of the Proceeds of the Bonds is to be used to provide facilities necessary to carry out the educational functions specified by Article 7, Section 5 of the Texas Constitution and Chapter 45 of the Texas Education Code. No fee has been charged for the guarantee under the PSF in excess of a nominal charge for administrative costs.

10. Issue Price. In accordance with section 1.148-1(f)(2)(iv) of the Regulations, the District hereby identifies in its books and records maintained for the Bonds the rule the District will use to determine the Issue Price for each maturity of the Bonds as follows:

(a) 10% Test. For those Bonds maturing in the years 2019 through 2028, inclusive, 2030 through 2038, inclusive, 2043 and 2048, the District will determine the Issue Price of such maturities as set forth in the first sentence of section 1.148-1(f)(2)(i) of the Regulations, i.e., the Issue Price is the first price at which a substantial amount (i.e., 10%) is sold to the public.

(b) Hold-the-Offering-Price Rule. For those Bonds maturing in the year 2029, the District will determine the Issue Price of such maturity as set forth in section 1.148-1(f)(2)(ii) of the Regulations, i.e., the Issue Price is the initial offering price to the public as of the sale date.

Based on the representations set forth in Exhibit A hereto, the aggregate Issue Price of the Bonds is \$25,251,042.70. The Issue Price of the Bonds represents the Stated Redemption Price at Maturity of the Bonds in an amount of \$23,885,000, plus Original Issue Premium in the amount of \$1,366,042.70.

11. Yield on the Bonds. For the purposes of this Federal Tax Certificate, the Yield on the Bonds is the discount rate that, when used in computing the present value as of the Issue Date of the Bonds, of all unconditionally payable payments of principal and interest on the Bonds, produces an amount equal to the present value, using the same discount rate, of the aggregate Issue Price of the Bonds as of the Issue Date of the Bonds. For purposes of determining the Yield on the Bonds, the Issue Price of the Bonds is the sum of the Issue Prices for each group of substantially identical Bonds.

The Yield with respect to that portion of the Bonds, if any, subject to optional redemption (other than the Bonds scheduled to mature on August 15, 2028 through August 15, 2038, inclusive, August 15, 2043 and August 15, 2048 (the "Yield-to-Call Bonds")) is computed by

treating such Bonds as retired at the Stated Redemption Price at Maturity because (a) the District has no present intention to redeem prior to maturity the Bonds that are subject to optional redemption; (b) no Bond is subject to optional redemption at any time for a price less than the retirement price at final maturity plus accrued interest; (c) no Bond is subject to optional redemption within five years of the Issue Date of the Bonds; (d) no Bond subject to optional redemption (other than the Yield-to-Call Bonds) is issued at an Issue Price that exceeds the Stated Redemption Price at Maturity of such Bond by more than one-fourth of one percent multiplied by the product of the Stated Redemption Price at Maturity of such Bond and the number of complete years to the first optional redemption date for such Bond; and (e) no Bond subject to optional redemption bears interest at a rate that increases during the term of the Bond. Yield with respect to each of the Yield-to-Call Bonds is computed by treating such Bonds as redeemed at the stated redemption price on the optional redemption date that would produce the lowest Yield on that Yield-to-Call Bond.

As set forth in the Certificate of Financial Advisor attached to this Federal Tax Certificate as Exhibit B, the Yield on the Bonds, calculated in the manner set forth above, is 3.310621 percent.

The District has not entered into a hedging transaction with respect to the Bonds. The District will not enter into a hedging transaction with respect to the Bonds unless there is first received a Favorable Opinion of Bond Counsel.

12. Temporary Periods and Yield Restriction. The District has incurred, or will incur within six months of the Issue Date of the Bonds, a binding obligation to a third party that is not subject to any contingencies within the control of the District or a related party pursuant to which the District is obligated to expend at least five percent of the Sale Proceeds of the Bonds on the Projects. The District reasonably expects that work on or acquisition of the Projects will proceed with due diligence to completion and that the Proceeds of the Bonds will be expended on the Projects with reasonable dispatch. The District reasonably expects that 85 percent of the Sale Proceeds of the Bonds will have been expended on the Projects prior to the date that is three years after the Issue Date of the Bonds. Any Sale Proceeds of the Bonds not expended prior to the date that is three years after the Issue Date of the Bonds will be invested at a Yield not "materially higher" than the Yield on the Bonds, except as set forth in the "Minor Portion and Yield Reduction Payments" paragraph below. The District reasonably expects that any amount derived from Investment Proceeds of the Bonds and from the investment of such investment income will not be commingled with substantial other receipts or revenues of the District and will be expended prior to the date that is three years after the Issue Date of the Bonds, or one year after receipt of such investment income, whichever is later. Any such Investment Proceeds not expended prior to such date will be invested at a Yield not "materially higher" than the Yield on the Bonds, except as set forth in the "Minor Portion and Yield Reduction Payments" paragraph below.

13. Funds.

(a) Interest and Sinking Fund. The proceeds from all taxes levied, assessed and collected for and on account of the Bonds are to be deposited in the Fund. The District

expects that taxes levied, assessed and collected for and on account of the Bonds, will be sufficient each year to pay such debt service. All amounts that will be depleted at least once each bond year, except for a reasonable carryover amount not in excess of the greater of the earnings on such portion of the Interest and Sinking Fund for the immediately preceding bond year or one-twelfth of the principal and interest payments on the Bonds for the immediately preceding bond year, will constitute the bona fide debt service fund component of the Interest and Sinking Fund (the "Bona Fide Portion"). Such Bona Fide Portion will be used primarily to achieve a proper matching of revenues and principal and interest payments on the Bonds within each bond year. Amounts held in the Bona Fide Portion of the Interest and Sinking Fund will be invested at an unrestricted Yield because such amounts will be expended within 13 months of the date such amounts are received. The remaining portion of the Interest and Sinking Fund (the "Reserve Portion"), if any, will be treated separately for purposes of this Federal Tax Certificate.

Amounts on deposit from time to time in the Bona Fide Portion and the Reserve Portion are allocable between the Bonds and any other obligations of the District secured by the Interest and Sinking Fund on the basis of one of the methods set forth in section 1.148-6(e)(6) of the Regulations. The portion of the Reserve Portion allocable to the Bonds will not exceed at any time the least of (i) ten percent of the stated principal amount of the Bonds (or Issue Price of the Bonds in the event that the amount of Original Issue Discount exceeds two percent multiplied by the Stated Redemption Price at Maturity of the Bonds), (ii) the maximum annual principal and interest requirements of the Bonds, and (iii) 125 percent of average annual principal and interest requirements of the Bonds. Therefore, all amounts therein will be invested at an unrestricted Yield. Any amounts held in the Bona Fide Portion for longer than 13 months or held in the Reserve Portion in excess of the least of the amounts described above, will be invested in obligations the Yield on which is not in excess of the Yield on the Bonds, except as set forth in the "Minor Portion and Yield Reduction Payments" paragraph below.

(b) Project Fund. All of the Proceeds of the Bonds in the Project Fund are expected to be invested and disbursed as described in the Authorizing Document and the "Temporary Periods and Yield Restriction" paragraph of this Federal Tax Certificate; therefore, all of such amounts will be invested without regard to Yield restriction. Nevertheless, any such Proceeds not expended prior to the dates set forth in the "Temporary Periods and Yield Restriction" paragraph will be Yield restricted to the extent set forth in such paragraph.

14. Minor Portion and Yield Reduction Payments. All Gross Proceeds of the Bonds will be invested in accordance with the "Temporary Periods and Yield Restriction" paragraph and the "Funds" paragraph above. To the extent such amounts remain on hand following the periods set forth in the "Temporary Periods and Yield Restriction" paragraph and the "Funds" paragraph above or exceed the limits set forth in the "Funds" paragraph above, the District will invest such amounts at a restricted Yield as set forth in such paragraphs; provided, however, that an amount not to exceed the Minor Portion may be invested at a Yield that is higher than the Yield on the Bonds and, provided further, that the District may satisfy the Yield restriction requirements by making Yield reduction payments to the federal government to the extent permitted by section 1.148-5(c) of the Regulations.

15. Issue. There are no other obligations that (a) are sold at substantially the same time as the Bonds (i.e., less than 15 days apart), (b) are sold pursuant to the same plan of financing with the Bonds, and (c) will be paid out of substantially the same source of funds as the Bonds.

16. Compliance With Rebate Requirements.

(a) General. The District has covenanted in the Authorizing Document that it will take all steps necessary to comply with the requirement that “rebataable arbitrage earnings” on the investment of the Gross Proceeds of the Bonds be rebated to the United States. Specifically, the District will (i) maintain records regarding the investment of the Gross Proceeds of the Bonds as may be required to calculate such “rebataable arbitrage earnings” separately from records of amounts on deposit in the funds and accounts of the District that are allocable to other bond issues of the District or monies that do not represent Gross Proceeds of any bonds of the District, (ii) calculate at such intervals as may be required by applicable Regulations, the amount of “rebataable arbitrage earnings,” if any, earned from the investment of the Gross Proceeds of the Bonds and (iii) pay, not less often than every fifth anniversary date of the delivery of the Bonds and within 60 days following the final maturity of the Bonds, or on such other dates required or permitted by applicable Regulations, all amounts required to be rebated to the federal government. The District will not indirectly pay any amount otherwise payable to the federal government pursuant to the foregoing requirements to any person other than the federal government by entering into any investment arrangement with respect to the Gross Proceeds of the Bonds that might result in a reduction in the amount required to be paid to the federal government because such arrangement results in a smaller profit or a larger loss than would have resulted if the arrangement had been at arm’s-length and had the Yield on the issue not been relevant to either party.

(b) Two-Year Spending Exception. The District hereby makes the elections, if any, set forth below for purposes of the two-year spending exception from arbitrage rebate:

ELECT	DO NOT ELECT	N/A	
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	1. To use actual facts to apply the provisions of paragraphs (e) through (m) (excluding (f)(1)(i)) of section 1.148-7 of the Regulations. Section 1.148-7(f)(2) of the Regulations.
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	2. To exclude earnings on a reasonably required reserve or replacement fund from the definition of “available construction proceeds” for purposes of the spending requirements. Section 1.148-7(i)(2) of the Regulations.

- | | | | |
|--------------------------|-------------------------------------|--------------------------|---|
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 3. To treat the Bonds as two, and only two, separate issues, one of which (i) meets the definition of a construction issue and (ii) is reasonably expected as of the Issue Date of the Bonds to finance all of the construction expenditures to be financed by the Bonds. Section 1.148-7(j)(1) of the Regulations. |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 4. To pay a penalty (the "1-1/2% penalty") to the United States in lieu of the obligation to pay arbitrage rebate on "available construction proceeds" in the event that the Bonds fail to satisfy any of the semiannual spending requirements for the two-year rebate exception. Section 1.148-7(k)(1) of the Regulations. |

The District reasonably expects that at least 75 percent of the "available construction proceeds" of the Bonds, within the meaning of section 1.148-7(i) of the Regulations, will be allocated to "construction expenditures," within the meaning of section 1.148-7(g) of the Regulations, for property owned by the District.

17. Not an Abusive Transaction.

(a) General. No action taken in connection with the issuance of the Bonds will enable the District to (i) exploit, other than during an allowable temporary period, the difference between tax-exempt and taxable interest rates to obtain a material financial advantage (including as a result of an investment of any portion of the Gross Proceeds of the Bonds over any period of time, notwithstanding that, in the aggregate, the Gross Proceeds of the Bonds are not invested in higher yielding investments over the term of the Bonds), and (ii) issue more bonds, issue bonds earlier, or allow bonds to remain outstanding longer than is otherwise reasonably necessary to accomplish the governmental purposes of the Bonds. To the best of the undersigned's knowledge, no actions have been taken in connection with the issuance of the Bonds other than actions that would have been taken to accomplish the governmental purposes of the Bonds if the interest on the Bonds were not excludable from gross income for federal income tax purposes (assuming the hypothetical taxable interest rate would be the same as the actual tax-exempt interest rate on the Bonds).

(b) No Sinking Fund. No portion of the Bonds has a term that has been lengthened primarily for the purpose of creating a sinking fund or similar fund with respect to the Bonds.

(c) No Window. No portion of the Bonds has been structured with maturity dates the primary purpose of which is to make available released revenues that will enable the District to avoid transferred proceeds or to make available revenues that may be invested to be ultimately used to pay debt service on another issue of obligations.

18. No Arbitrage. On the basis of the foregoing facts, estimates and circumstances, it is expected that the Gross Proceeds of the Bonds will not be used in a manner that would cause

any of the Bonds to be an “arbitrage bond” within the meaning of section 148 of the Code and the Regulations. To the best of the knowledge and belief of the undersigned, there are no other facts, estimates or circumstances that would materially change such expectations.

19. No Private Use, Payments or Loan Financing.

(a) General. The District reasonably expects, as of the Issue Date of the Bonds, that no action or event during the entire stated term of the Bonds will cause either the “private business tests” or the “private loan financing test,” as such terms are defined in the Regulations, to be met.

(i) Based on the reasonable belief of the District, no portion of the Proceeds of the Bonds will be used in a trade or business of a nongovernmental person. For purposes of determining use, the District will apply rules set forth in applicable Regulations and Revenue Procedures promulgated by the Internal Revenue Service, including, among others, the following rules: (A) any activity carried on by a person other than a natural person or a state or local governmental unit will be treated as a trade or business of a nongovernmental person, provided that, such use will be treated as general public use (and not use in a trade or business) if the property is intended to be available, and is in fact reasonably available, for use on the same basis by natural persons not engaged in a trade or business; (B) the use of all or any portion of the Projects is treated as the direct use of Proceeds; (C) a nongovernmental person will be treated as a private business user of Proceeds of the Bonds as a result of ownership, actual or beneficial use pursuant to a lease, or a management or incentive payment contract, or certain other arrangements such as a take-or-pay or other output-type contract; and (D) the private business use test is met if a nongovernmental person has special legal entitlements to use directly or indirectly any Project.

(ii) The District has not taken and will not take any deliberate action that would cause or permit the use of any portion of any Project to change so that such portion will be deemed to be used in the trade or business of a nongovernmental person for so long as any of the Bonds remains outstanding (or until the District receives a Favorable Opinion of Bond Counsel). For this purpose, any action within the control of the District is treated as a deliberate action. A deliberate action occurs on the date the District enters into a binding contract with a nongovernmental person for use of a Project that is not subject to any material contingencies.

(iii) Payments of the debt service on the Bonds will be paid from and secured by a generally applicable tax. For this purpose, a generally applicable tax is a tax (A) that is an enforced contribution exacted pursuant to legislative authority in the exercise of the taxing power that is imposed and collected for the purpose of raising revenue to be used for governmental purposes and (B) that has a uniform tax rate that is applied to all persons of the same classification in the appropriate jurisdiction using a generally applicable manner of determination and collection. No portion of the payment of the debt service on the Bonds will be directly or indirectly derived from payments (whether or not to the District or any related party) in respect of property, or borrowed

money, used or to be used for a private business use. Furthermore, no portion of the payment of the debt service on the Bonds will be directly or indirectly secured by any interest in property used or to be used for a private business use or payments in respect of property used or to be used for a private business use.

(iv) Except to the extent permitted by section 141 of the Code and the Regulations and rulings thereunder, the District will not use Gross Proceeds of the Bonds to make or finance loans to any person or entity other than a state or local government. For purposes of the foregoing covenant, Gross Proceeds are considered to be "loaned" to a person or entity if (A) property acquired, constructed or improved with Gross Proceeds is sold or leased to such person or entity in a transaction which creates a debt for federal income tax purposes, (B) capacity in or service from such property is committed to such person or entity under a take-or-pay, output, or similar contract or arrangement, or (C) significant benefits and burdens of ownership of such Gross Proceeds or such property are otherwise transferred in a transaction that is the economic equivalent of a loan.

(b) Dispositions of Personal Property in the Ordinary Course. The District does not reasonably expect that it will sell or otherwise dispose of personal property components of a Project financed with the Bonds other than in the ordinary course of an established governmental program that satisfies the following requirements:

(i) The Weighted Average Maturity of the portion of the Bonds financing personal property is not greater than 120 percent of the reasonably expected actual use of such personal property for governmental purposes;

(ii) The reasonably expected fair market value of such personal property on the date of disposition will be not greater than 25 percent of its cost;

(iii) Such personal property will no longer be suitable for its governmental purposes on the date of disposition; and

(iv) The District is required to deposit amounts received from such disposition in a commingled fund with substantial tax or other governmental revenues and the District reasonably expects to spend such amounts on governmental programs within six months from the date of commingling.

Furthermore, the District will not sell or otherwise dispose of all or any portion of a Project in circumstances in which the foregoing requirements are not satisfied unless it has received a Favorable Opinion of Bond Counsel.

(c) Other Agreements. The District will not enter into any agreement with any nongovernmental person regarding the use of all or any portion of a Project during the stated term of the Bonds unless it has received in each and every case a Favorable Opinion of Bond Counsel; provided that, the District will not be required to obtain a Favorable Opinion of Bond Counsel with respect to (i) any contracts for services that are solely incidental to the primary governmental function or functions of a Project (e.g., contracts for janitorial or similar services),

(ii) any contract for services if the only compensation is the reimbursement of the service provider for actual and direct expenses paid by the service provider to unrelated parties, or (iii) any contract related to use of a Project by a member of, and on the same basis as, the general public, so long as the term of such contract is not greater than 200 days.

20. Weighted Average Maturity. The Weighted Average Maturity of the Bonds set forth on Exhibit B attached hereto is the sum of the products of the Issue Price of each group of identical Bonds and the number of years to maturity (determined separately for each group of identical Bonds and taking into account mandatory redemptions), divided by the aggregate Issue Price of the Bonds.

21. Record Retention. The District will retain all pertinent and material records relating to the use and expenditure of the Proceeds of the Bonds and the calculation or exemption from rebate until three years after the last Bond is redeemed or paid at maturity, or such shorter period as authorized by subsequent guidance issued by the Department of the Treasury, if applicable. All records will be kept in a manner that ensures their complete access throughout the retention period. For this purpose, it is acceptable that such records are kept either as hardcopy books and records or in an electronic storage and retrieval system, provided that such electronic system includes reasonable controls and quality assurance programs that assure the ability of the District to retrieve and reproduce such books and records in the event of an examination of the Bonds by the Internal Revenue Service.

22. Registration. The Bonds will be issued in registered form.

23. Bonds are Not Hedge Bonds. Not more than 50 percent of the Proceeds of the Bonds will be invested in nonpurpose investments (as defined in section 148(f)(6)(A) of the Code) having a substantially guaranteed Yield for four years or more within the meaning of section 149(g)(3)(A)(ii) of the Code. Further, the District reasonably expects that at least 85 percent of the spendable Proceeds of the Bonds will be used to carry out the governmental purposes of the Bonds within the three-year period beginning on the Issue Date of the Bonds.

[EXECUTION PAGE FOLLOWS]

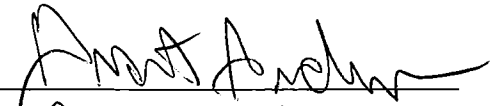
EXECUTED as of this 16th day of August, 2018.

LITTLE ELM INDEPENDENT SCHOOL
DISTRICT

By:

Name:

Title:


Grant Anderson
Associate Superintendent /
Chief Financial Officer

Attachments:

- Exhibit A – Issue Price Certificate
- Exhibit B – Certificate of Financial Advisor
- Exhibit C – PSF Certificate

Signature Page to Federal Tax Certificate

EXHIBIT A
ISSUE PRICE CERTIFICATE

[See Attached]

EXHIBIT A

ISSUE PRICE CERTIFICATE

I, the undersigned officer of Wells Fargo Bank, National Association (the "Representative"), acting on behalf of itself and Piper Jaffrey & Co. (the "Underwriting Group"), make this certification in connection with the \$23,885,000 Little Elm Independent School District Unlimited Tax School Building Bonds, Series 2018A (the "Bonds") issued by the Little Elm Independent School District (the "District").

1. I hereby certify as follows in good faith as of the Issue Date of the Bonds:

(a) I am the duly chosen, qualified and acting officer of the Representative for the office shown below my signature; as such, I am familiar with the facts herein certified and I am duly authorized to execute and deliver this certificate on behalf of the Underwriting Group. I am the officer of the Representative charged, along with other officers of the Underwriting Group, with responsibility for the Bonds.

(b) For the Bonds maturing in 2019 through 2028, inclusive, 2030 through 2038, inclusive, 2043 and 2048, the first price at which at least 10% of each maturity was sold to the Public is the price for each such maturity set forth on the inside cover of the Official Statement prepared in connection with the Bonds (each, an "Actual Sales Price").

(c) For the Bonds maturing in 2029 ("Held Maturity"), the Underwriting Group on or before the Sale Date offered for purchase such maturity to the Public at the applicable initial offering price set forth on the inside cover of the Official Statement prepared in connection with the Bonds (the "Initial Offering Price"). A copy of the pricing wire evidencing the Initial Offering Price is attached hereto as Attachment I. In connection with the offering of the Bonds, each member of the Underwriting Group agreed in writing that (i) during the Hold Period, it would neither offer nor sell the Held Maturity to any person at a price higher than the Initial Offering Price (the "Hold-the-Offering-Price Rule") and (ii) any selling group agreement would contain the agreement of each dealer who is a member of the selling group, and any retail distribution agreement would contain the agreement of each broker-dealer who is a party to the retail distribution agreement, that, during the Hold Period, such party would comply with the Hold-the-Offering-Price Rule.

(d) The aggregate of the Actual Sales Prices and the Initial Offering Prices is \$25,251,042.70.

2. For purposes of this Issue Price Certificate, the following definitions apply:

(a) "Hold Period" means, with respect to a Held Maturity, the period starting on the Sale Date and ending on the earlier of (i) the close of the fifth business day after the Sale Date or (ii) the date on which the Underwriters have sold at least 10% of such Held Maturity to the Public at a price no higher than the applicable Initial Offering Price.

(b) "Public" means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a Related Party to an Underwriter.

(c) "Related Party" means any two or more persons who are subject, directly or indirectly, to (i) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interest or profits interest of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other).

(d) "Sale Date" means the first day on which there is a binding contract in writing for the sale or exchange of the Bonds. The Sale Date of the Bonds is July 26, 2018.

(e) "Underwriter" means (i) any person that agrees pursuant to a written contract with the District (or with the Representative to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this definition to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents the Representative's interpretation of any laws, including specifically sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the District with respect to certain of the representations set forth in the Federal Tax Certificate and with respect to compliance with the federal income tax rules affecting the Bonds, and by Bracewell LLP in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of Internal Revenue Service Form 8038-G, and other federal income tax advice it may give to the District from time to time relating to the Bonds.

[EXECUTION PAGE FOLLOWS]

EXECUTED as of this 16th day of August, 2018

WELLS FARGO BANK, NATIONAL
ASSOCIATION

By: Richl Mathi
Name: Richard Matkin
Title: Vice President

EXHIBIT B

CERTIFICATE OF FINANCIAL ADVISOR

I, the undersigned officer of RBC Capital Markets, LLC (the "Financial Advisor"), make this certificate for the benefit of all persons interested in the exclusion from gross income for federal income tax purposes of the interest on the \$23,885,000 Little Elm Independent School District Unlimited Tax School Building Bonds, Series 2018A (the "Bonds"). Each capitalized term used herein has the meaning or is the amount, as the case may be, specified for such term in the Federal Tax Certificate to which this Exhibit B is attached (the "Federal Tax Certificate"). I hereby certify as follows as of the Issue Date of the Bonds to the best of my knowledge, information and belief based upon the facts available at this time and current market conditions:

1. I am the duly chosen, qualified and acting officer of the Financial Advisor for the office shown below my signature; as such, I am familiar with the facts herein certified and I am duly authorized to execute and deliver this certificate on behalf of the Financial Advisor. I am the officer of the Financial Advisor who has worked with representatives of the District in structuring the financial terms of the Bonds.

2. The Issue Price of the Bonds, based on the representations set forth in the Issue Price Certificate attached as Exhibit A to the Federal Tax Certificate, is not more than \$25,251,042.70. As shown in Attachment I to this Exhibit B, the Financial Advisor has computed the Yield on the Bonds, based on such Issue Price and as described in the "Yield on the Bonds" paragraph of the Federal Tax Certificate, to be 3.310621 percent.

3. As shown in Attachment I to this Exhibit B, the Financial Advisor computed the Weighted Average Maturity of the Bonds to be 17.2194 years, as set forth in the "Weighted Average Maturity" paragraph of the Federal Tax Certificate.

4. In the course of working with representatives in structuring the financial terms of the Bonds, the undersigned has not been made aware of any information that it reasonably believes would make the statements set forth in the "Not an Abusive Transaction" paragraph of the Federal Tax Certificate not true.

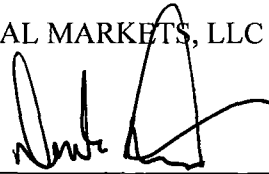
The District may rely on the statements made herein in connection with making the representations set forth in the Federal Tax Certificate and in its efforts to comply with the conditions imposed by the Code on the exclusion of interest on the Bonds from the gross income of their owners. Bracewell LLP also may rely on this certificate for purposes of its opinion regarding the treatment of interest on the Bonds as excludable from gross income for federal income tax purposes and the preparation of the Internal Revenue Service Form 8038-G.

[EXECUTION PAGE FOLLOWS]

EXECUTED as of this 16th day of August, 2018.

RBC CAPITAL MARKETS, LLC

By:



Name:

Derek Honea

Title:

Director

Signature Page to Certificate of Financial Advisor

ATTACHMENT I
TO CERTIFICATE OF FINANCIAL ADVISOR

[See Attached]

Attachment I to Certificate of Financial Advisor



SOURCES AND USES OF FUNDS

Little Elm Independent School District (Unlimited Tax Debt)
Unlimited Tax School Building Bonds, Series 2018A
Final Pricing Numbers

Sources:

Bond Proceeds:	
Par Amount	23,885,000.00
Premium	1,366,042.70
	<hr/>
	25,251,042.70

Uses:

Project Fund Deposits:	
Project Fund	25,000,000.00
Delivery Date Expenses:	
Cost of Issuance	113,852.91
Underwriter's Discount	<hr/> 137,189.79
	251,042.70
	<hr/>
	25,251,042.70



BOND SUMMARY STATISTICS

Little Elm Independent School District (Unlimited Tax Debt)
 Unlimited Tax School Building Bonds, Series 2018A
 Final Pricing Numbers

Dated Date	08/16/2018
Delivery Date	08/16/2018
Last Maturity	08/15/2048
Arbitrage Yield	3.310621%
True Interest Cost (TIC)	3.658939%
Net Interest Cost (NIC)	3.776272%
All-In TIC	3.697444%
Average Coupon	4.070817%
Average Life (years)	17.467
Weighted Average Maturity (years)	17.219
Duration of Issue (years)	12.031
Par Amount	23,885,000.00
Bond Proceeds	25,251,042.70
Total Interest	16,983,595.97
Net Interest	15,754,743.06
Bond Years from Dated Date	417,203,652.78
Bond Years from Delivery Date	417,203,652.78
Total Debt Service	40,868,595.97
Maximum Annual Debt Service	2,428,695.97
Average Annual Debt Service	1,362,412.68
Underwriter's Fees (per \$1000)	
Average Takedown	4.087346
Management Fee	1.000000
Other Fee	0.656418
Total Underwriter's Discount	5.743763
Bid Price	105.144873

Bond Component	Par Value	Price	Average Coupon	Average Life	Duration	PV of 1 bp change
Serial Bond	13,250,000.00	108.444	4.207%	10.762	8.513	8,621.45
Term Bond	4,795,000.00	102.663	4.000%	23.075	15.374	3,692.15
Term Bond #2	5,840,000.00	102.047	4.000%	28.075	17.218	4,496.80
	23,885,000.00			17.467		16,810.40



BOND SUMMARY STATISTICS

Little Elm Independent School District (Unlimited Tax Debt)
Unlimited Tax School Building Bonds, Series 2018A
Final Pricing Numbers

	TIC	All-In TIC	Arbitrage Yield
Par Value	23,885,000.00	23,885,000.00	23,885,000.00
+ Accrued Interest			
+ Premium (Discount)	1,366,042.70	1,366,042.70	1,366,042.70
- Underwriter's Discount	-137,189.79	-137,189.79	
- Cost of Issuance Expense		-113,852.91	
- Other Amounts			
Target Value	25,113,852.91	25,000,000.00	25,251,042.70
Target Date	08/16/2018	08/16/2018	08/16/2018
Yield	3.658939%	3.697444%	3.310621%



BOND PRICING

Little Elm Independent School District (Unlimited Tax Debt)
 Unlimited Tax School Building Bonds, Series 2018A
 Final Pricing Numbers

Bond Component	Maturity Date	Amount	Rate	Yield	Price	Yield to Maturity	Call Date	Call Price	Premium (-Discount)	Takedown
Serial Bond:										
	08/15/2019	1,440,000	4.000%	1.530%	102.435				35,064.00	2.500
	08/15/2020	780,000	4.000%	1.700%	104.497				35,076.60	2.500
	08/15/2021	410,000	4.000%	1.860%	106.210				25,461.00	4.250
	08/15/2022	425,000	4.000%	1.980%	107.726				32,835.50	4.250
	08/15/2023	440,000	5.000%	2.120%	113.587				59,782.80	4.250
	08/15/2024	465,000	5.000%	2.260%	115.286				71,079.90	4.250
	08/15/2025	490,000	5.000%	2.380%	116.795				82,295.50	4.250
	08/15/2026	510,000	5.000%	2.510%	117.940				91,494.00	4.250
	08/15/2027	540,000	5.000%	2.610%	119.054				102,891.60	4.250
	08/15/2028	565,000	5.000%	2.680%	118.438 C	2.866%	08/15/2027	100.000	104,174.70	4.250
	08/15/2029	595,000	5.000%	2.740%	117.913 C	3.069%	08/15/2027	100.000	106,582.35	4.250
	08/15/2030	625,000	4.000%	2.940%	108.326 C	3.161%	08/15/2027	100.000	52,037.50	4.250
	08/15/2031	645,000	4.000%	3.040%	107.507 C	3.286%	08/15/2027	100.000	48,420.15	4.250
	08/15/2032	675,000	4.000%	3.130%	106.776 C	3.388%	08/15/2027	100.000	45,738.00	4.250
	08/15/2033	700,000	4.000%	3.210%	106.131 C	3.472%	08/15/2027	100.000	42,917.00	4.250
	08/15/2034	730,000	4.000%	3.290%	105.490 C	3.547%	08/15/2027	100.000	40,077.00	4.250
	08/15/2035	755,000	4.000%	3.350%	105.013 C	3.603%	08/15/2027	100.000	37,848.15	4.250
	08/15/2036	790,000	4.000%	3.410%	104.538 C	3.654%	08/15/2027	100.000	35,850.20	4.250
	08/15/2037	820,000	4.000%	3.450%	104.223 C	3.689%	08/15/2027	100.000	34,628.60	4.250
	08/15/2038	850,000	4.000%	3.470%	104.065 C	3.710%	08/15/2027	100.000	34,552.50	4.250
		13,250,000							1,118,807.05	
Term Bond:										
	08/15/2039	885,000	4.000%	3.650%	102.663 C	3.833%	08/15/2027	100.000	23,567.55	4.250
	08/15/2040	920,000	4.000%	3.650%	102.663 C	3.833%	08/15/2027	100.000	24,499.60	4.250
	08/15/2041	960,000	4.000%	3.650%	102.663 C	3.833%	08/15/2027	100.000	25,564.80	4.250
	08/15/2042	995,000	4.000%	3.650%	102.663 C	3.833%	08/15/2027	100.000	26,496.85	4.250
	08/15/2043	1,035,000	4.000%	3.650%	102.663 C	3.833%	08/15/2027	100.000	27,562.05	4.250
		4,795,000							127,690.85	
Term Bond #2:										
	08/15/2044	1,080,000	4.000%	3.730%	102.047 C	3.884%	08/15/2027	100.000	22,107.60	4.250
	08/15/2045	1,120,000	4.000%	3.730%	102.047 C	3.884%	08/15/2027	100.000	22,926.40	4.250
	08/15/2046	1,165,000	4.000%	3.730%	102.047 C	3.884%	08/15/2027	100.000	23,847.55	4.250
	08/15/2047	1,215,000	4.000%	3.730%	102.047 C	3.884%	08/15/2027	100.000	24,871.05	4.250
	08/15/2048	1,260,000	4.000%	3.730%	102.047 C	3.884%	08/15/2027	100.000	25,792.20	4.250
		5,840,000							119,544.80	
		23,885,000							1,366,042.70	



BOND PRICING

Little Elm Independent School District (Unlimited Tax Debt)
Unlimited Tax School Building Bonds, Series 2018A
Final Pricing Numbers

Dated Date	08/16/2018	
Delivery Date	08/16/2018	
First Coupon	02/15/2019	
Par Amount	23,885,000.00	
Premium	1,366,042.70	
Production	25,251,042.70	105.719249%
Underwriter's Discount	-137,189.79	-0.574376%
Purchase Price	25,113,852.91	105.144873%
Accrued Interest		
Net Proceeds	25,113,852.91	



BOND DEBT SERVICE

Little Elm Independent School District (Unlimited Tax Debt)
 Unlimited Tax School Building Bonds, Series 2018A
 Final Pricing Numbers

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service
02/15/2019			492,970.97	492,970.97	
08/15/2019	1,440,000	4.000%	495,725.00	1,935,725.00	
08/31/2019					2,428,695.97
02/15/2020			466,925.00	466,925.00	
08/15/2020	780,000	4.000%	466,925.00	1,246,925.00	
08/31/2020					1,713,850.00
02/15/2021			451,325.00	451,325.00	
08/15/2021	410,000	4.000%	451,325.00	861,325.00	
08/31/2021					1,312,650.00
02/15/2022			443,125.00	443,125.00	
08/15/2022	425,000	4.000%	443,125.00	868,125.00	
08/31/2022					1,311,250.00
02/15/2023			434,625.00	434,625.00	
08/15/2023	440,000	5.000%	434,625.00	874,625.00	
08/31/2023					1,309,250.00
02/15/2024			423,625.00	423,625.00	
08/15/2024	465,000	5.000%	423,625.00	888,625.00	
08/31/2024					1,312,250.00
02/15/2025			412,000.00	412,000.00	
08/15/2025	490,000	5.000%	412,000.00	902,000.00	
08/31/2025					1,314,000.00
02/15/2026			399,750.00	399,750.00	
08/15/2026	510,000	5.000%	399,750.00	909,750.00	
08/31/2026					1,309,500.00
02/15/2027			387,000.00	387,000.00	
08/15/2027	540,000	5.000%	387,000.00	927,000.00	
08/31/2027					1,314,000.00
02/15/2028			373,500.00	373,500.00	
08/15/2028	565,000	5.000%	373,500.00	938,500.00	
08/31/2028					1,312,000.00
02/15/2029			359,375.00	359,375.00	
08/15/2029	595,000	5.000%	359,375.00	954,375.00	
08/31/2029					1,313,750.00
02/15/2030			344,500.00	344,500.00	
08/15/2030	625,000	4.000%	344,500.00	969,500.00	
08/31/2030					1,314,000.00
02/15/2031			332,000.00	332,000.00	
08/15/2031	645,000	4.000%	332,000.00	977,000.00	
08/31/2031					1,309,000.00
02/15/2032			319,100.00	319,100.00	
08/15/2032	675,000	4.000%	319,100.00	994,100.00	
08/31/2032					1,313,200.00
02/15/2033			305,600.00	305,600.00	
08/15/2033	700,000	4.000%	305,600.00	1,005,600.00	
08/31/2033					1,311,200.00
02/15/2034			291,600.00	291,600.00	
08/15/2034	730,000	4.000%	291,600.00	1,021,600.00	
08/31/2034					1,313,200.00
02/15/2035			277,000.00	277,000.00	
08/15/2035	755,000	4.000%	277,000.00	1,032,000.00	
08/31/2035					1,309,000.00



BOND DEBT SERVICE

Little Elm Independent School District (Unlimited Tax Debt)
 Unlimited Tax School Building Bonds, Series 2018A
 Final Pricing Numbers

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service
02/15/2036			261,900.00	261,900.00	
08/15/2036	790,000	4.000%	261,900.00	1,051,900.00	
08/31/2036					1,313,800.00
02/15/2037			246,100.00	246,100.00	
08/15/2037	820,000	4.000%	246,100.00	1,066,100.00	
08/31/2037					1,312,200.00
02/15/2038			229,700.00	229,700.00	
08/15/2038	850,000	4.000%	229,700.00	1,079,700.00	
08/31/2038					1,309,400.00
02/15/2039			212,700.00	212,700.00	
08/15/2039	885,000	4.000%	212,700.00	1,097,700.00	
08/31/2039					1,310,400.00
02/15/2040			195,000.00	195,000.00	
08/15/2040	920,000	4.000%	195,000.00	1,115,000.00	
08/31/2040					1,310,000.00
02/15/2041			176,600.00	176,600.00	
08/15/2041	960,000	4.000%	176,600.00	1,136,600.00	
08/31/2041					1,313,200.00
02/15/2042			157,400.00	157,400.00	
08/15/2042	995,000	4.000%	157,400.00	1,152,400.00	
08/31/2042					1,309,800.00
02/15/2043			137,500.00	137,500.00	
08/15/2043	1,035,000	4.000%	137,500.00	1,172,500.00	
08/31/2043					1,310,000.00
02/15/2044			116,800.00	116,800.00	
08/15/2044	1,080,000	4.000%	116,800.00	1,196,800.00	
08/31/2044					1,313,600.00
02/15/2045			95,200.00	95,200.00	
08/15/2045	1,120,000	4.000%	95,200.00	1,215,200.00	
08/31/2045					1,310,400.00
02/15/2046			72,800.00	72,800.00	
08/15/2046	1,165,000	4.000%	72,800.00	1,237,800.00	
08/31/2046					1,310,600.00
02/15/2047			49,500.00	49,500.00	
08/15/2047	1,215,000	4.000%	49,500.00	1,264,500.00	
08/31/2047					1,314,000.00
02/15/2048			25,200.00	25,200.00	
08/15/2048	1,260,000	4.000%	25,200.00	1,285,200.00	
08/31/2048					1,310,400.00
	23,885,000		16,983,595.97	40,868,595.97	40,868,595.97



BOND DEBT SERVICE

Little Elm Independent School District (Unlimited Tax Debt)
Unlimited Tax School Building Bonds, Series 2018A
Final Pricing Numbers

Period Ending	Principal	Coupon	Interest	Debt Service
08/31/2019	1,440,000	4.000%	988,695.97	2,428,695.97
08/31/2020	780,000	4.000%	933,850.00	1,713,850.00
08/31/2021	410,000	4.000%	902,650.00	1,312,650.00
08/31/2022	425,000	4.000%	886,250.00	1,311,250.00
08/31/2023	440,000	5.000%	869,250.00	1,309,250.00
08/31/2024	465,000	5.000%	847,250.00	1,312,250.00
08/31/2025	490,000	5.000%	824,000.00	1,314,000.00
08/31/2026	510,000	5.000%	799,500.00	1,309,500.00
08/31/2027	540,000	5.000%	774,000.00	1,314,000.00
08/31/2028	565,000	5.000%	747,000.00	1,312,000.00
08/31/2029	595,000	5.000%	718,750.00	1,313,750.00
08/31/2030	625,000	4.000%	689,000.00	1,314,000.00
08/31/2031	645,000	4.000%	664,000.00	1,309,000.00
08/31/2032	675,000	4.000%	638,200.00	1,313,200.00
08/31/2033	700,000	4.000%	611,200.00	1,311,200.00
08/31/2034	730,000	4.000%	583,200.00	1,313,200.00
08/31/2035	755,000	4.000%	554,000.00	1,309,000.00
08/31/2036	790,000	4.000%	523,800.00	1,313,800.00
08/31/2037	820,000	4.000%	492,200.00	1,312,200.00
08/31/2038	850,000	4.000%	459,400.00	1,309,400.00
08/31/2039	885,000	4.000%	425,400.00	1,310,400.00
08/31/2040	920,000	4.000%	390,000.00	1,310,000.00
08/31/2041	960,000	4.000%	353,200.00	1,313,200.00
08/31/2042	995,000	4.000%	314,800.00	1,309,800.00
08/31/2043	1,035,000	4.000%	275,000.00	1,310,000.00
08/31/2044	1,080,000	4.000%	233,600.00	1,313,600.00
08/31/2045	1,120,000	4.000%	190,400.00	1,310,400.00
08/31/2046	1,165,000	4.000%	145,600.00	1,310,600.00
08/31/2047	1,215,000	4.000%	99,000.00	1,314,000.00
08/31/2048	1,260,000	4.000%	50,400.00	1,310,400.00
	23,885,000		16,983,595.97	40,868,595.97



AVERAGE TAKEDOWN

Little Elm Independent School District (Unlimited Tax Debt)
Unlimited Tax School Building Bonds, Series 2018A
Final Pricing NumbersDated Date 08/16/2018
Delivery Date 08/16/2018

Bond Component	Maturity Date	Par Amount	Takedown \$/Bond	Takedown Amount
Serial Bond:				
	08/15/2019	1,440,000	2.5000	3,600.00
	08/15/2020	780,000	2.5000	1,950.00
	08/15/2021	410,000	4.2500	1,742.50
	08/15/2022	425,000	4.2500	1,806.25
	08/15/2023	440,000	4.2500	1,870.00
	08/15/2024	465,000	4.2500	1,976.25
	08/15/2025	490,000	4.2500	2,082.50
	08/15/2026	510,000	4.2500	2,167.50
	08/15/2027	540,000	4.2500	2,295.00
	08/15/2028	565,000	4.2500	2,401.25
	08/15/2029	595,000	4.2500	2,528.75
	08/15/2030	625,000	4.2500	2,656.25
	08/15/2031	645,000	4.2500	2,741.25
	08/15/2032	675,000	4.2500	2,868.75
	08/15/2033	700,000	4.2500	2,975.00
	08/15/2034	730,000	4.2500	3,102.50
	08/15/2035	755,000	4.2500	3,208.75
	08/15/2036	790,000	4.2500	3,357.50
	08/15/2037	820,000	4.2500	3,485.00
	08/15/2038	850,000	4.2500	3,612.50
		13,250,000	3.9568	52,427.50
Term Bond:				
	08/15/2039	885,000	4.2500	3,761.25
	08/15/2040	920,000	4.2500	3,910.00
	08/15/2041	960,000	4.2500	4,080.00
	08/15/2042	995,000	4.2500	4,228.75
	08/15/2043	1,035,000	4.2500	4,398.75
		4,795,000	4.2500	20,378.75
Term Bond #2:				
	08/15/2044	1,080,000	4.2500	4,590.00
	08/15/2045	1,120,000	4.2500	4,760.00
	08/15/2046	1,165,000	4.2500	4,951.25
	08/15/2047	1,215,000	4.2500	5,163.75
	08/15/2048	1,260,000	4.2500	5,355.00
		5,840,000	4.2500	24,820.00
		23,885,000	4.0873	97,626.25



UNDERWRITER'S DISCOUNT

Little Elm Independent School District (Unlimited Tax Debt)
Unlimited Tax School Building Bonds, Series 2018A
Final Pricing Numbers

Underwriter's Discount	\$/1000	Amount
Average Takedown	4.08735	97,626.25
UW Counsel Fee	0.50000	11,942.50
Expenses	0.15642	3,736.04
Management Fee	1.00000	23,885.00
	5.74376	137,189.79



FORM 8038 STATISTICS

Little Elm Independent School District (Unlimited Tax Debt)

Unlimited Tax School Building Bonds, Series 2018A

Final Pricing Numbers

Dated Date 08/16/2018

Delivery Date 08/16/2018

Bond Component	Date	Principal	Coupon	Price	Issue Price	Redemption at Maturity
Serial Bond:						
	08/15/2019	1,440,000.00	4.000%	102.435	1,475,064.00	1,440,000.00
	08/15/2020	780,000.00	4.000%	104.497	815,076.60	780,000.00
	08/15/2021	410,000.00	4.000%	106.210	435,461.00	410,000.00
	08/15/2022	425,000.00	4.000%	107.726	457,835.50	425,000.00
	08/15/2023	440,000.00	5.000%	113.587	499,782.80	440,000.00
	08/15/2024	465,000.00	5.000%	115.286	536,079.90	465,000.00
	08/15/2025	490,000.00	5.000%	116.795	572,295.50	490,000.00
	08/15/2026	510,000.00	5.000%	117.940	601,494.00	510,000.00
	08/15/2027	540,000.00	5.000%	119.054	642,891.60	540,000.00
	08/15/2028	565,000.00	5.000%	118.438	669,174.70	565,000.00
	08/15/2029	595,000.00	5.000%	117.913	701,582.35	595,000.00
	08/15/2030	625,000.00	4.000%	108.326	677,037.50	625,000.00
	08/15/2031	645,000.00	4.000%	107.507	693,420.15	645,000.00
	08/15/2032	675,000.00	4.000%	106.776	720,738.00	675,000.00
	08/15/2033	700,000.00	4.000%	106.131	742,917.00	700,000.00
	08/15/2034	730,000.00	4.000%	105.490	770,077.00	730,000.00
	08/15/2035	755,000.00	4.000%	105.013	792,848.15	755,000.00
	08/15/2036	790,000.00	4.000%	104.538	825,850.20	790,000.00
	08/15/2037	820,000.00	4.000%	104.223	854,628.60	820,000.00
	08/15/2038	850,000.00	4.000%	104.065	884,552.50	850,000.00
Term Bond:						
	08/15/2039	885,000.00	4.000%	102.663	908,567.55	885,000.00
	08/15/2040	920,000.00	4.000%	102.663	944,499.60	920,000.00
	08/15/2041	960,000.00	4.000%	102.663	985,564.80	960,000.00
	08/15/2042	995,000.00	4.000%	102.663	1,021,496.85	995,000.00
	08/15/2043	1,035,000.00	4.000%	102.663	1,062,562.05	1,035,000.00
Term Bond #2:						
	08/15/2044	1,080,000.00	4.000%	102.047	1,102,107.60	1,080,000.00
	08/15/2045	1,120,000.00	4.000%	102.047	1,142,926.40	1,120,000.00
	08/15/2046	1,165,000.00	4.000%	102.047	1,188,847.55	1,165,000.00
	08/15/2047	1,215,000.00	4.000%	102.047	1,239,871.05	1,215,000.00
	08/15/2048	1,260,000.00	4.000%	102.047	1,285,792.20	1,260,000.00
		23,885,000.00			25,251,042.70	23,885,000.00

	Maturity Date	Interest Rate	Issue Price	Stated Redemption at Maturity	Weighted Average Maturity	Yield
Final Maturity	08/15/2048	4.000%	1,285,792.20	1,260,000.00		
Entire Issue			25,251,042.70	23,885,000.00	17.2194	3.3106%



FORM 8038 STATISTICS

Little Elm Independent School District (Unlimited Tax Debt)
Unlimited Tax School Building Bonds, Series 2018A
Final Pricing Numbers

Proceeds used for accrued interest	0.00
Proceeds used for bond issuance costs (including underwriters' discount)	251,042.70
Proceeds used for credit enhancement	0.00
Proceeds allocated to reasonably required reserve or replacement fund	0.00

EXHIBIT C
PSF CERTIFICATE

[See Attached]



Texas Education Agency

Commissioner Mike Morath

1701 North Congress Avenue • Austin, Texas 78701-1494 • 512 463-9734 • 512 463-9838 FAX • tea.texas.gov

July 27, 2018

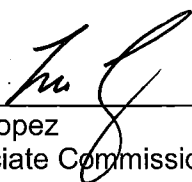
CERTIFICATE WITH RESPECT TO ARBITRAGE

THE STATE OF TEXAS: TEXAS EDUCATION AGENCY:

The Texas Education Agency hereby certifies with respect to the issuance by Little Elm Independent School District (the "District") of the Unlimited Tax School Building Bonds, Series 2018A, dated July 15, 2018, in the principal amount of \$23,885,000.00 (the "Bonds") as follows:

1. The Permanent School Fund (the "Fund") created by Article 7, Section 5 of the Texas Constitution is a perpetual state trust fund authorized for the benefit of the public schools of the State of Texas.
2. The Bonds are guaranteed, pursuant to Article 7, Section 5 of the Texas Constitution and Section 45.051, et seq., of the Texas Education Code, by the corpus of the Fund.
3. The Fund has satisfied each of the factual requirements of paragraphs (d)(1)(i) through (d)(1)(iii) of Section 1.148-11(d)(1) of the Treasury Regulations on and after August 16, 1986.
4. Based upon the unaudited records of the Texas Education Agency and the General Land Office, the outstanding amount of the bonds guaranteed by the Fund on the sale date of the bonds did not exceed 500 percent of the total cost of the assets held by the Fund on December 16, 2009.
5. If the Bonds are defeased, the Fund guarantee shall be withdrawn in its entirety.

TEXAS EDUCATION AGENCY


By _____
Leo Lopez
Associate Commissioner School Finance/Chief School Finance Officer

BRACEWELL

August 28, 2018

CERTIFIED MAIL
RETURN RECEIPT REQUESTED
7017 1450 0000 7601 6209

District Director
Internal Revenue Service
Ogden, UT 84201

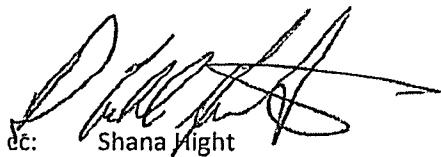
Re: \$23,885,000 Little Elm Independent School District Unlimited Tax School Building Bonds,
Series 2018A

Dear Sir or Madam:

Enclosed please find originally executed Form 8038-G (Information Return for Tax-Exempt
Governmental Obligations) for the above-captioned bond issue.

Very truly yours,

R. Todd Greenwalt
Partner


cc: Shana Hight

#3994836.2

R. Todd Greenwalt
Partner

T: 713.221.1138 F: 800.404.3970
711 Louisiana Street, Suite 2300, Houston, Texas 77002-2770
todd.greenwalt@bracewell.com bracewell.com

AUSTIN CONNECTICUT DALLAS DUBAI HOUSTON LONDON NEW YORK SAN ANTONIO SEATTLE WASHINGTON, DC

Information Return for Tax-Exempt Governmental Obligations

► Under Internal Revenue Code section 149(e)

► See separate instructions.

Caution: If the issue price is under \$100,000, use Form 8038-GC.

OMB No. 1545-0720

Part I Reporting Authority

If Amended Return, check here ► ☐

1 Issuer's name Little Elm Independent School District		2 Issuer's employer identification number (EIN) 75-1318916
3a Name of person (other than issuer) with whom the IRS may communicate about this return (see instructions)		3b Telephone number of other person shown on 3a
4 Number and street (or P.O. box if mail is not delivered to street address) Box 6000	Room/suite	5 Report number (For IRS Use Only) 3
6 City, town, or post office, state, and ZIP code Little Elm, Texas 75068		7 Date of issue 08/16/2018
8 Name of issue Unlimited Tax School Building Bonds, Series 2018A		9 CUSIP number 5370962E8
10a Name and title of officer or other employee of the issuer whom the IRS may call for more information (see instructions) Grant B. Anderson, Associate Superintendent/Chief Financial Officer		10b Telephone number of officer or other employee shown on 10a (972) 292-1847

Part II Type of Issue (enter the issue price). See the instructions and attach schedule.

11 Education	11	25,251,042.70
12 Health and hospital	12	
13 Transportation	13	
14 Public safety	14	
15 Environment (including sewage bonds)	15	
16 Housing	16	
17 Utilities	17	
18 Other. Describe ►	18	
19 If obligations are TANs or RANs, check only box 19a	19a	<input type="checkbox"/>
If obligations are BANs, check only box 19b	19b	<input type="checkbox"/>
20 If obligations are in the form of a lease or installment sale, check box	20	<input type="checkbox"/>

Part III Description of Obligations. Complete for the entire issue for which this form is being filed.

	(a) Final maturity date	(b) Issue price	(c) Stated redemption price at maturity	(d) Weighted average maturity	(e) Yield
21	08/15/2048	\$ 25,251,042.70	\$ 23,885,000	17.2194 years	3.3106%

Part IV Uses of Proceeds of Bond Issue (including underwriters' discount)

22 Proceeds used for accrued interest	22	
23 Issue price of entire issue (enter amount from line 21, column (b))	23	25,251,042.70
24 Proceeds used for bond issuance costs (including underwriters' discount)	24	251,042.70
25 Proceeds used for credit enhancement	25	0.00
26 Proceeds allocated to reasonably required reserve or replacement fund	26	0.00
27 Proceeds used to currently refund prior issues	27	0.00
28 Proceeds used to advance refund prior issues	28	0.00
29 Total (add lines 24 through 28)	29	251,042.70
30 Nonrefunding proceeds of the issue (subtract line 29 from line 23 and enter amount here)	30	25,000,000.00

Part V Description of Refunded Bonds. Complete this part only for refunding bonds.

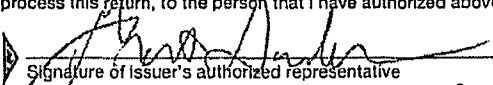
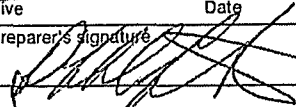
31 Enter the remaining weighted average maturity of the bonds to be currently refunded	31	years
32 Enter the remaining weighted average maturity of the bonds to be advance refunded	32	years
33 Enter the last date on which the refunded bonds will be called (MM/DD/YYYY)	33	
34 Enter the date(s) the refunded bonds were issued ► (MM/DD/YYYY)	34	


For Paperwork Reduction Act Notice, see separate instructions.

Form **8038-G** (Rev. 9-2011)


Part IV Miscellaneous

- 35** Enter the amount of the state volume cap allocated to the issue under section 141(b)(5) **35**
- 36a** Enter the amount of gross proceeds invested or to be invested in a guaranteed investment contract (GIC) (see instructions) **36a**
- b** Enter the final maturity date of the GIC ▶ _____
- c** Enter the name of the GIC provider ▶ _____
- 37** Pooled financings: Enter the amount of the proceeds of this issue that are to be used to make loans to other governmental units **37**
- 38a** If this issue is a loan made from the proceeds of another tax-exempt issue, check box ☐ and enter the following information:
- b** Enter the date of the master pool obligation ▶ _____
- c** Enter the EIN of the issuer of the master pool obligation ▶ _____
- d** Enter the name of the issuer of the master pool obligation ▶ _____
- 39** If the issuer has designated the issue under section 265(b)(3)(B)(i)(III) (small issuer exception), check box ☐ ▼ ☐
- 40** If the issuer has elected to pay a penalty in lieu of arbitrage rebate, check box ☐ ▼ ☐
- 41a** If the issuer has identified a hedge, check here ☐ and enter the following information:
- b** Name of hedge provider ▶ _____
- c** Type of hedge ▶ _____
- d** Term of hedge ▶ _____
- 42** If the issuer has superintegrated the hedge, check box ☐ ▼ ☐
- 43** If the issuer has established written procedures to ensure that all nonqualified bonds of this issue are remediated according to the requirements under the Code and Regulations (see instructions), check box ☐ ▼ ☐
- 44** If the issuer has established written procedures to monitor the requirements of section 148, check box ☐ ▼ ☐
- 45a** If some portion of the proceeds was used to reimburse expenditures, check here ☐ and enter the amount of reimbursement ▶ _____
- b** Enter the date the official intent was adopted ▶ _____

Signature and Consent	Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. I further declare that I consent to the IRS's disclosure of the issuer's return information, as necessary to process this return, to the person that I have authorized above.			
	 Signature of issuer's authorized representative		08/16/2018 Date	
Paid Preparer Use Only	Print/Type preparer's name R. Todd Greenwalt		Preparer's signature 	
	Date 08/16/2018		Check <input type="checkbox"/> if self-employed	
	Firm's name ▶ Bracewell LLP		PTIN P01080971	
	Firm's address ▶ 711 Louisiana Street, Suite 2300, Houston, TX 77002		Firm's EIN ▶ 74-1024827 Phone no. (713) 221-1138	

SENDER COMPLETE THIS SECTION	COMPLETE THIS SECTION ON DELIVERY		
<p><input type="checkbox"/> Complete items 1, 2, and 3.</p> <p><input type="checkbox"/> Print your name and address on the reverse so that we can return the card to you.</p> <p><input type="checkbox"/> Attach this card to the back of the mailpiece, or on the front if space permits.</p> <p>1. Article Addressed to:</p> <p style="text-align: center;">District Director Internal Revenue Service Ogden, UT 84201</p>	<p>A. Signature X</p> <p style="text-align: right;"><input type="checkbox"/> Agent <input type="checkbox"/> Addressee</p> <p>B. Received by (Printed Name) _____</p> <p>C. Date of Delivery _____</p> <p>D. Is delivery address different from item 1? <input type="checkbox"/> Yes If YES, enter delivery address below: <input type="checkbox"/> No</p>		
<p style="text-align: center;">  9590 9402 2601 6336 1107 53 </p> <p>2. Article Number (Transfer from service label) _____ 7017 1450 0000 7601 6209</p>	<p>3. Service Type</p> <table style="width: 100%;"> <tr> <td style="vertical-align: top;"> <input type="checkbox"/> Adult Signature <input type="checkbox"/> Adult Signature Restricted Delivery <input checked="" type="checkbox"/> Certified Mail® <input type="checkbox"/> Certified Mail Restricted Delivery <input type="checkbox"/> Collect on Delivery <input type="checkbox"/> Collect on Delivery Restricted Delivery <input type="checkbox"/> Insured Mail <input type="checkbox"/> Insured Mail Restricted Delivery (over \$500) </td> <td style="vertical-align: top;"> <input type="checkbox"/> Priority Mail Express® <input type="checkbox"/> Registered Mail™ <input type="checkbox"/> Registered Mail Restricted Delivery <input type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> Signature Confirmation™ <input type="checkbox"/> Signature Confirmation Restricted Delivery </td> </tr> </table>	<input type="checkbox"/> Adult Signature <input type="checkbox"/> Adult Signature Restricted Delivery <input checked="" type="checkbox"/> Certified Mail® <input type="checkbox"/> Certified Mail Restricted Delivery <input type="checkbox"/> Collect on Delivery <input type="checkbox"/> Collect on Delivery Restricted Delivery <input type="checkbox"/> Insured Mail <input type="checkbox"/> Insured Mail Restricted Delivery (over \$500)	<input type="checkbox"/> Priority Mail Express® <input type="checkbox"/> Registered Mail™ <input type="checkbox"/> Registered Mail Restricted Delivery <input type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> Signature Confirmation™ <input type="checkbox"/> Signature Confirmation Restricted Delivery
<input type="checkbox"/> Adult Signature <input type="checkbox"/> Adult Signature Restricted Delivery <input checked="" type="checkbox"/> Certified Mail® <input type="checkbox"/> Certified Mail Restricted Delivery <input type="checkbox"/> Collect on Delivery <input type="checkbox"/> Collect on Delivery Restricted Delivery <input type="checkbox"/> Insured Mail <input type="checkbox"/> Insured Mail Restricted Delivery (over \$500)	<input type="checkbox"/> Priority Mail Express® <input type="checkbox"/> Registered Mail™ <input type="checkbox"/> Registered Mail Restricted Delivery <input type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> Signature Confirmation™ <input type="checkbox"/> Signature Confirmation Restricted Delivery		

PS Form 3811, July 2015 PSN 7530-02-000-9053 Domestic Return Receipt

U.S. Postal Service™ CERTIFIED MAIL® RECEIPT											
<p style="writing-mode: vertical-rl; transform: rotate(180deg); font-size: small;">PLACE STICKER TOP OF ENVELOPE OR FRONT OF LETTER OR ADDRESS FOUNDATION DATE</p> <p style="writing-mode: vertical-rl; font-size: small;">CERTIFIED MAIL®</p> <p style="text-align: center;">  7017 1450 0000 7601 6209 7017 1450 0000 7601 6209 </p>	<p>Little Elm ISD Unlimited Tax School Building Bonds 2018A</p> <p style="text-align: right;">Postmark Here</p> <p>Certified Mail Fee \$ _____</p> <p>Extra Services & Fees (check box, add fee as appropriate)</p> <table style="width: 100%;"> <tr> <td><input type="checkbox"/> Return Receipt (hardcopy)</td> <td>\$ _____</td> </tr> <tr> <td><input type="checkbox"/> Return Receipt (electronic)</td> <td>\$ _____</td> </tr> <tr> <td><input type="checkbox"/> Certified Mail Restricted Delivery</td> <td>\$ _____</td> </tr> <tr> <td><input type="checkbox"/> Adult Signature Required</td> <td>\$ _____</td> </tr> <tr> <td><input type="checkbox"/> Adult Signature Restricted Delivery</td> <td>\$ _____</td> </tr> </table> <p>Postage \$ _____</p> <p>Total Postage and Fees \$ _____</p> <p>Sent To District Director Street and Apt. No., or P.O. Internal Revenue Service City, State, ZIP+4® Ogden, UT 84201</p> <p style="font-size: small;">PS Form 3800, April 2015 PSN 7530-02-000-0047 See Reverse for Instructions</p>	<input type="checkbox"/> Return Receipt (hardcopy)	\$ _____	<input type="checkbox"/> Return Receipt (electronic)	\$ _____	<input type="checkbox"/> Certified Mail Restricted Delivery	\$ _____	<input type="checkbox"/> Adult Signature Required	\$ _____	<input type="checkbox"/> Adult Signature Restricted Delivery	\$ _____
<input type="checkbox"/> Return Receipt (hardcopy)	\$ _____										
<input type="checkbox"/> Return Receipt (electronic)	\$ _____										
<input type="checkbox"/> Certified Mail Restricted Delivery	\$ _____										
<input type="checkbox"/> Adult Signature Required	\$ _____										
<input type="checkbox"/> Adult Signature Restricted Delivery	\$ _____										

RECEIPT OF PAYING/AGENT REGISTRAR
AND CERTIFICATE OF DELIVERY

The undersigned, authorized representative of UMB, N.A. as Paying Agent/Registrar, hereby makes the following acknowledgments and certifications in connection with the issuance and delivery of \$23,885,000 principal amount of Little Elm Independent School District Unlimited Tax School Building Bonds, Series 2018A (the "Bonds"). Capitalized terms used herein and not otherwise defined shall have the meanings assigned thereto in the Order authorizing the issuance thereof adopted by the governing body of the Little Elm Independent School District (the "District"). The undersigned hereby:

1. Acknowledges receipt of \$25,113,852.91 from Wells Fargo, the underwriter (the "Underwriter"), representing the principal amount of the Bonds plus original issue premium of \$1,366,042.70 less the Underwriters' discount of \$137,189.79 as described in the Closing Memorandum (the "Closing Memorandum"), prepared by the District's Financial Advisor, RBC Capital Markets and attached hereto as Exhibit A.

3. Acknowledges and certifies the application of amounts described in paragraph 1 hereof as required by and in accordance with the Closing Memorandum.

4. Certifies that the Initial Bond for the Bonds, registered by the Comptroller of Public Accounts of the State of Texas and representing the aggregate principal amount of the Bonds, was delivered to or upon order of the Underwriter and was duly canceled this date upon delivery of the definitive Bonds to the Underwriter through The Depository Trust Company.

DATED: August 16, 2018.

UMB, N.A.
as Paying Agent/Registrar

By: _____

Title: _____


Vice President



RBC Capital Markets

DELIVERY, SETTLEMENT & CLOSING PROCEDURES for

Little Elm Independent School District (the "District")

\$23,885,000

Unlimited Tax School Building Bonds, Series 2018A (the "Bonds")

Bonds Dated: July 15, 2018

Settlement Date: August 16, 2018

Closing: The closing on the above-referenced bonds (the "Bonds") will be held on Thursday, August 16, 2018, at 10:00 A.M. (the "Closing") via teleconference by Bracewell LLP, Attn: Rob Collins (214) 758-1012.

Those parties that may be expected to participate include:

<u>Party</u>	<u>Title/Role</u>	<u>Company</u>	<u>Phone</u>	<u>Email</u>
Mr. Grant Anderson	Assoc. Supt. & CFO	Little Elm ISD	(972) 947-9340	ganderson@littleelmsd.net
Ms. Beth Euler	Director of Accounting & Finance	Little Elm ISD	(972) 947-9340	beuler@littleelmsd.net
Mr. Jesse Wyse	Director of Budget & Finance	Little Elm ISD	(972) 947-9340	jwyse@littleelmsd.net
Mr. Derek Honea	Financial Advisor	RBC Capital Markets	(214) 989-1671	derek.honea@rbccm.com
Mr. Cameron Thatcher	Financial Advisor	RBC Capital Markets	(214) 989-1748	cameron.thatcher@rbccm.com
Mr. Robert Collins	Bond Counsel	Bracewell LLP	(214) 758-1012	rob.collins@bracewell.com
Ms. Shana Hight	Bond Counsel	Bracewell LLP	(214) 758-1651	shana.hight@bracewell.com
Mr. Richard Matkin	Underwriter	Wells Fargo Securities	(214) 661-1332	richard.matkin@wellsfargo.com
Mr. Alex Palazzolo	Underwriter	Wells Fargo Securities	(214) 661-1336	alex.palazzolo@wellsfargo.com
Ms. Madelyn Wallace	Paying Agent	UMB Bank, N.A.	(214) 389-5911	madelyn.wallace@umb.com

SOURCES AND USES OF FUNDS

Sources of Funds

Principal Amount of the Bonds	\$ 23,885,000.00
Original Issue Premium	1,366,042.70
Total Sources	\$ 25,251,042.70

Uses of Funds

Deposit to Project Fund	\$ 25,000,000.00
Underwriters' Discount	137,189.79
Costs of Issuance	113,852.91
Total Uses	\$ 25,251,042.70

RECEIPT OF FUNDS

1. On Thursday, August 16, 2018, Wells Fargo Securities (the "Underwriter") will wire transfer to UMB Bank, N.A., Kansas City, MO, ABA #: 101000695, Acct #: 9800006823, Acct Name: Trust Clearance, Ref: Little Elm ISD Ser 2018A, Attn: Madelyn Wallace (214-389-5911) the amount listed below. The Underwriter will email Bond Counsel and the Paying Agent with a Federal Wire Reference Number and time of such wire as soon as possible on Thursday,

Proceeds of Bonds	\$ 25,251,042.70
Less: Underwriters' Discount	(137,189.79)
Total Wire Amount from Underwriter:	<u>\$ 25,113,852.91</u>
 Total Receipt of Funds:	 <u>\$ 25,113,852.91</u>

DISBURSEMENT OF FUNDS

1. On Thursday, August 16, 2018, UMB Bank, N.A., (acting as the "Paying Agent") will wire transfer \$10,000,000.00 to Wells Fargo Bank, NA, Minneapolis, MN, ABA #: 121000248, Acct #: 4945042489, FFC: TX-01-0186-0011 Construction Bond 2018 Little Elm Independent School District, as a deposit to the project fund of the District.

Deposit #1 to Project Fund:	\$ 10,000,000.00
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2. On Thursday, August 16, 2018, Paying Agent will wire transfer \$10,000,000.00 to JP Morgan Chase, Dallas, TX, ABA #: 021000021, BNF: TexSTAR Clearing / Account # 9102733343, OBI: Little Elm ISD Construction Bond 2018 Account # 0611510300, as a deposit to the project fund of the District.

Deposit #2 to Project Fund:	\$ 10,000,000.00
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3. On Thursday, August 16, 2018, Paying Agent will wire transfer \$5,000,000.00 to State Street Bank, Boston, MA, ABA #: 011000028, Acct #: 10238178, Account Name: Lone Star Investment Pool - Government Overnight Fund, Fund #: FPGA, Reference: Little Elm ISD 61914 Construction Bond 2018, as a deposit to the project fund of the District.

Deposit #3 to Project Fund:	\$ 5,000,000.00
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4. On Thursday, August 16, 2018, the Paying Agent will wire transfer \$17,114.47 to Capital One Bank, ABA #: 111901014, Acct #: 3620918848, Acct Name: Debt Service, as a deposit to the Cost of Issuance Fund of the District.

Deposit to Costs of Issuance Fund:	\$ 17,114.47
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5. On Thursday, August 16, 2018, the Paying Agent will retain \$96,338.44 to pay other Costs of Issuance per the detailed instructions provided by RBC Capital Markets.

Total COI to be paid by Paying Agent:	\$ 96,338.44
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6. On Thursday, August 16, 2018, the Paying Agent will retain \$400.00 as payment for the fees listed below.

Annual Paying Agent Administration Fee:	<u>\$ 400.00</u>
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Total Disbursement of Funds:	<u>\$ 25,113,852.91</u>
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RETURN OF GOOD FAITH CHECK

Upon closing, RBC Capital Markets will immediately return via overnight mail the Good Faith Deposit in its possession to Wells Fargo Securities, 1000 Louisiana Street, Suite 600, Houston, Texas 77002, Attn: Cynthia Burnett.

CLOSING CERTIFICATE PURSUANT TO PURCHASE CONTRACT

The undersigned, authorized officer of the Little Elm Independent School District (the "Issuer"), executes and delivers this certificate pursuant to paragraph 6(i)(6) of the Purchase Contract (the "Purchase Contract"), dated as of July 26, 2018, between the Issuer and (the "Underwriter"), in connection with the issuance and sale of the Issuer's Unlimited Tax School Building Bonds, Series 2018A (the "Bonds"). Capitalized terms used herein and not otherwise defined shall have the meaning assigned thereto in the Purchase Contract. It is hereby certified that:

1. The representations and warranties of the Issuer contained in the Purchase Contract are true and correct in all material respects on and as of the date of Closing as if made on the date of Closing.

2. No litigation or proceeding or tax challenge against the Issuer is pending or, to my knowledge, threatened in any court or administrative body nor, to my knowledge, is there a basis for litigation which would (a) contest the right of the members or officials of the Issuer to hold and exercise their respective positions, (b) contest the due organization and valid existence of the Issuer, (c) contest the validity, due authorization and execution of the Bonds or the Issuer Documents, (d) attempt to limit, enjoin or otherwise restrict or prevent the Issuer from functioning, levying and/or collecting ad valorem taxes and making payments on the Bonds pursuant to the Bond Order, or contest the pledge of ad valorem taxes to the payment of the principal of and interest on the Bonds, or (e) contest the accuracy, completeness, or the fairness of the Preliminary Official Statement and the Official Statement.

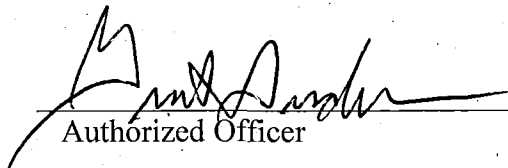
3. The Order was duly adopted by the Issuer, is in full force and effect and has not been modified, amended or repealed, and the Pricing Certificate and the Purchase Contract have been duly executed and delivered by the Pricing Officer and are in full force and effect and have not been modified, amended or repealed.

4. To my knowledge, no event affecting the Issuer has occurred since the date of the Official Statement which should be disclosed in the Official Statement for the purpose for which it is to be used or which it is necessary to disclose therein in order to make the statements and information therein, in the light of the circumstances under which made, not misleading in any material respect as of the time of Closing, and the information contained in the Official Statement is correct in all material respects and, as of the date of the Official Statement did not, and as of the date of the Closing does not, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

5. There has not been any materially adverse change in the financial condition of the Issuer since August 31, 2017, the latest date as of which audited financial information is available.

Dated: August 14, 2018.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT

By: 
Authorized Officer

Closing Certificate



KEN PAXTON
ATTORNEY GENERAL OF TEXAS

August 14, 2018

THIS IS TO CERTIFY that the Little Elm Independent School District (the "Issuer") has submitted the Little Elm Independent School District Unlimited Tax School Building Bond, Series 2018A (the "Bond") in the principal amount of \$23,885,000 for approval. The Bond is dated July 15, 2018, numbered T-1, and was authorized by an Order of the Issuer passed on June 18, 2018 (the "Order"). The record of proceedings submitted included the Order and a Pricing Certificate relating to the Bond.

The Office of the Attorney General has examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Issuer contained in the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

We express no opinion relating to any official statement or any other offering material relating to the Bond.


Based on our examination, we are of the opinion, as of the date hereof and under existing law, as follows:

- (1) The Bond has been issued in accordance with law and is a valid and binding obligation of the Issuer.
- (2) The Bond is payable from the levy and collection of an ad valorem tax, without limit as to rate or amount, against all taxable property in the Issuer.
- (3) The proceedings conform to the requirements of law.

Therefore, the Bond is approved and, pursuant to Chapter 1371 of the Government Code, the proceedings are approved.

No. 64690
Book No. 2018-C
MA

*See attached Signature Authorization


Attorney General of the State of Texas

OFFICE OF THE ATTORNEY GENERAL
OF THE STATE OF TEXAS

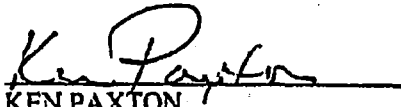
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I, KEN PAXTON, Attorney General for the State of Texas, do hereby authorize the employees of the Public Finance Division of the Office of the Attorney General to affix a digital image of my signature, in my capacity as Attorney General, to the opinions issued by this office approving the issuance of public securities by the various public agencies, non-profit corporations, district, entities, bodies politic or corporate, or political subdivisions of this State as required by law, the opinions approving those contracts designated by the Legislature as requiring the approval of the Attorney General, and the obligations, proceedings and credit agreements required by law to be approved by the Attorney General. The authorized digital image of my signature is attached as Exhibit A and is hereby adopted as my own for the purposes set forth herein. This supersedes any prior signature authorizations for the same purpose.

The authority granted herein is to be exercised on those occasions when I am unavailable to personally sign said opinions, and upon the condition that the opinions to which the digital image signature is affixed have been approved by an authorized Assistant Attorney General following the completion of the Public Finance Division's review of the transcripts of proceedings to which the opinions relate.

Given under my hand and seal of office at Austin, Texas, this the 5th day of January, 2015.




KEN PAXTON
Attorney General of the State of Texas

OFFICE OF COMPTROLLER

OF THE STATE OF TEXAS

I, GLENN HEGAR, Comptroller of Public Accounts of the State of Texas, do hereby certify that the attachment is a true and correct copy of the opinion of the Attorney General approving the:

Little Elm Independent School District Unlimited Tax School Building Bond, Series 2018A and the "Proceedings"

the bond is numbered T-1, of the denomination of \$ 23,885,000, dated July 15, 2018, as authorized by issuer, interest various percent, under and by authority of which said bonds/certificates and Proceedings were registered electronically in the office of the Comptroller, on the 14th day of August 2018, under Registration Number 90824.

Given under my hand and seal of office, at Austin, Texas, the 14th day of August 2018.

A handwritten signature in black ink, appearing to read 'Glenn Hegar', with a stylized flourish at the end.

GLENN HEGAR
Comptroller of Public Accounts
of the State of Texas

OFFICE OF COMPTROLLER
OF THE STATE OF TEXAS

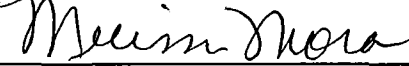
I, Melissa Mora, ☐ Bond Clerk ☒ Assistant Bond Clerk in the office of the Comptroller of the State of Texas, do hereby certify that, acting under the direction and authority of the Comptroller on the 14th day of August 2018, I signed the name of the Comptroller to the certificate of registration endorsed upon the:

Little Elm Independent School District Unlimited Tax School Building Bond, Series 2018A and the "Proceedings",

the bond is numbered T-1, dated July 15, 2018, and that in signing the certificate of registration I used the following signature:



IN WITNESS WHEREOF I have executed this certificate this the 14th day of August 2018.



I, Glenn Hegar, Comptroller of Public Accounts of the State of Texas, certify that the person who has signed the above certificate was duly designated and appointed by me under authority vested in me by Chapter 403, Subchapter H, Government Code, with authority to sign my name to all certificates of registration, and/or cancellation of bonds required by law to be registered and/or cancelled by me, and was acting as such on the date first mentioned in this certificate, and that the bonds/certificates described in this certificate have been duly registered in the office of the Comptroller, under Registration Number 90824.

GIVEN under my hand and seal of office at Austin, Texas, this the 14th day of August 2018.



GLENN HEGAR
Comptroller of Public Accounts
of the State of Texas

NORTON ROSE FULBRIGHT

August 16, 2018

Norton Rose Fulbright US LLP
2200 Ross Avenue, Suite 3600
Dallas, Texas 75201-7932
United States

Wells Fargo Bank, National Association
Piper Jaffray & Co.
c/o Wells Fargo Bank, National Association
1445 Ross Avenue, Suite 2135
Dallas, Texas 75202

Tel +1 214 855 8000
Fax +1 214 855 8200
nortonrosefulbright.com

Re: \$23,885,000 "Little Elm Independent School District Unlimited Tax School Building Bonds, Series 2018A", dated July 15, 2018

Ladies and Gentlemen:

We have acted as your counsel in connection with the purchase by you on this date of \$23,885,000 aggregate original principal amount of "Little Elm Independent School District Unlimited Tax School Building Bonds, Series 2018A" (the "Bonds") pursuant to a Purchase Contract dated July 26, 2018 (the "Purchase Contract") between you and the Little Elm Independent School District (the "District"). This opinion is being furnished to you pursuant to paragraph 6(i)(5) of the Purchase Contract. Unless otherwise expressly provided herein, capitalized terms used in this opinion shall have the meanings ascribed to them in the Purchase Contract.

We have examined the Official Statement of the District relating to the Bonds, dated July 26, 2018 (the "Official Statement"), the Purchase Contract and the Bond Order authorizing the issuance of the Bonds. In making such examinations, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity to the original documents of copies of such documents submitted to us as certified or mechanically reproduced copies. As to questions of fact material to the opinions hereinafter expressed, where such facts have not been independently established, and as to the content and form of documents or writings, we have relied in part and to the extent we deem reasonably appropriate upon the representations and warranties of the District contained in the Purchase Contract and certificates of officers and representatives of the District and public officials.

Based upon the foregoing, and having due regard for such legal considerations as we deem relevant, we are of the opinion that the Bonds are exempted securities under Section 3(a)(2) of the Securities Act of 1933, as amended (the "1933 Act"), and the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act"), and it is not necessary, in connection with the offering and sale of the Bonds, to register the Bonds under the 1933 Act and the Bond Order need not be qualified under the Trust Indenture Act.

Assuming the enforceability of the Bond Order, in our opinion you may reasonably conclude that the continuing disclosure undertaking by the District therein satisfies the requirements contained in paragraph (b)(5) of Rule 15c2-12.

Page 2 of Legal Opinion of Norton Rose Fulbright US LLP

Re: \$23,885,000 "Little Elm Independent School District Unlimited Tax School Building Bonds, Series 2018A", dated July 15, 2018

In addition, we have participated in conferences with officers and other representatives of the District, Bond Counsel, the financial advisor to the District and your representatives at which the contents of the Official Statement and related matters were discussed. Although we are not passing upon, and do not assume any responsibility for, the accuracy, completeness or fairness of the statements contained in the Official Statement, on the basis of the foregoing (relying as to materiality to a large extent upon the opinions of officers and other representatives of the District), no facts have come to our attention to lead us to believe that the Official Statement, as of its date, contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading (except for any financial, forecast, technical and statistical statements and data included in the Official Statement, the information regarding The Depository Trust Company and its book-entry system and information regarding the Permanent School Fund, in each case as to which no view is expressed).

The opinions expressed above are specifically limited to the laws of the State of Texas and of the United States of America in effect on the date hereof.

The opinions expressed herein are for the sole benefit of you, and may only be relied upon by you in connection with your purchase of the Bonds from the District. In no manner is our opinion to be relied upon for any reason or purpose other than the purpose for which it is expressly furnished hereunder, nor is our opinion to be relied upon by any other person or persons other than for whom it is expressly intended.

North Rose Fulbright US LLP

BRACEWELL

August 16, 2018

Little Elm Independent School District
300 Lobo Lane
Little Elm, Texas 75068

Wells Fargo Bank, National Association
Piper Jaffray & Co.
c/o Wells Fargo Bank, National Association
1445 Ross Avenue, Suite 2135
Dallas, TX 75202

Re: Little Elm Independent School District Unlimited Tax School Building Bonds,
Series 2018A

Ladies and Gentlemen:

We have served as Bond Counsel to the Little Elm Independent School District (the "District") in connection with the issuance of its \$23,885,000 Little Elm Independent School District Unlimited Tax School Building Bonds, Series 2018A (the "Bonds"), issued pursuant to the provisions of an order duly adopted by the Board of Trustees of the District on June 18, 2018 (the "Order") and the Pricing Certificate dated July 26, 2018 (the "Pricing Certificate") authorized therein and together with the Order (the "Bond Order"). This opinion is delivered pursuant to the provisions of Section 6(i)(4) of the Purchase Contract (hereinafter defined). Capitalized terms not otherwise defined in this opinion have the meanings assigned in the hereinafter defined Purchase Contract.

In our capacity as Bond Counsel to the District, we have reviewed the following:

- (a) a certified copy of the Order and a copy of the Pricing Certificate;
- (b) an executed counterpart of the Purchase Contract dated July 26, 2018 (the "Purchase Contract") between the District and the Underwriters named in such Purchase Contract;
- (c) a copy of the Official Statement dated July 26, 2018.
- (d) such other agreements, documents, certificates, opinions, letters, and other papers as we have deemed necessary or appropriate in rendering the opinions set forth below.

In making our review, we have assumed the authenticity of all documents and agreements submitted to us as originals, conformity to the originals of all documents and agreements submitted to us as certified or photostatic copies, the authenticity of the originals of such latter documents and agreements, and the accuracy of the statements contained in such documents.

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August 16, 2018

Page 2

Based upon the foregoing, and subject to the qualifications and exceptions hereinafter set forth, we are of the opinion that under the applicable laws of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Order has been duly adopted by the Issuer and the Pricing Certificate has been duly executed by the Pricing Officer pursuant to the Order, and both of the foregoing documents are in full force and effect.

2. The Bonds are exempted securities under the Securities Act of 1933, as amended (the "1933 Act"), and the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act"), and it is not necessary, in connection with the offering and sale of the Bonds, to register the Bonds under the 1933 Act or to qualify the Bond Order under the Trust Indenture Act.

3. We were not requested to participate, and did not take part, in the preparation of the Official Statement, and we have not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in our capacity as Bond Counsel, we have reviewed the information in the Official Statement under the captions "THE BONDS" (except under the subcaptions "Payment Record", "Permanent School Fund Guarantee", and "Sources and Uses of Funds"), "REGISTRATION, TRANSFER AND EXCHANGE", "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" (excluding the information under the subcaption "The School Finance System as Applied to the District"), "TAX RATE LIMITATIONS", "LEGAL MATTERS" (except for the last two sentences of the second paragraph thereof), "TAX MATTERS", "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS", "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE", and "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance with Prior Undertakings") and we are of the opinion that the information relating to the Bonds and the legal matters contained under such captions and subcaptions is an accurate and fair summary of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Bond Order.

BRACEWELL

August 16, 2018

Page 3

The addressees may rely on our opinion, dated as of the date hereof, delivered in connection with the issuance of the Bonds to the same extent as if such opinion was specifically addressed to them.

This opinion is furnished solely for your benefit and may be relied upon only by the addressees hereof or anyone to whom specific permission is given in writing by us.

Very truly yours,

Bracewell LLP

BRACEWELL

August 16, 2018

\$23,885,000
LITTLE ELM INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BONDS
SERIES 2018A

WE HAVE ACTED as bond counsel for Little Elm Independent School District (the "District"), in connection with the bonds hereinafter described (the "Bonds"):

LITTLE ELM INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018A, dated July 15, 2018, in the aggregate principal amount of \$23,885,000.

The Bonds mature, bear interest, are subject to redemption prior to maturity, and may be transferred and exchanged as set out in the Bonds and in the order (the "Bond Order") adopted by the Board of Trustees of the District on June 18, 2018 authorizing their issuance and the pricing certificate (the "Pricing Certificate") executed as authorized therein (the Bond Order and the Pricing Certificate are collectively referred to as the "Order" herein).

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

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of proceedings pertaining to the Bonds and the bonds being refunded, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the District; customary certificates of officers, agents and representatives of the District and other public officials; and other certified showings relating to the authorization and issuance of the Bonds. We have

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Page 2

also examined such applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), court decisions, Treasury Regulations and published rulings of the Internal Revenue Service (the "Service") as we have deemed relevant. We have also examined executed Bond No. ICI-1 of this issue. Capitalized terms used herein, unless otherwise defined, have the meanings set forth in the Order.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

- (A) The transcript of proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective, and therefore, the Bonds constitute valid and legally binding obligations of the District; and
- (B) A continuing ad valorem tax, without limit as to rate or amount, has been levied on all taxable property in the District and pledged irrevocably to the payment of the principal of and interest on the Bonds.

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

IT IS OUR FURTHER OPINION THAT:

- (1) Interest on the Bonds is excludable from gross income for federal income tax purposes under existing law; and
- (2) The Bonds are not "private activity bonds" within the meaning of the Code, and interest on the Bonds is not subject to the alternative minimum tax on individuals.

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

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

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Page 3

Owners of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit, and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Bonds).

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

Bracewell LLP