Ratings: Moody's "Aaa"
S&P "AAA"
(See "RATINGS" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein)

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

PRELIMINARY OFFICIAL STATEMENT
Dated: March 21, 2018

NEW ISSUE: BOOK-ENTRY-ONLY

In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS" herein, and is not includable in the alternative minimum taxable income of individuals. See "TAX MATTERS" for a discussion of the opinion of Bond Counsel.

$56,000,000*
BARBERS HILL INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Chambers County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018

Dated Date: April 1, 2018 **Due: February 15, as shown on the inside cover page**

The Barbers Hill Independent School District Unlimited Tax School Building Bonds, Series 2018 (the "Bonds") are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 45, Texas Education Code, as amended, an election held in the Barbers Hill Independent School District (the "District") on May 6, 2017, and an order ("Bond Order") adopted by the Board of Trustees (the "Board") of the Barbers Hill Independent School District (the "District") on February 26, 2018. In the Bond Order, the Board delegated, pursuant to Chapter 1371, Texas Government Code, to certain authorized officials of the District the authority to execute a pricing certificate establishing the pricing terms for the Bonds (the "Pricing Certificate") (the Bond Order and the Pricing Certificate are collectively referred to herein as the "Order"). The Bonds are payable as to principal and interest from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, against all taxable property located within the District. The District has received conditional approval from the Texas Education Agency for the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined) which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

Interest on the Bonds will accrue from the Dated Date shown above and will be payable on February 15 and August 15 of each year, commencing August 15, 2018, until stated maturity or prior redemption. The Bonds will be issued in fully registered form in principal denominations of $5,000 or any integral multiple thereof within a stated maturity. Principal and interest of the Bonds will be payable by the paying agent/registrar, which initially is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent/Registrar"). Interest on the Bonds is payable by check dated as of the interest payment date and mailed by the Paying Agent/Registrar to the registered owners as shown on the records of the Paying Agent/Registrar on the close of business as of the last business day of the month next preceding each interest payment date.

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

Proceeds from the sale of the Bonds will be used for (i) the construction, acquisition, and equipment of school buildings in the District, the purchase of new school buses, and the purchase of necessary sites for school buildings and (ii) paying the costs of issuing the Bonds. (See "THE BONDS - Authorization and Purpose").

The Bonds maturing on and after February 15, 2029 are subject to redemption at the option of the District in whole or in part in principal amounts of $5,000 or any multiple thereof, on February 15, 2028 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. (See "THE BONDS - Optional Redemption").

MATURITY SCHEDULE
(On Inside Cover Page)

The Bonds are offered for delivery when, as and if issued, and received by the underwriters (the "Underwriters") subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Andrews Kurth Kenyon LLP, Houston, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Bracewell LLP, Houston, Texas. The Bonds are expected to be available for initial delivery through the services of DTC on or about April 24, 2018.

PIPER JAFFRAY & CO. **FTN FINANCIAL CAPITAL MARKETS**

**Preliminary, subject to change.*

$56,000,000*
BARBERS HILL INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Chambers County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018

MATURITY SCHEDULE*
BASE CUSIP NO: 067167 [(1)]

Maturity Date 2/15	Principal Amount*	Interest Rate	Initial Yield	CUSIP Suffix No.[(1)]
2019	$750,000			
2020	1,155,000			
2021	2,225,000			
2022	2,665,000			
2023	2,550,000			
2024	540,000			
2025	200,000			
2026	2,875,000			
2027	2,700,000			
2028	3,990,000			
2029[(2)]	2,065,000			
2030[(2)]	3,130,000			
2031[(2)]	3,870,000			
2032[(2)]	4,045,000			
2033[(2)]	4,365,000			
2034[(2)]	2,940,000			
2035[(2)]	3,255,000			
2036[(2)]	3,330,000			
2037[(2)]	4,710,000			
2038[(2)]	4,640,000			

(Interest to accrue from the Dated Date)

**Preliminary, subject to change.*

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

[(2)] The Bonds maturing on and after February 15, 2029 are subject to redemption at the option of the District in whole or in part in principal amounts of $5,000 or any multiple thereof, on February 15, 2028 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. (See "THE BONDS - Optional Redemption").

BARBERS HILL INDEPENDENT SCHOOL DISTRICT

APPOINTED OFFICIALS

Name	Position	Length of Education Service	Length of Service with District
Dr. Greg Poole	Superintendent	33 Years	12 Years
Rebecca McManus	Assistant Superintendent of Finance	14 Years	11 Years
Stanley Frazier	Assistant Superintendent / Planning and Operations	31 Years	11 Years
Chelsea McDaniel	Business Manager	3 Months	3 Months

CONSULTANTS AND ADVISORS

Andrews Kurth Kenyon LLP, Houston, Texas	Bond Counsel
SAMCO Capital Markets, Inc., Plano, Texas	Financial Advisor
Weaver and Tidwell, L.L.P., Conroe, Texas	Certified Public Accountants

For additional information, contact:

Rebecca McManus
Assistant Superintendent of Finance
Barbers Hill ISD
9600 Eagle Drive
Baytown, TX 77523
(281) 576-2221 X1292

Doug Whitt / Brian Grubbs / Robert White
SAMCO Capital Markets, Inc.
5800 Granite Parkway, Suite 210
Plano, Texas 75024
(214) 765-1469
(214) 279-8683 (Fax)

USE OF INFORMATION IN OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, as amended and in effect on the date hereof ("Rule 15c2-12"), 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.

This Official Statement, which includes the cover page and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.

No dealer, broker, salesperson or other person has been authorized to give information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon.

The information set forth herein has been obtained from the District and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the District, Financial Advisor or the Underwriters. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein. 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 and the District, respectively, to provide certain information on a continuing basis.

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

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information.

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, ITS FINANCIAL ADVISOR, NOR THE UNDERWRITERS MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY ("DTC") OR ITS BOOK-ENTRY-ONLY SYSTEM, OR THE AFFAIRS OF THE TEXAS EDUCATION AGENCY ("TEA") DESCRIBED UNDER "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM", AS SUCH INFORMATION WAS PROVIDED BY DTC AND TEA, RESPECTIVELY.

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.

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

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

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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 District	The Barbers Hill Independent School District (the "District") is a political subdivision of the State of Texas located in Chambers County, Texas. The District is governed by a seven-member Board of Trustees (the "Board"). Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors.
The Bonds	The District's Unlimited Tax School Building Bonds, Series 2018 (the "Bonds") are being issued in the principal amount of $56,000,000 (preliminary, subject to change) pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 45, Texas Education Code, as amended, an election held in the District on May 6, 2017, and an order (the "Bond Order") adopted by the Board on February 26, 2018. In the Bond Order, the Board delegated, pursuant to Chapter 1371, Texas Government Code, to certain authorized officials of the District the authority to execute a pricing certificate establishing the pricing terms for the Bonds (the "Pricing Certificate") (the Bond Order and the Pricing Certificate are collectively referred to herein as the "Order"). Proceeds from the sale of the Bonds will be used for (i) the construction, acquisition, and equipment of school buildings in the District, the purchase of new school buses, and the purchase of necessary sites for school buildings and (ii) paying the costs of issuing the Bonds. (See "THE BONDS - Authorization and Purpose")
Paying Agent/Registrar	The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. The District intends to use the Book-Entry-Only System of DTC. (See "BOOK-ENTRY-ONLY SYSTEM.")
Security	The Bonds will constitute direct obligations of the District, payable as to principal and interest from ad valorem taxes levied annually against all taxable property located within the District, without legal limitation as to rate or amount. Payments of principal and interest on the Bonds will be further secured by the corpus of the Permanent School Fund of Texas. (See "THE BONDS – Security", "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.")
Optional Redemption	The Bonds maturing on and after February 15, 2029 are subject to redemption at the option of the District in whole or in part in principal amounts of $5,000 or any multiple thereof, on February 15, 2028 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. (See "THE BONDS – Optional Redemption.")
Permanent School Fund Guarantee	The District has received conditional approval from the Texas Education Agency for the payment of the Bonds to be guaranteed under the Permanent School Fund Guarantee Program, which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.")
Ratings	The Bonds are rated "Aaa" by Moody's Investors Service Inc. ("Moody's") and "AAA" by S&P Global Ratings ("S&P"), based upon the guaranteed repayment thereof under the Permanent School Fund Guarantee Program of the Texas Education Agency. The District's unenhanced, underlying ratings, on its unlimited tax-supported indebtedness, including the Bonds, are "Aa2" by Moody's and "AA" by S&P. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "RATINGS" herein.)
Tax Matters	In the opinion of Bond Counsel for the District, interest on the Bonds is excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein. (See "TAX MATTERS" and Appendix C - "Form of Legal Opinion of Bond Counsel.")
Payment Record	The District has never defaulted on the payment of its bonded indebtedness.
Legal Opinion	Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by Andrews Kurth Kenyon LLP, Houston, Texas, Bond Counsel.
Delivery	When issued, anticipated to occur on or about April 24, 2018.

INTRODUCTORY STATEMENT

This Official Statement, including Appendices A, B and D, has been prepared by the Barbers Hill Independent School District (the "District"), a political subdivision of the State of Texas (the "State") located in Chambers County, Texas, in connection with the offering by the District of its Unlimited Tax School Building Bonds, Series 2018 (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 such financial and other information, will necessarily continue or be repeated in the future.

There follows in this Official Statement descriptions of the Bonds and the order adopted by the Board of Trustees of the District (the "Board") authorizing the issuance of the Bonds (the "Bond Order") and certain other information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained upon request by writing the Barbers Hill Independent School District, 9600 Eagle Drive, Baytown, Texas 77523 and, during the offering period, from the Financial Advisor, SAMCO Capital Markets, Inc., 5800 Granite Parkway, Suite 210, Plano, Texas 75024, by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. A copy of the Final Official Statement pertaining to the Bonds will be deposited with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) system. See "CONTINUING DISCLOSURE OF INFORMATION" herein for a description of the District's undertaking to provide certain information on a continuing basis.

THE BONDS

Authorization and Purpose

The Bonds are being issued in the principal amount of $56,000,000 (preliminary, subject to change) pursuant to the Constitution and general laws of the State, particularly Chapter 45, Texas Education Code, as amended, an election held in the Barbers Hill Independent School District (the "District") on May 6, 2017, and the Bond Order adopted by the Board on February 26, 2018. In the Bond Order, the Board delegated, pursuant to Chapter 1371, Texas Government Code, to certain authorized officials of the District the authority to execute a pricing certificate establishing the pricing terms for the Bonds (the "Pricing Certificate") (the Bond Order and the Pricing Certificate are collectively referred to herein as the "Order"). Proceeds from the sale of the Bonds will be used for (i) the construction, acquisition, and equipment of school buildings in the District, the purchase of new school buses, and the purchase of necessary sites for school buildings and (ii) paying the costs of issuing the Bonds.

General Description

The Bonds will be dated April 1, 2018 (the "Dated Date") and will bear interest from the Dated Date. The Bonds will mature on the dates and in the principal amounts set forth on the inside cover page of this Official Statement. Interest on the Bonds is payable initially on August 15, 2018, and on each February 15 and August 15 thereafter until stated maturity or prior redemption.

The Bonds will be issued only as fully registered bonds. The Bonds will be issued in the denominations of $5,000 of principal amount or any integral multiple thereof within a stated maturity. Interest on the Bonds is payable by check mailed on or before each interest payment date by the Paying Agent/Registrar, initially, The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, to the registered owner at the last known address as it appears on the Paying Agent/Registrar's books on the Record Date (as defined herein) or by such other customary banking arrangement acceptable to the Paying Agent/Registrar and the registered owner to whom interest is to be paid, provided, however, that such person shall bear all risk and expense of such other arrangements. Principal of the Bonds will be payable only upon presentation of such Bonds at the corporate trust office of the Paying Agent/Registrar at stated maturity or prior redemption, provided that so long as the Bonds are registered in the name of Cede & Co. or other nominee for The Depository Trust Company ("DTC"), payments of principal and interest of the Bonds will be made as described in "BOOK-ENTRY-ONLY SYSTEM" herein.

If the date for any payment due on any Bond shall be a Saturday, Sunday, legal holiday, or day on which the Paying Agent/Registrar authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a day. The payment on such date shall have the same force and effect as if made on the original date payment was due.

Optional Redemption

The Bonds maturing on and after February 15, 2029 are subject to redemption at the option of the District in whole or in part in principal amounts of $5,000 or any multiple thereof, on February 15, 2028 or any date thereafter, at a 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 amounts and maturities thereof to be redeemed and shall direct the Paying Agent/Registrar to select by lot the Bonds, or portions thereof, to be redeemed.

Notice of Redemption and DTC Notices

Not less than 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 each registered owner of a Bond to be redeemed, in whole or in part, at the address of the registered 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. ANY NOTICE OF REDEMPTION SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER RECEIVED BY THE BONDHOLDER, AND, SUBJECT TO PROVISION FOR PAYMENT OF THE REDEMPTION PRICE HAVING BEEN MADE AND THE SATISFACTION OF ANY OTHER CONDITION SPECIFIED IN THE NOTICE, INTEREST ON THE REDEEMED BONDS SHALL CEASE TO ACCRUE FROM AND AFTER SUCH REDEMPTION DATE NOTWITHSTANDING THAT A BOND HAS NOT BEEN PRESENTED FOR PAYMENT.

The Paying Agent/Registrar and the District, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Bond 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 Bond Order and will not be conducted by the District or the Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Bonds for redemption. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Security

The Bonds are direct obligations of the District and are payable as to both principal and interest from ad valorem taxes levied, without legal limitation as to rate or amount, annually on all taxable property within the District. The District has received conditional approval from the Texas Education Agency for the payment of the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined), which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM", and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

Permanent School Fund Guarantee

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

In the event the District defeases any of the Bonds, the payment of such defeased Bonds will cease to be guaranteed by the Permanent School Fund Guarantee. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "REGISTERED OWNERS' REMEDIES" herein.

Legality

The Bonds are offered when, as and if issued, subject to the approval of legality by the Attorney General of the State and Andrews Kurth Kenyon LLP, Houston, Texas, Bond Counsel. (See "LEGAL MATTERS" and "Appendix C - Form of Legal Opinion of Bond Counsel").

Payment Record

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

Defeasance

The Bonds may be discharged, defeased, redeemed or refunded in any manner now or hereafter permitted by law.

Current State law permits defeasance with the following types of securities: (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 governing body of the District authorizes the defeasance, 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 governing body of the District adopts or approves the proceedings authorizing the financial arrangements have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Bond 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 for defeasance purposes or that for any other Defeasance Security will be maintained at any particular rating category.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid.

Defeasance will automatically cancel the Permanent School Fund Guarantee with respect to those defeased Bonds.

Sources and Uses of Funds

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

Sources	
Par Amount of Bonds	$
[Net] Original Issue Reoffering Premium	
Accrued Interest on Bonds	
Total Sources of Funds	$
Uses	
Deposit to Construction Fund	$
Costs of Issuance[(1)]	
Underwriters' Discount	
Deposit to Interest and Sinking Fund	
Total Uses of Funds	$

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

REGISTERED OWNERS' REMEDIES

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

The District is also eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Chapter 9 includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or registered owners 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 Co-Bond Counsel will note that all opinions relative to the enforceability of the Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, including rights afforded to creditors under the Bankruptcy Code.

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

BOOK-ENTRY-ONLY SYSTEM

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

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

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered 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 Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity and will be deposited with DTC.

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

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

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

Redemption notices shall be sent to DTC. If less than all of the Bonds within 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 MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with 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, with respect to the Bonds, 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.

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District, the Financial Advisor and the Underwriters believe to be reliable, but none of the District, the Financial Advisor or the Underwriters take any responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of this Official Statement

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

Effect of Termination of Book-Entry-Only System

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

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar for the Bonds is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. In the Bond Order, the District covenants to maintain and provide a Paying Agent/Registrar until the Bonds are duly paid.

Successor Paying Agent/Registrar

Provision is made in the Bond Order for replacing the Paying Agent/Registrar. If the District replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District shall be a commercial bank, trust company, financial institution 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 has agreed 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.

Initial Registration

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.

Future Registration

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

Record Date For Interest Payment

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

Replacement Bonds

If any Bond is mutilated, destroyed, stolen or lost, a new Bond in the same principal amount as the Bond so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Bond, such new Bond will be delivered only upon surrender and cancellation of such mutilated Bond. In the case of any Bond issued in lieu of and substitution for a Bond which has been destroyed, stolen or lost, such new Bond will be delivered only upon (a) furnishing to the District and the Paying Agent/Registrar satisfactory evidence of the ownership of and the circumstances of the loss, destruction or theft of such Bond; (b) furnishing such security or indemnity as may be required by the Paying Agent/Registrar and the District to save them harmless; (c) pay 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 may be imposed; and (d) meeting any other reasonable requirements of the District and the Paying Agent/Registrar.

AD VALOREM TAX PROCEDURES

Property Tax Code and County Wide Appraisal District

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

Property Subject to Taxation by the 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 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 property of a nonprofit corporation used in scientific research and educational activities benefiting a college or university; and designated historic sites. Other principal categories of exempt property include tangible personal property not held or used for production of income; solar and windpowered energy devices; most individually owned automobiles; $10,000 State mandated exemption to residential homesteads of persons ages 65 or over or disabled; a State mandated exemption up to a maximum of $12,000 for real or personal property of disabled veterans or the surviving spouse or children of an individual who died while on active duty in the armed forces; a State mandated $25,000 in market value exemption for all residential homesteads (see "Residential Homestead Exemptions" below); and certain classes of intangible property. In addition, except for increases attributable to certain improvements, the District is prohibited by State law from increasing the total ad valorem tax on the residence homestead of persons 65 years of age or older or of disabled persons above the amount of tax imposed in the year such residence qualified for an exemption based on the age or disability of the owner. The freeze on ad valorem taxes on the homesteads of persons 65 years of age or older and the disabled is also transferable to a different residence homestead. Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was 55 or older when the deceased spouse died 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. 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" herein). The school property tax limitation provided by the constitutional amendment and enabling legislation apply to the 2007 and subsequent tax years. Owners of agricultural and open space land, under certain circumstances, may request valuation of such land on the basis of productive capacity rather than market value. Article VIII, Section 1-j of the Texas Constitution provides for an exemption from ad valorem taxation for "freeport property," which is defined as goods detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Taxing units that took action prior to April 1, 1990 may continue to tax freeport property and decisions to continue to tax freeport property may be reversed in the future. However, decisions to exempt freeport property are not subject to reversal. Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit", defined by the Property Tax Code as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. The Property Tax Code provision permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods-in-transit during the following tax year. A taxpayer may receive only one of the freeport or goods-in-transit exemptions for tangible personal property. Senate Bill 1, passed by the 82^{nd} Texas Legislature, 1^{st} Called Session, requires again that the governmental entities take affirmative action prior to January 1 of the first tax years in which the governing body proposes to tax good-in-transit to continue its taxation of good-in-transit in the 2012 tax year and beyond. See "THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT" and "APPENDIX A – FINANCIAL INFORMATION OF THE DISTRICT - ASSESSED VALUATION" for a schedule of the amount of exemptions granted by the District.

A city or county may create a tax increment financing zone ("TIF") within the city or county with defined boundaries and establish a base value of taxable property in the TIF at the time of its creation. Overlapping taxing units, including school districts, may agree with the city or county to contribute all or part of future ad valorem taxes levied and collected against the "incremental value" (taxable value in excess of the base value) of taxable real property in the TIF to pay or finance the costs of certain public improvements in the TIF, and such taxes levied and collected for and on behalf of the TIF are not available for general use by such contributing taxing units. Prior to September 1, 2001, school districts were allowed to enter into tax abatement agreements to encourage economic development. Under such agreements, a property owner agrees to construct certain improvements on its property. The school district in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years. Effective September 1, 2001, school districts may not enter into tax abatement agreements under the general statute that permits cities and counties to initiate tax abatement agreements. In addition, credit will not be given by the Commissioner of Education in determining a district's property value wealth per student for (1) the appraisal 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 city creating the TIF 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 certain 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 and 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 that would not exceed the lesser of (1) the property's market value in the most recent tax year in which the market value was determined by the appraisal district or (2) the sum of (a) 10% of the property's appraised value in the preceding tax year, plus (b) the property's appraised value the preceding tax year, plus (c) the market value of all new improvements to the property. In determining the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method considered most appropriate by the chief appraiser is to be used. State law further requires the appraised value of a residence homestead to be assessed solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property.

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

The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three years. The District, at its expense, has the right to obtain from the Appraisal District current estimates of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimates 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 rolls.

Residential Homestead Exemptions

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

The surviving spouse of an individual who qualifies for the foregoing exemption for the residence homestead of a person 65 or older (but not the disabled) is entitled to an exemption for the same property in an amount equal to that of the exemption for which the deceased spouse qualified if (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was at least 55 years of age at the time of the death of the individual's spouse and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse. On November 3, 2015, Texas voters approved an amendment to this law to provide for the exemption from ad valorem taxation for those surviving spouses of veterans who died before 2011 for the tax year beginning on or after January 1, 2016.

Section 11.131 of the Property Tax Code states that a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. Effective January 1, 2012, the surviving spouse of a deceased veteran who had received a disability rating of 100% is entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until the surviving spouse remarries. Effective January 1, 2018, a partially disabled veteran or the surviving spouse of a partially disabled veteran is entitled to an exemption equal to the percentage of the veteran's disability, if the residence was donated by a charitable organization at some cost to such veterans.

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. Effective January 1, 2018, the surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to 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. Voters in the State approved a constitutional amendment on November 3, 2015 increasing the mandatory homestead exemption for school districts from $15,000 to $25,000, and requiring that the tax limitation for taxpayers who are age 65 and older or disabled be reduced to reflect the additional exemption.

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

District and Taxpayer Remedies

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

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

Public Hearing and Rollback Tax Rate

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

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

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

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property. The District has no lien for unpaid taxes on personal property but does have a lien for unpaid taxes upon real property, which lien is discharged upon payment. On January 1 of each year, such tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on the property. The District's tax lien is on a parity with the tax liens of other such taxing units. A tax lien on real property taxes takes priority over the claims of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien. 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.

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

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

The District grants a local exemption of 20% of the market value of all residence homesteads and an additional $150,000 homestead exemption for disabled taxpayers and taxpayers 65 years of age or older.

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

The District collects 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.

The District’s taxes are collected by the Barbers Hill ISD Tax Collector.

The District does not allow split payments and does not give discounts for early payment of taxes.

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

The District does not grant the “goods-in-transit” exemption.

The District has not granted the freeport exemption.

The District has entered into twenty two tax value limitation agreements under the provisions of Chapter 313, Texas Tax Code ("Chapter 313"), known as the Texas Economic Development Act, as described below:

Company	Application #	First Year of Taxable Value for I&S Taxation [1]	Total Investment [2]	Capped Value for M&O Taxation	First Year of Capped Value And Payments to the District [3]
Enterprise Products Operating LLC	166	2010/11	$245,300,000	$30,000,000	2012/13
Enterprise Products Operating LLC	178	2011/12	$237,000,000	$30,000,000	2013/14
Enterprise Products Operating LLC	192	2012/13	$310,000,000	$30,000,000	2014/15
Oneok Hydrocarbon, L.P.	193	2012/13	$225,000,000	$30,000,000	2014/15
Cedar Bayou Fractionators, L.P.	194	2012/13	$225,000,000	$30,000,000	2014/15
Lone Star NGL Asset Holdings II, LLC	195	2012/13	$350,100,000	$30,000,000	2014/15
Lone Star NGL Asset Holdings II, LLC	251	2014/15	$324,200,000	$30,000,000	2016/17
Oneok Hydrocarbon, L.P.	252	2014/15	$400,000,000	$30,000,000	2016/17
Enterprise Products Operating LLC	253	2014/15	$263,620,000	$30,000,000	2016/17
Enterprise Products Operating LLC	254	2014/15	$275,500,000	$30,000,000	2016/17
Exxon Mobil Corporation	264	2014/15	$1,073,800,000	$30,000,000	2016/17
Enterprise Products Operating LLC	278	2014/15	$1,078,000,000	$30,000,000	2016/17
Cedar Bayou Fractionators, L.P.	333	2014/15	$235,000,000	$30,000,000	2016/17
Lone Star NGL Asset Holdings II, LLC	339	2014/15	$237,000,000	$30,000,000	2016/17
Enterprise Products Operating LLC	349	2015/16	$97,400,000	$30,000,000	2017/18
Enterprise Products Operating LLC	363	2015/16	$304,000,000	$30,000,000	2017/18
Enterprise Products Operating LLC	364	2015/16	$98,000,000	$30,000,000	2017/18
Lone Star NGL Asset Holdings II, LLC	1016	2015/16	$285,000,000	$30,000,000	2017/18
Lone Star NGL Asset Holdings II, LLC	1034	2015/16	$285,000,000	$30,000,000	2017/18
Lone Star NGL Asset Holdings II, LLC	1035	2016/17	$285,000,000	$30,000,000	2018/19
Enterprise Products Operating LLC	1162	2018/19	$921,200,000	$80,000,000	2020/21
Enterprise Products Operating LLC	1220	2018/19	$287,006,308	$80,000,000	2020/21

[1] *First year of qualifying time period as set forth in the company’s application.*
[2] *Investment amount as set forth in the company’s application to the District for a tax value limitation agreement.*
[3] *First year that payments in lieu of taxes was or will be remitted to the District as set forth in the company’s application.*

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

Date	Penalty	Interest	Cumulative Total
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, penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, State law allows that, if an account is delinquent in July, an amount up to 20% attorney's collection fee may be added to the total tax penalty and interest charge.

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

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

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

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

Possible Effects of Changes in Law on District Bonds

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

Overview

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

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

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

Local Funding for School Districts

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

State Funding for School Districts

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

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

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

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

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

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

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

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

2006 Legislation

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

2017 Legislation

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

Wealth Transfer Provisions

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

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

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

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

The District's wealth per student for the 2017-18 school year is greater than the equalized wealth value. Pursuant to Chapter 41, Texas Education Code, the Commissioner has notified the District that its wealth per student exceeds the equalized wealth level set by law. Accordingly, the District has entered into a wealth equalization agreement with the Commissioner for the purchase of attendance credits for the 2017-18 school year, for the purpose of implementing permitted wealth equalization options. As a so-called "Chapter 41 District", the District does not receive any state funding to pay debt service requirements on its outstanding indebtedness, including the Bonds.

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

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

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

History and Purpose

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

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

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

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

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

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

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

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

The Total Return Constitutional Amendment

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

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

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

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

With respect to the management of the Fund's financial assets portfolio, the single most significant change made to date as a result of the Total Return Constitutional Amendment has been new asset allocation policies adopted from time to time by the SBOE. The SBOE generally reviews the asset allocations during its summer meeting in even numbered years. The first asset allocation policy adopted by the SBOE following the Total Return Constitutional Amendment was in February 2004, and the policy was reviewed and modified or reaffirmed in the summers of 2006, 2008, 2010, 2012, 2014 and 2016. The Fund's investment policy provides for minimum and maximum ranges among the components of each of the asset classifications: equities, fixed income and alternative asset investments. The 2004 asset allocation policy decreased the fixed income target from 45% to 25% of Fund investment assets and increased the allocation for equities from 55% to 75% of investment assets. Subsequent asset allocation policies have continued to diversify Fund assets, and have added an alternative asset allocation to the fixed income and equity allocations. The alternative asset allocation category includes real estate, real return, absolute return and private equity components. Alternative asset classes diversify the SBOE-managed assets and are not as correlated to traditional asset classes, which is intended to increase investment returns over the long run while reducing risk and return volatility of the portfolio. The most recent asset allocation, from 2016, is as follows: (i) an equity allocation of 35% (consisting of U.S. large cap equities targeted at 13%, emerging and international equities at 17% and U.S. small/mid cap equities at 5%), (ii) a fixed income allocation of 19% (consisting of a 12% allocation for core bonds and a 7% allocation for emerging market debt in local currency) and (iii) an alternative asset allocation of 46% (consisting of a private equity allocation of 13%, a real estate allocation of 10%, an absolute return allocation of 10%, a risk parity allocation of 7% and a real return allocation of 6%). The 2016 asset allocation decreased U.S. large cap equities and international equities by 3% and 2%, respectively, and increased the allocations for private equity and real estate by 3% and 2%, respectively.

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

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

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

The asset allocation of the Fund's financial assets portfolio is subject to change by the SBOE from time to time based upon a number of factors, including recommendations to the SBOE made by internal investment staff and external consultants, changes made by the SBOE without regard to such recommendations and directives of the Legislature. Fund performance may also be affected by factors other than asset allocation, including, without limitation, the general performance of the securities markets in the United States and abroad; political and investment considerations including those relating to socially responsible investing; economic impacts relating to domestic and international climate change; 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. The regulatory change effecting the rollback will be effective 20 days after filing as adopted with the Texas Register, which is expected to make the change effective in late-March 2018. Based upon the cost basis of the Fund at August 31, 2017, the State Law Capacity increased from $97,933,360,905 on August 31, 2016 to $111,568,711,072 on August 31, 2017.

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

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

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

The School District Bond Guarantee Program

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

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

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

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

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

The Charter District Bond Guarantee Program

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

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

As of February 21, 2018 (the most recent date for which data is available), the percentage of students enrolled in open-enrollment charter schools (excluding charter schools authorized by school districts) to the total State scholastic census was approximately 5.5%. As of February 28, 2018, there were 181 active open-enrollment charter schools in the State and there were 719 charter school campuses operating under such charters (though as of such date, five of such campuses' operations have not begun serving students for various reasons). Section 12.101, Texas Education Code, as amended by the Legislature in 2013, limits the number of charters that the Commissioner may grant to 215 charters as of the end of fiscal year 2014, with the number increasing in each fiscal year thereafter through 2019 to a total number of 305 charters. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see "Capacity Limits for the Guarantee Program." The Act provides that the Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

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

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

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

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

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

Beginning in July 2015, TEA began limiting new guarantees under the Charter District Bond Guarantee Program to conform to the Act and, subsequently, with CDBGP Rules that require the maintenance of a capacity reserve for the Charter District Bond Guarantee Program. Following the increase in the Program multiplier in February 2016 and the update of the percentage of students enrolled in open-enrollment charter schools to the total State scholastic census in March 2016, some new capacity became available under the Charter District Bond Guarantee Program, but that capacity was quickly exhausted. In accordance with the action of the SBOE on February 3, 2017, additional capacity for the Charter District Bond Guarantee Program became effective in two increments, implemented on March 1, 2017 and on September 1, 2017 (as described under "2017 Legislative Changes to the Charter District Bond Guarantee Program," an item to reverse the September 1, 2017 increase in the Program multiplier 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, the SBOE voted to authorize the full 20% increase in the amount of charter district bonds that may be guaranteed for fiscal year 2018, which increases the relative capacity of the Charter District Bond Guarantee Program to the School District Bond Guarantee Program for that fiscal year.

Taking into account the enactment of SB 1480 and the increase in the CDBGP Capacity effected thereby, at 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 (to ensure compliance with State administrative law requirements, the rollback is expected to be 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 in September 2017, the SBOE authorized the PSF staff to begin the process of transferring the management of the Reserve Fund to the PSF, where it is expected to be held and invested as a non-commingled fund under the administration of the PSF staff. A target date in Spring 2018 has been established for that change in management of the Reserve Fund to become effective.

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 January 31, 2018, the Charter District Reserve Fund contained $4,729,390.

Potential Impact of Hurricane Harvey on the PSF

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

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. In early October, the TEA initiated programs designed to hold school districts and charter districts harmless for the loss of State funding associated with declines in average daily attendance for the remainder of fiscal year 2018. In the past, storm damage has caused multiple year impacts to affected schools with respect to both attendance figures and tax base (for school districts), and the damage caused by Harvey could be well in excess of previous storm damage. TEA conducted a survey of districts affected by the hurricane with respect to the collection of fiscal year 2017 taxes. In general, tax revenues of affected districts appear to have increased for fiscal 2017, but at a somewhat lower rate than had been anticipated. It should be noted that most of the fiscal year 2017 taxes had been collected when the hurricane hit the Texas coast in late August. TEA has not conducted any surveys with respect to fiscal year 2018 taxes, but notes that as of late February 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.

Most school district and charter district bonds that are guaranteed by the PSF are fixed rate bonds that pay principal on an annual basis and interest on a semiannual basis, in February and August of each year. The hurricane hit the Texas coast after the August 2017 payment dates, so the first payment cycle that could have been affected by the storm was the February 2018 payment date. 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 January 31, 2018, the PSF had a book value of $32,415,438,326 and a market value of $43,741,388,620. January 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. Using the IRS Limit, which is the lower of the two federal and State capacity limits of Program capacity, of $117,318,653,038, at August 31, 2017 98.28% of Program capacity was available to the School District Bond Guarantee Program and 1.72% was available to the Charter District Bond Guarantee Program.

Permanent School Fund Guaranteed Bonds by Category[1]

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

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[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 January 31, 2018 (based on unaudited data, which is subject to adjustment), there were $76,112,811,568 of bonds guaranteed under the Guarantee Program, representing 3,354 school district issues, aggregating $74,700,936,568 in principal amount and 43 charter district issues, aggregating $1,411,875,000 in principal amount. At January 31, 2018, the capacity allocation of the Charter District Bond Guarantee Program was $2,013,789,828 (based on the then effective capacity multiplier of 3.75 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 http://emma.msrb.org/IssueView/NonCUSIP9IssueDetails.aspx?id=ER355077 or by searching for "Texas Permanent School Fund Bond Guarantee Program" on EMMA.

Annual Reports

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

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

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

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

Material Event Notices

The TEA will also provide timely notices of certain events to the MSRB. Such notices will be provided not more than ten business days after the occurrence of the event. The TEA will provide notice of any of the following events with respect to the Guarantee Program: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if such event is material within the meaning of the federal securities laws; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax-exempt status of the Guarantee Program, or other material events affecting the tax status of the Guarantee Program; (7) modifications to rights of holders of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (8) bond calls, if such event is material within the meaning of the federal securities laws, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the Guarantee Program (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Guarantee Program in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Guarantee Program, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Guarantee

Program); (13) the consummation of a merger, consolidation, or acquisition involving the Guarantee Program or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) the appointment of a successor or additional trustee with respect to the Guarantee Program or the change of name of a trustee, if such event is material within the meaning of the federal securities laws. (Neither the Act nor any other law, regulation or instrument pertaining to the Guarantee Program make any provision with respect to the Guarantee Program for bond calls, debt service reserves, credit enhancement, liquidity enhancement, early redemption or the appointment of a trustee with respect to the Guarantee Program.) In addition, the TEA will provide timely notice of any failure by the TEA to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information

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

Limitations and Amendments

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

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

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

Compliance with Prior Undertakings

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

SEC Exemptive Relief

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

TAX RATE LIMITATIONS

A school district is authorized to levy maintenance and operation ("M&O") taxes subject to approval of a proposition submitted to district voters. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the succeeding paragraphs. The maximum voted M&O tax rate for the District is $1.50 per $100 of assessed valuation as approved by the voters at an election held on March 16, 1963 pursuant to Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended ("Article 2784e-1").

Article 2784e-1 limits the District's annual M&O tax rate based upon a comparison between the District's outstanding bonded indebtedness and the District's taxable assessed value per $100 of assessed valuation. Article 2784e-1 provides for a reduction of $0.10 for each one percent (1%) or major fraction thereof increase in bonded indebtedness beyond seven percent (7%) of assessed valuation of property in the District. This limitation is capped when the District's bonded indebtedness is ten percent (10%) (or greater) of the District's assessed valuation which would result in an annual M&O tax rate not to exceed $1.20. Lastly, the Texas Attorney General in reviewing the District's transcript of proceedings will allow the District to reduce the amount of its outstanding bonded indebtedness by the amount of funds (on a percentage basis) that the District receives in State assistance for the repayment of this bonded indebtedness (for example, if the District anticipates that it will pay 75% of its bonded indebtedness from State assistance, for the purposes of Article 2784e-1, the Texas Attorney General will assume that only 25% of the District's bonded indebtedness is outstanding and payable from local ad valorem taxes). The bonded indebtedness of the District after the issuance of the Bonds will be approximately 3.04% of the District's current taxable assessed valuation of property. See "APPENDIX A – Voted General Obligation Debt" herein.

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

A school district is also authorized to issue bonds and levy taxes for payment of bonds subject to voter approval of 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 "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS").

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

DEBT LIMITATIONS

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

EMPLOYEES' RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFITS

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. Aside from the District's contribution to TRS, the District has no pension fund expenditures or liabilities. For fiscal year ended June 30, 2017, the District made a contribution to TRS on a portion of its employees' salaries that exceeded the statutory minimum. The District generally does not offer any post-employment retirement benefits and has no liabilities for "Other Post Employment Retirement Benefits" as defined in GASB Statement No. 45. For a discussion of the TRS retirement plan, see "Note 4. Other Information - C. Defined Benefit Pension Plan" and "Note 4. Other Information - D. School District Retiree Health Plan" to the audited financial statements of the District that are attached hereto as Appendix D (the "Financial Statements").

During the year ended June 30, 2017, active employees of the District were covered by a fully-insured health insurance plan administered by TRS (the "Health Care Plan"). The District contributed $175 per month per employee to the Health Care Plan. Employees, at their option, authorize payroll withholdings to pay premiums for dependents. See "Note 4. OTHER INFORMATION - A. Risk Management - Health Care Coverage" of the Financial Statements.

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

RATINGS

The Bonds are rated "Aaa" by Moody's Investors Service, Inc. ("Moody's) and "AAA" by S&P Global Ratings, a division of Standard & Poors Financial Services, LLC ("S&P") based upon the guaranteed repayment thereof under the Permanent School Fund Guarantee Program of the TEA. The District's unenhanced, underlying ratings on its unlimited ad valorem tax-supported indebtedness, including the Bonds, are "Aa2" by Moody's and "AA" by S&P.

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

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

LEGAL MATTERS

The District will furnish the Underwriters with a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Initial Bonds are a valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel, in substantially the form 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. Bond Counsel was not requested to participate, and did not take part, in the preparation of this 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 statements and information contained in this Official Statement under the captions and sub-captions "THE BONDS," (except for the information under the subcaptions "Payment Record, and "Sources and Uses of Funds" as to which no opinion is expressed), "REGISTRATION, TRANSFER AND EXCHANGE" and "CONTINUING DISCLOSURE OF INFORMATION" (except for the information under the sub-caption "Compliance With Prior Undertakings," as to which no opinion is expressed), and Bond Counsel is of the opinion that the statements and information contained therein fairly and accurately reflect the provisions of the Bond Order; further, Bond Counsel has reviewed the statements and information contained in this Official Statement under the captions and sub-captions "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" "TAX RATE LIMITATIONS," "LEGAL MATTERS" (excluding the last two sentences of the first paragraph thereof), "TAX MATTERS," "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," and "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE," and Bond Counsel is of the opinion that the statements and information contained therein are correct as to matters of law. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of Bonds will be paid from proceeds of the Bonds and are contingent on the sale and delivery of the Bonds. Certain matters will be passed on for the Underwriters by Bracewell LLP, Houston, Texas. The fee of Bracewell LLP as counsel to the Underwriters, 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

Delivery of the Bonds is subject to the opinion of Andrews Kurth Kenyon LLP, Houston, Texas, Bond Counsel, that interest on the Bonds will be (1) excludable from gross income of the owners thereof for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (2) not includable in the alternative minimum taxable income of individuals or, except as described below, corporations.

For taxable years that began before January 1, 2018, interest on the Bonds owned by a corporation will be included in such corporation's adjusted current earnings for purposes of computing the alternative minimum tax on such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit, or a financial asset securitization investment trust. The alternative minimum tax on corporations has been repealed for taxable years beginning on or after January 1, 2018.

The foregoing opinions of Bond Counsel are based on the Code and the regulations, rulings and court decisions thereunder in existence on the date of issue of the Bonds. Such authorities are subject to change and any such change could prospectively or retroactively result in the inclusion of the interest on the Bonds in gross income of the owners thereof or change the treatment of such interest for purposes of computing alternative minimum taxable income.

In rendering its opinions, Bond Counsel has assumed continuing compliance by the District with certain covenants contained in the Bond Order and has relied on representations by the District with respect to matters solely within the knowledge of the District, which Bond Counsel has not independently verified. The covenants and representations relate to, among other things, the use of Bond proceeds and any facilities financed therewith, the source of repayment of the Bonds, the investment of Bond proceeds and certain other amounts prior to expenditure, and requirements that excess arbitrage earned on the investment of Bond proceeds and certain other amounts be paid periodically to the United States and that the District file an information report with the Internal Revenue Service. If the District should fail to comply with the covenants in the Bond Order or if its representations relating to the Bonds that are contained in the Bond Order should be determined to be inaccurate or incomplete, interest on the Bonds could become taxable from the date of delivery of the Bonds, regardless of the date on which the event causing such taxability occurs.

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

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the District described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the Service is likely to treat the District as the "taxpayer," and the owners of the Bonds may have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the District may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Under the Code, taxpayers are required to provide information on their returns regarding the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations, such as the Bonds, may result in collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with

Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who are deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations, and individuals otherwise eligible for the earned income tax credit. Such prospective purchasers should consult their tax advisors as to the consequences of investing in the Bonds.

Proposed Tax Legislation

Tax legislation, administrative actions taken by tax authorities, and court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or state income taxation, or otherwise prevent the beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. For example, future legislation to resolve certain federal budgetary issues may significantly reduce the benefit of, or otherwise affect, the exclusion from gross income for federal income tax purposes of interest on all state and local obligations, including the Bonds. In addition, such legislation or actions (whether currently proposed, proposed in the future or enacted) could affect the market price or marketability of the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and its impact on their individual situations, as to which Bond Counsel expresses no opinion.

Tax Accounting Treatment of Original Issue Discount Bonds

Some of the Bonds may be offered at an initial offering price which is less than the stated redemption price payable at maturity of such Bonds. If a substantial amount of any maturity of the Bonds is sold to members of the public (which for this purpose excludes bond houses, brokers and similar persons or entities acting in the capacity of wholesalers or underwriters) at such initial offering price, each of the Bonds of that maturity (the "Discount Bond") will be considered to have "original issue discount" for federal income tax purposes equal to the difference between (a) the stated redemption price payable at the maturity of such Discount Bond and (b) the initial offering price to the public of such Discount Bond. Under existing law, such original issue discount will be treated for federal income tax purposes as additional interest on a Bond and such initial owner will be entitled to exclude from gross income for federal income tax purposes that portion of such original issue discount deemed to be earned (as discussed below) during the period while such Discount Bond continues to be owned by such initial owner. Except as otherwise provided herein, the discussion regarding interest on the Bond under the caption "TAX MATTERS - Tax Exemption" generally applies to original issue discount deemed to be earned on a Discount Bond while held by an owner who has purchased such Bond at the initial offering price in the initial public offering of the Bonds and that discussion should be considered in connection with this portion of the Official Statement.

In the event of a redemption, sale, or other taxable disposition of a Discount Bond prior to its stated maturity, however, any amount realized by such initial owner in excess of the basis of such Discount Bond in the hands of such owner (increased to reflect the portion of the original issue discount deemed to have been earned while such Discount Bond continues to be held by such initial owner) will be includable in gross income for federal income tax purposes.

Because original issue discount on a Discount Bond will be treated for federal income tax purposes as interest on a Bond, such original issue discount must be taken into account for certain federal income tax purposes as it is deemed to be earned even though there will not be a corresponding cash payment. Corporations that purchase a Discount Bond must take into account original issue discount as it is deemed to be earned for purposes of determining alternative minimum tax. Other owners of a Discount Bond may be required to take into account such original issue discount as it is deemed to be earned for purposes of determining certain collateral federal tax consequences of owning a Bond. See "TAX MATTERS - Tax Exemption" for a discussion regarding the alternative minimum taxable income consequences for corporations and for a reference to collateral federal tax consequences for certain other owners.

Characterization of original issue discount as interest is for federal income tax purposes only and does not otherwise affect the rights or obligations of the owner of a Discount Bond or of the District. The portion of the principal of a Discount Bond representing original issue discount is payable upon the maturity or earlier redemption of such Bond to the registered owner of the Discount Bond at that time.

Under special tax accounting rules prescribed by existing law, a portion of the original issue discount on each Discount Bond is deemed to be earned each day. The portion of the original issue discount deemed to be earned each day is determined under an actuarial method of accrual, using the yield to maturity as the constant interest rate and semi-annual compounding.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Discount Bonds by an owner that did not purchase such Bonds in the initial public offering and at the initial offering price may be determined according to rules which differ from those described above. All prospective purchasers of Discount Bonds should consult their tax advisors with respect to the determination for federal, state and local income tax purposes of interest and original issue discount accrued upon redemption, sale or other disposition of such 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 Discount Bonds.

Tax Accounting Treatment of Original Issue Premium Bonds

Some of the Bonds may be offered at an initial offering price which exceeds the stated redemption price payable at the maturity of such Bonds. If a substantial amount of any maturity of the Bonds is sold to members of the public (which for this purpose excludes bond houses, brokers and similar persons or entities acting in the capacity of wholesalers or underwriters) at such initial offering price, each of the Bonds of such maturity (the "Premium Bond") will be considered for federal income tax purposes to have "bond premium" equal to such excess. The basis for federal income tax purposes of a Premium Bond in the hands of an initial purchaser who purchases such Bond in the initial offering must be reduced each year and upon the sale or other taxable disposition of the Bond by the amount of amortizable bond premium. This reduction in basis will increase the amount of any gain (or decrease the amount of any loss) recognized for federal income tax purposes upon the sale or other taxable disposition of a Premium Bond by the initial purchaser. Generally, no corresponding deduction is allowed for federal income tax purposes, for the reduction in basis resulting from amortizable bond premium with respect to the Premium Bonds. The amount of bond premium on a Premium Bond which is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined under special tax accounting rules which use a constant yield throughout the term of the Premium Bond based on the initial purchaser's original basis in such Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition by an owner of Bonds that are not purchased in the initial offering or which are purchased at a price other than the initial offering price for the Bonds of the same maturity may be determined according to rules which differ from those described above. Moreover, all prospective purchasers of Bonds should consult their tax advisors with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of Premium Bonds.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code, as amended) provides that the Bonds are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended, requires that the Bonds be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency. See "RATINGS" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least $1 million of capital, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

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

INVESTMENT POLICIES

Investments

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

Legal Investments

Under State law, the District is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations 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) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor, (8) interest-bearing banking deposits other than those described in (7) if (a) the funds are invested by the District through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the District as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the District; (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in the banking deposits 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 banking deposits is insured by the United States or an instrumentality of the United States, and (d) the District appoints as custodian of the banking deposits the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating 34 pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3), (9) certificates of deposit and share certificates (i) issued by or through an institution that either has its main office or a branch office in the State of Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Insurance Fund, or are secured as to principal by obligations described in the clauses (1) through (6) or in any other manner and amount provided by law for City deposits, or (ii) where (a) the funds are invested by the District through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the District as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the District; (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating 34 pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit; (10) 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; (11) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (13) through (15) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less, (12) certain bankers' acceptances with the remaining term of 270 days or less, if the shortterm obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (13) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (14) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that comply with federal Securities and Exchange Commission Rule 2a-7, and (15) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, and have a duration of one year or more and are invested exclusively in obligations described in this paragraph or have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts subject to the limitations set forth in Chapter 2256, Texas Government Code, as amended.

In addition to authorized investments described above, the Texas law provides that the District may invest in corporate bonds that, at the time of purchase, are rated by a nationally recognized investment rating firm "AA-" or the equivalent and have a stated final maturity that is not later than the third anniversary of the date the corporate bonds were purchased. As used herein, corporate bond means a senior secured debt obligation issued by a domestic business entity and rated not lower than "AA-" or the equivalent by a nationally recognized investment rating firm, and does not include unsecured debt obligations or debt obligations that, on conversion, would result in the holder becoming a stockholder or shareholder in the entity that issued the debt obligation. The District may not (1) invest in the aggregate more than 15% of its monthly average fund balance, excluding 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 of the entity. The investment officer of the District must sell any corporate bonds not later than seven days after a nationally recognized investment rating firm (1) issues a release that places the corporate bonds or the entity that issued the corporate bonds on negative credit watch or the equivalent, if the corporate bonds are rated "AA-" or the equivalent at the time the release is issued; or (2) changes the rating on the corporate bonds to a rating lower than "AA-" or the equivalent. The District may invest its funds in corporate bonds only if the Board of Trustees of the District (1) amends its investment policy to authorize corporate bonds as an eligible investment, (2) adopts procedures to provide for the monitoring of rating changes in corporate bonds and liquidating the investment in corporate bonds and (3) identifies the funds eligible to be invested in corporate bonds.

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

Under Texas law, the District may 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 has not contracted with, and has no present intention of contracting with, any such investment management firm or the State Securities Board to provide such services.

Investment Policies

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for District funds, maximum allowable stated maturity of any individual investment owned by the District, 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 Texas 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, the 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.

Additional Provisions

Under Texas law, the District is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution, (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the Board of Trustees; (4) require the qualified representative of firms offering to engage in an investment transaction with the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the District and the business organization that are not authorized by the District's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the District's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the District and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the District's investment policy; (6) provide specific investment training for the 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 January 31, 2018, the District had approximately $12,970 (unaudited) invested in government investment pools that generally have the characteristics of a money-market mutual fund; $39,763,305 (unaudited) invested in U.S. Agency Securities and municipal bonds; $481,744 (unaudited) invested in bank certificates of deposit; and $1,270,187 (unaudited) invested at a local bank. The market value of such investments (as determined by the District by reference to published quotations, dealer bids, and comparable information) is approximately 100% of the book value. No funds of the District are invested in derivative securities, i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

No registration statement relating to the Bonds has been filed with the United States Securities and Exchange Commission under the 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 United States Securities and Exchange Commission, nor has the United States 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.

FINANCIAL ADVISOR

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

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

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Order, the District has made the following agreement for the benefit of the holders and Beneficial Owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board ("MSRB"). For a description of the continuing disclosure Bonds of the TEA, see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM." The information provided to the MSRB will be available to the public free of charge via the electronic EMMA) system at www.emma.msrb.org.

Annual Reports

The District will provide certain updated financial information and operating data annually to the MSRB. The information to be updated includes financial information and operating data with respect to the District of the general type included in this Official Statement in Appendix A (such information being the "Annual Operating Report"). The District will additionally provide financial statements of the District (the "Financial Statements"), that will be (i) 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 and shall be in substantially the form included in Appendix D and (ii) audited, if the District commissions an audit of such Financial Statements and the audit is completed within the period during which they must be provided. The District will update and provide the Annual Operating Report within six months after the end of each fiscal year and the Financial Statements within 6 months of the end of each fiscal year, in each case beginning with the fiscal year ending in and after 2018. The District may provide the Financial Statements earlier, including at the time it provides its Annual Operating Report, but if the audit of such Financial Statements is not complete within 6 months after any such fiscal year end, then the District shall file unaudited Financial Statements within such 6-month period and audited Financial Statements for the applicable fiscal year, when and if the audit report on such Financial Statements becomes available.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule").

The District's current fiscal year end is June 30. Accordingly, the Annual Operating Report and the Financial Statements must be provided by the last day of December in each year unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Notice of Certain Events

The District will also provide timely notices of certain events to the MSRB. The District will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (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, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District 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) appointment of a successor or additional trustee or the change of name of a trustee, if material. In addition, the District will provide timely notice of any failure by the District to provide annual financial information in accordance with their agreement described above under "Annual Reports". Neither the Bonds nor the Bond Order make any provision for debt service reserves, credit enhancement (except for the Permanent School Fund guarantee), or liquidity enhancement. The District will provide each notice described in this paragraph to the MSRB.

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

Availability of Information

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

Limitations and Amendments

The District has agreed to update information and to provide notices of 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 has been provided except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if, but only if, (1) the agreement, as so amended, would have permitted Underwriters to purchase or sell Bonds in the initial primary offering 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 holders of a majority in aggregate principal amount of the outstanding Bonds consent or (b) any qualified person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. If the District amends its agreement, it has agreed to include with the financial information and operating data next provided, in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and operating data so provided.

Compliance with Prior Undertakings

During the past five years, the District has complied in all material respects with its continuing disclosure agreements made by it in accordance with the Rule. For the fiscal year ended June 30, 2017, the District’s timely filed audited financial statements were restated on January 25, 2018 to account for a property tax refund. See “Comparative Statement of General Fund Revenues and Expenditures” and “Changes in Net Revenues” in APPENDIX A and “Note 7” in APPENDIX D.

LITIGATION

In the opinion of District officials, the District is not a party to any litigation or other proceeding pending or to their 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 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 except as disclosed in the Official Statement, 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 the Bonds.

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.

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 hereof, less an Underwriters’ discount of $_______, plus accrued interest on the Bonds from the Dated Date to the date of the closing. The Underwriters’ obligations are subject to certain conditions precedent, and the Underwriters 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 pursuant to its responsibilities to investors under the federal securities laws but the Underwriters do not guarantee the accuracy or completeness of such information.

CONCLUDING STATEMENT

No 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. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer of solicitation.

The information set forth herein has been obtained from the District's records, audited financial statements and other sources which the District considers 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 Bond Order contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and the Bond Order. These summaries do not purport to be complete statements of such provisions and reference is made to such summarized documents for further information. Reference is made to official documents in all respects.

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

The Bond Order authorized the issuance of the Bonds and approved the form and content of this Official Statement and any addenda, supplement or amendment thereto and authorize its further use in the re-offering of the Bonds by the Underwriters.

This Official Statement has been approved by the Board for distribution in accordance with the provisions of the SEC's rule codified at 17 C.F.R. Section 240.15c2-12, as amended.

/s/

President, Board of Trustees

ATTEST:

/s/

Secretary, Board of Trustees

APPENDIX A

FINANCIAL INFORMATION OF THE DISTRICT

BARBERS HILL INDEPENDENT SCHOOL DISTRICT

Financial Information

ASSESSED VALUATION (1)

2017/18 Total Valuation		$ 9,918,487,673
Less Exemptions & Deductions (2):		
State Homestead Exemption	$ 131,299,010	
State Over-65 Exemption	12,529,240	
Disabled Homestead Exemption	5,065,870	
Local Over-65 Exemption	142,511,350	
Local Homestead Exemption	249,508,120	
Veterans Exemption	832,800	
Freeport Exemptions	133,741,105	
Pollution Exemption	104,578,771	
Productivity Loss	168,676,430	
Homestead Cap Loss	77,393,860	
	$ 1,026,136,556	
2017/18 Net Taxable Valuation		$ 8,892,351,117

(1) Source: Comptroller of Public Accounts - Property Tax Division. The tax roll figures used in Appendix A represent the tax roll on which the District levies to fund the interest and sinking fund of the District for the payment of debt service on its unlimited tax-supported bonds (the "I&S" tax). Due to the Limitation Agreements described under "THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT" in the Official Statement, the District has a bifurcated tax roll where abated amounts are not taxed for purposes of the District's M&O tax levy, but are taxed for purposes of the I&S tax. The 2017/18 tax roll for the District's M&O tax levy is $4,450,154,675.
(2) Excludes the values on which property taxes are frozen for persons 65 years of age or older and disabled taxpayers which totaled $15,305,346 for 2017/18.

VOTED GENERAL OBLIGATION DEBT

Unlimited Tax Bonds Outstanding		$ 224,325,000
Plus: The Bonds (1)		56,000,000
Total Unlimited Tax Bonds (1)		280,325,000
Less: Interest & Sinking Fund Balance (As of June 30, 2017) (2)		(9,675,404)
Net General Obligation Debt		$ 270,649,596
Ratio of Net G.O. Debt to Net Taxable Valuation (3)	3.04%	
2018 Population Estimate	19,549	
Per Capita Net Taxable Valuation	$454,875	
Per Capita Net G.O. Debt	$13,845	

(1) Preliminary, subject to change.
(2) Barbers Hill ISD Audited Financial Statements.
(3) See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement, "DEBT SERVICE REQUIREMENTS" in this Appendix and see the "Audited Financial Report Fiscal Year Ended June 30, 2017" in Appendix D for more information relative to the District's obligations. The ratio is calculated using the tax roll value used for the levy of the District's I&S tax.

PROPERTY TAX RATES AND COLLECTIONS

Fiscal Year	Net Taxable Valuation (1)	Tax Rate	% Collections (4) Current (5)	% Collections (4) Total (5)
2006/07	$ 2,787,057,320 (2)	$ 1.6199 (6)	97.74%	100.26%
2007/08	2,900,935,170 (2)	1.3299 (6)	96.60%	99.09%
2008/09	3,249,747,280 (2)	1.3299	96.80%	99.83%
2009/10	2,874,386,720 (2)	1.3299	98.58%	102.57%
2010/11	2,793,938,060 (2)	1.3299	99.01%	100.38%
2011/12	3,266,657,573 (2)	1.3298	98.91%	99.80%
2012/13	4,087,200,674 (2)	1.3298	99.39%	100.32%
2013/14	4,394,611,854 (2)	1.3298	98.67%	99.63%
2014/15	5,796,747,171 (2)	1.3298	98.95%	100.03%
2015/16	6,507,943,390 (2)(3)	1.3298	99.41%	100.70%
2016/17	7,222,124,757 (2)(3)	1.3298	98.01%	102.04%
2017/18	8,892,351,117 (2)(3)	1.3298	(Collection in Process)	

(1) Beginning with the 2012 tax year, the District has a bifurcated tax roll. The figures shown in the table are the tax roll values used for the levy of the District's I&S tax.
(2) Source: Comptroller of Public Accounts - Property Tax Division.
(3) The passage of a Texas constitutional amendment on November 3, 2015 election increased the homestead exemption from $15,000 to $25,000.
(4) Source: Barbers Hill ISD Audited Financial Statements.
(5) Excludes penalties and interest.
(6) The declines in the District's Maintenance & Operation Tax for the 2006/07 and 2007/08 fiscal years are a function of House Bill 1 adopted by the Texas Legislature in May 2006. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement.

TAX RATE DISTRIBUTION (1)

	2013/14	2014/15	2015/16	2016/17	2017/18
Maintenance & Operations	$1.0600	$1.0600	$1.0600	$1.0600	$1.0600
Debt Service	$0.2698	$0.2698	$0.2698	$0.2698	$0.2698
Total Tax Rate	$1.3298	$1.3298	$1.3298	$1.3298	$1.3298

(1) On October 11, 2008 the District successfully held a tax ratification election.

VALUATION AND FUNDED DEBT HISTORY

Fiscal Year	Net Taxable Valuation	Bond Debt Outstanding (1)	Ratio Debt to A.V. (2)
2006/07	$ 2,787,057,320	$ 110,508,771	3.97%
2007/08	2,900,935,170	108,093,771	3.73%
2008/09	3,249,747,280	105,838,771	3.26%
2009/10	2,874,386,720	102,593,771	3.57%
2010/11	2,793,938,060	108,558,771	3.89%
2011/12	3,266,657,573	177,338,771	5.43%
2012/13	4,087,200,674	172,053,771	4.21%
2013/14	4,394,611,854	208,798,771	4.75%
2014/15	5,796,747,171	199,630,000	3.44%
2015/16	6,507,943,390	204,100,000	3.14%
2016/17	7,222,124,757	237,840,000	3.29%
2017/18	8,892,351,117 (3)	280,325,000 (4)	3.15%

(1) The Bonds are illustrated on the State of Texas fiscal year end of August 31st, although the District's fiscal year ends June 30th.
(2) See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement, "DEBT SERVICE REQUIREMENTS" in this Appendix and see the "Audited Financial Report Fiscal Year Ended June 30, 2017" in Appendix D for more information.
(3) Beginning with the 2012 tax year, the District has a bifurcated tax roll. The figures shown in the table are the tax roll values used for the levy of the District's I&S tax. The 2017/18 tax roll for the District's M&O tax levy is $4,450,154,675.
(4) Includes the Bonds. Preliminary, subject to change.

ESTIMATED OVERLAPPING DEBT STATEMENT

Taxing Body	Amount	Percent Overlapping	Amount Overlapping
Chambers County	$ 23,265,000	90.32%	$ 21,012,948
Chambers County Improvement District #1	74,290,000	2.22%	1,649,238
Mont Belvieu, City of	59,240,000	100.00%	59,240,000
Total Overlapping Debt (1)			$ 81,902,186
Barbers Hill Independent School District (2)			270,649,596
Total Direct & Overlapping Debt			$ 352,551,782

Ratio of Net Direct & Overlapping Debt to Net Taxable Valuation	3.96%
Per Capita Direct & Overlapping Debt	$18,034

(1) Equals gross debt less self-supporting debt.
(2) Includes the Bonds. Preliminary, subject to change.

Source: Municipal Advisory Council of Texas. The District has not independently verified the accuracy or completeness of such information (except for the amounts relating to the District), and no person should rely upon such information as being accurate or complete.

PRINCIPAL TAXPAYERS [1]

2017/18 Top Ten Taxpayers

Name of Taxpayer	Type of Business		Taxable Value	% of Net Valuation
Enterprise Prod. Operating LP	Petro Chemical Processing/Fractionator	$	2,838,149,731	31.92%
Lone Star NGL Mt Belvieu LP	Petro Chemical Stored Inventory		1,219,509,937	13.71%
Exxon Mobil Corp	Petro Chemical Polyethylene Manufacturing Facility		721,677,750	8.12%
Cedar Bayou Fractionators LP	Petro Chemical Processing/Fractionator		543,348,361	6.11%
Oneok Hydrocarbon, LP	Petro Chemical Processing/Fractionator		475,723,362	5.35%
J Aron & Company	Underground Petro Chemical Storage		131,957,280	1.48%
Equistar Chemicals LP	Underground Petro Chemical Storage/Pipeline		114,946,523	1.29%
Belvieu Enviromental Fuels	Petro Chemical Processing/Fractionator		106,872,523	1.20%
Phillips 66 Co	Petro Chemical Processing/Fractionator		98,249,793	1.10%
Targa Downstream LP	Underground Petro Chemical Storage/Pipeline		97,348,347	1.09%
		$	6,347,783,607	71.38%

2016/17 Top Ten Taxpayers

Name of Taxpayer	Type of Business		Taxable Value	% of Net Valuation
Enterprise Prod. Operating LP	Petro Chemical Processing/Fractionator	$	2,243,416,286	31.06%
Lone Star NGL Mt Belvieu LP	Petro Chemical Stored Inventory		995,697,972	13.79%
Cedar Bayou Fractionators LP	Petro Chemical Processing/Fractionator		500,141,088	6.93%
Oneok Hydrocarbon, LP	Petro Chemical Processing/Fractionator		486,573,962	6.74%
Exxon Mobil Corp	Petro Chemical Polyethylene Manufacturing Facility		471,852,215	6.53%
J Aron & Company	Underground Petro Chemical Storage		118,957,606	1.65%
Equistar Chemicals LP	Underground Petro Chemical Storage/Pipeline		105,499,357	1.46%
Phillips 66 Co	Petro Chemical Processing/Fractionator		94,463,920	1.31%
MTBV Caverns LLC	Petro Chemical Stored Inventory		88,739,317	1.23%
Marathon Petroleum LLC	Petro Chemical Stored Inventory		70,250,593	0.97%
		$	5,175,592,316	71.66%

2015/16 Top Ten Taxpayers

Name of Taxpayer	Type of Business		Taxable Value	% of Net Valuation
Enterprise Prod. Operating LP	Petro Chemical Processing/Fractionator	$	1,837,299,456	28.23%
Lone Star Ngl Mt Belvieu LP	Petro Chemical Stored Inventory		682,482,549	10.49%
Exxon Mobil Corp	Petro Chemical Polyethylene Manufacturing Facility		494,326,277	7.60%
Oneok Hydrocarbon, LP	Petro Chemical Processing/Fractionator		492,122,794	7.56%
Cedar Bayou Fractionators LP	Petro Chemical Processing/Fractionator		332,787,500	5.11%
Drillmec Inc. [2]	Petro Chemical Drilling Rigs		150,000,000	2.30%
Equistar Chemicals LP	Underground Petro Chemical Storage/Pipeline		143,722,651	2.21%
Chevron Phillips Chemical Co	Petro Chemical Stored Inventory		98,202,885	1.51%
MTBV Caverns LLC	Petro Chemical Stored Inventory		93,016,688	1.43%
Phillips 66 Co	Petro Chemical Processing/Fractionator		91,355,731	1.40%
		$	4,415,316,531	67.85%

(1) Source: Comptroller of Public Accounts - Property Tax Division and the Municipal Advisory Council of Texas.
Note: As shown in the tables above, the top ten taxpayers in the District currently account for approximately 71% of the District's tax base, with such property associated with the natural gas or other chemicals stored in the Barbers Hill Salt Dome formation that lies beneath the District or the industrial properties of the companies that operate chemical plants, pipelines and other infrastructure relating to petrochemical industry. Adverse developments in economic conditions, especially in the natural gas refining industry, could adversely impact the businesses that own properties in the District or that store chemicals in the salt domes, and the tax values in the District, resulting in less local tax revenue. Additionally, fluctuations in inventory of individual taxpayers and prices in the general industry could significantly impact the taxable assessed value of the District if any major taxpayer were to default in the payment of taxes, the ability of the District to make timely payment of debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax lien, which is a time-consuming process, or, perhaps, to sell tax anticipation notes until such amounts could be collected, if ever. See "REGISTERED OWNERS' REMEDIES" and AD VALOREM TAX PROCEDURES - District's Rights in the Event of Tax Delinquencies" in the Official Statement.

(2) Drillmec entered the Top Ten Taxpayers in 2015/16 and was not in the Top Ten Taxpayers for 2016/17. The two drilling rigs came into the District for 2015/16, however one is now out of the District, and the other was transferred to Tamaulipas Modular Rigs S.A. Drillmec protested the value of $150 million listed above. The suit was dismissed by the courts and Drillmec paid their 2015/16 taxes in full during the 2016/17 fiscal year of the District.

CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY [1]

Category	2017/18	% of Total	2016/17	% of Total	2015/16	% of Total
Real, Residential, Single-Family	$ 1,537,303,940	15.50%	$ 1,253,642,600	15.86%	$ 1,157,210,400	16.14%
Real, Residential, Multi-Family	10,689,940	0.11%	10,337,800	0.13%	8,168,500	0.11%
Real, Vacant Lots/Tracts	33,339,970	0.34%	28,641,230	0.36%	30,334,300	0.42%
Real, Acreage	172,698,990	1.74%	89,999,770	1.14%	96,101,060	1.34%
Real, Farm & Ranch Improvements	109,390,180	1.10%	100,313,110	1.27%	90,358,590	1.26%
Real, Commercial & Industrial	6,555,567,050	66.09%	5,272,069,719	66.70%	4,244,851,487	59.22%
Oil & Gas	9,780,506	0.10%	10,330,075	0.13%	22,445,623	0.31%
Utilities	116,843,822	1.18%	112,058,188	1.42%	107,052,107	1.49%
Tangible Personal, Commercial & Industrial	1,356,786,045	13.68%	1,016,619,773	12.86%	1,400,888,372	19.54%
Tangible Personal, Mobile Homes & Other	3,418,490	0.03%	3,158,050	0.04%	3,401,170	0.05%
Tangible Personal, Residential Inventory	8,215,550	0.08%	1,950,670	0.02%	1,740,900	0.02%
Tangible Personal, Special Inventory	4,453,190	0.04%	5,051,090	0.06%	5,076,350	0.07%
Total Appraised Value	$ 9,918,487,673	100.00%	$ 7,904,172,075	100.00%	$ 7,167,628,859	100.00%
Less:						
Homestead Cap Adjustment	$ 77,393,860		$ 8,117,830		$ 4,873,780	
Productivity Loss	168,676,430		86,685,430		93,317,720	
Exemptions	780,066,266 [2]		587,244,058 [2]		561,493,969 [2]	
Total Exemptions/Deductions [3]	$ 1,026,136,556		$ 682,047,318		$ 659,685,469	
Net Taxable Assessed Valuation	$ 8,892,351,117		$ 7,222,124,757		$ 6,507,943,390	

Category	2014/15	% of Total	2013/14	% of Total	2012/13	% of Total
Real, Residential, Single-Family	$ 1,101,618,000	17.17%	$ 948,930,280	19.30%	$ 915,774,230	18.45%
Real, Residential, Multi-Family	8,169,720	0.13%	8,266,530	0.17%	8,516,580	0.17%
Real, Vacant Lots/Tracts	28,231,920	0.44%	27,793,030	0.57%	29,086,360	0.59%
Real, Acreage	97,124,300	1.51%	62,722,650	1.28%	112,593,370	2.27%
Real, Farm & Ranch Improvements	98,664,950	1.54%	63,233,040	1.29%	11,659,950	0.23%
Real, Commercial & Industrial	3,481,980,609	54.28%	2,468,840,473	50.20%	1,730,235,111	34.86%
Oil & Gas	60,375,469	0.94%	52,834,757	1.07%	52,827,260	1.06%
Utilities	89,885,877	1.40%	72,570,222	1.48%	74,729,120	1.51%
Tangible Personal, Commercial & Industrial	1,439,645,257	22.44%	1,206,490,941	24.53%	2,020,211,984	40.70%
Tangible Personal, Mobile Homes & Other	3,189,670	0.05%	3,188,510	0.06%	3,324,140	0.07%
Tangible Personal, Residential Inventory	3,240,980	0.05%	1,015,450	0.02%	2,381,960	0.05%
Tangible Personal, Special Inventory	3,219,100	0.05%	2,012,370	0.04%	1,952,640	0.04%
Total Appraised Value	$ 6,415,345,852	100.00%	$ 4,917,898,253	100.00%	$ 4,963,292,705	100.00%
Less:						
Homestead Cap Adjustment	$ 21,821,270		$ 1,696,220		$ 2,069,130	
Productivity Loss	94,611,470		60,444,400		63,231,890	
Exemptions	502,165,941		461,145,779		810,791,011	
Total Exemptions/Deductions [3]	$ 618,598,681		$ 523,286,399		$ 876,092,031	
Net Taxable Assessed Valuation	$ 5,796,747,171		$ 4,394,611,854		$ 4,087,200,674	

(1) Source: Comptroller of Public Accounts - Property Tax Division.
(2) The passage of a Texas Constitutional Amendment on November 3, 2015 increased homestead exemption from $15,000 to $25,000.
(3) Excludes values on which property taxes are frozen for persons 65 years of age or older and disabled taxpayers.

PRINCIPAL REPAYMENT SCHEDULE [1]

Fiscal Year Ending 8/31	Outstanding Bonds [2]	Plus: The Bonds [3]	Total [2] [3]	Bonds Unpaid At Year End	Percent of Principal Retired
2018	$ 13,515,000.00	$ -	$ 13,515,000.00	$ 280,325,000.00	4.60%
2019	12,930,000.00	750,000.00	13,680,000.00	266,645,000.00	9.26%
2020	13,645,000.00	1,155,000.00	14,800,000.00	251,845,000.00	14.29%
2021	13,245,000.00	2,225,000.00	15,470,000.00	236,375,000.00	19.56%
2022	13,955,000.00	2,665,000.00	16,620,000.00	219,755,000.00	25.21%
2023	13,695,000.00	2,550,000.00	16,245,000.00	203,510,000.00	30.74%
2024	13,885,000.00	540,000.00	14,425,000.00	189,085,000.00	35.65%
2025	13,810,000.00	200,000.00	14,010,000.00	175,075,000.00	40.42%
2026	11,155,000.00	2,875,000.00	14,030,000.00	161,045,000.00	45.19%
2027	11,115,000.00	2,700,000.00	13,815,000.00	147,230,000.00	49.89%
2028	9,795,000.00	3,990,000.00	13,785,000.00	133,445,000.00	54.59%
2029	10,170,000.00	2,065,000.00	12,235,000.00	121,210,000.00	58.75%
2030	9,260,000.00	3,130,000.00	12,390,000.00	108,820,000.00	62.97%
2031	9,030,000.00	3,870,000.00	12,900,000.00	95,920,000.00	67.36%
2032	8,915,000.00	4,045,000.00	12,960,000.00	82,960,000.00	71.77%
2033	9,155,000.00	4,365,000.00	13,520,000.00	69,440,000.00	76.37%
2034	9,210,000.00	2,940,000.00	12,150,000.00	57,290,000.00	80.50%
2035	9,485,000.00	3,255,000.00	12,740,000.00	44,550,000.00	84.84%
2036	9,535,000.00	3,330,000.00	12,865,000.00	31,685,000.00	89.22%
2037	8,490,000.00	4,710,000.00	13,200,000.00	18,485,000.00	93.71%
2038	2,525,000.00	4,640,000.00	7,165,000.00	11,320,000.00	96.15%
2039	2,655,000.00		2,655,000.00	8,665,000.00	97.05%
2040	2,775,000.00		2,775,000.00	5,890,000.00	98.00%
2041	2,885,000.00		2,885,000.00	3,005,000.00	98.98%
2042	3,005,000.00		3,005,000.00	-	100.00%
Total	$ 237,840,000.00	$ 56,000,000.00	$ 293,840,000.00		

(1) The Bonds are illustrated on the State of Texas fiscal year end of August 31st, although the District's fiscal year ends June 30th.
(2) Includes annual mandatory principal and sinking fund payments on the outstanding Qualified School Construction Bonds.
(3) Preliminary, subject to change.

DEBT SERVICE REQUIREMENTS [1]

Fiscal Year Ending 8/31	Outstanding Debt Service	Plus: The Bonds [2] Principal	Interest	Total	Combined Total [2] [3]
2018	$ 23,378,427.17	$ -	$ 741,543.44	$ 741,543.44	$ 24,119,970.61
2019	22,114,523.00	750,000.00	1,984,706.26	2,734,706.26	24,849,229.26
2020	22,262,441.75	1,155,000.00	1,965,656.26	3,120,656.26	25,383,098.01
2021	21,291,835.50	2,225,000.00	1,931,856.26	4,156,856.26	25,448,691.76
2022	21,438,991.75	2,665,000.00	1,874,628.13	4,539,628.13	25,978,619.88
2023	20,629,485.50	2,550,000.00	1,801,400.00	4,351,400.00	24,980,885.50
2024	20,278,166.75	540,000.00	1,755,050.00	2,295,050.00	22,573,216.75
2025	19,660,635.50	200,000.00	1,743,950.00	1,943,950.00	21,604,585.50
2026	16,509,323.00	2,875,000.00	1,697,825.00	4,572,825.00	21,082,148.00
2027	16,044,885.50	2,700,000.00	1,614,200.00	4,314,200.00	20,359,085.50
2028	14,340,460.50	3,990,000.00	1,513,850.00	5,503,850.00	19,844,310.50
2029	14,198,636.50	2,065,000.00	1,412,700.00	3,477,700.00	17,676,336.50
2030	12,769,762.50	3,130,000.00	1,308,800.00	4,438,800.00	17,208,562.50
2031	12,173,962.50	3,870,000.00	1,168,800.00	5,038,800.00	17,212,762.50
2032	11,696,900.00	4,045,000.00	1,010,500.00	5,055,500.00	16,752,400.00
2033	11,549,400.00	4,365,000.00	842,300.00	5,207,300.00	16,756,700.00
2034	11,192,587.50	2,940,000.00	696,200.00	3,636,200.00	14,828,787.50
2035	11,048,143.75	3,255,000.00	572,300.00	3,827,300.00	14,875,443.75
2036	10,688,200.00	3,330,000.00	440,600.00	3,770,600.00	14,458,800.00
2037	9,271,262.50	4,710,000.00	279,800.00	4,989,800.00	14,261,062.50
2038	3,067,475.00	4,640,000.00	92,800.00	4,732,800.00	7,800,275.00
2039	3,067,975.00				3,067,975.00
2040	3,066,100.00				3,066,100.00
2041	3,062,900.00				3,062,900.00
2042	3,065,100.00				3,065,100.00
	$ 337,867,581.17	$ 56,000,000.00	$ 26,449,465.35	$ 82,449,465.35	$ 420,317,046.52

(1) The Bonds are illustrated on the State of Texas fiscal year end of August 31st, although the District's fiscal year ends June 30th.
(2) Preliminary, subject to change.
(3) Based on its wealth per student, the District does not expect to receive any Instructional Facilities Allotment nor Existing Debt Allotment state financial assistance for debt service in 2017/18. The amount of state financial assistance for debt service, if any, may differ substantially each year depending on a variety of factors, including the amount, if any, appropriated for that purpose by the state legislature and a school district's wealth per student. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement.

TAX ADEQUACY WITH RESPECT TO THE DISTRICT'S BONDS

Projected Maximum Debt Service Requirement [1]	$ 25,978,619.88
Projected State Financial Assistance for Hold Harmless of Increased Homestead Exemption [2]	120,000.00
Projected Net Debt Service Requirement	$ 25,858,619.88
$0.29374 Tax Rate @ 99% Collections Produces	$ 25,859,188.25
2017/18 Net Taxable Assessed Valuation	$ 8,892,351,117

(1) Includes the Bonds. Preliminary, subject to change.
(2) The amount of state financial assistance for debt service, if any, may differ substantially each year depending on a variety of factors, including the amount, if any, appropriated for that purpose by the state legislature and a school district's wealth per student. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement. The District will not receive any Instructional Facilities Allotment nor Existing Debt Allotment state aid in 2017/18, but will receive additional state aid for the increase in the homestead exemption which took effect in 2016/17.

AUTHORIZED BUT UNISSUED BONDS

Following the issuance of the Bonds, the District will have $14,000,000 (preliminary, subject to change) authorized but unissued unlimited ad valorem tax bonds from the May 6, 2017 bond election. The District may incur other financial obligations payable from its collection of taxes and other sources of revenue, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes.

COMPARATIVE STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES (1) (2)

	Fiscal Year Ended June 30				
	2013	2014	2015	2016	2017 (3)
Beginning Fund Balance	**$ 29,515,289**	**$ 28,262,661**	**$ 28,452,590**	**$ 31,748,854**	**$ 33,250,509**
Revenues:					
Local and Intermediate Sources	$ 47,008,370	$ 48,516,470	$ 58,438,327	$ 64,262,426	$ 60,530,105
State Sources	4,316,138	7,623,622	4,627,671	4,041,633	14,086,523
Federal Sources & Other	274,823	253,044	254,968	255,518	362,782
Total Revenues	**$ 51,599,331**	**$ 56,393,136**	**$ 63,320,966**	**$ 68,559,577**	**$ 74,979,410**
Expenditures:					
Instruction	$ 24,983,351	$ 26,533,756	$ 28,281,975	$ 30,870,519	$ 31,967,767
Instructional Resources & Media Services	743,403	705,087	557,890	542,191	628,788
Curriculum & Instructional Staff Development	782,596	764,194	634,879	678,909	867,450
Instructional Leadership	230,236	244,066	249,755	256,746	267,761
School Leadership	2,615,598	2,667,757	3,025,867	3,266,990	3,268,096
Guidance, Counseling & Evaluation Services	1,258,852	1,362,424	1,525,932	1,685,843	1,847,792
Social Work Services	-	-	-	74,224	76,093
Health Services	581,619	600,590	801,507	780,980	750,410
Student (Pupil) Transportation	2,049,096	1,435,828	1,515,087	1,554,371	1,300,794
Cocurricular/Extracurricular Activities	1,657,506	1,813,356	1,885,445	2,045,690	2,418,653
General Administration	2,030,416	2,291,091	2,417,590	2,117,651	2,465,917
Plant Maintenance and Operations	5,660,123	5,812,310	6,581,596	6,667,112	6,584,232
Security and Monitoring Services	342,711	360,219	402,097	421,884	438,275
Data Processing Services	222,496	394,378	866,568	993,323	1,034,597
Community Services	29,985	28,384	33,366	31,399	32,229
Contracted Instructional Services	9,191,636	10,705,782	10,720,925	14,503,753	16,301,244
Payments to Juvenile Justice Alternative Programs	35,769	27,146	70,623	73,030	68,800
Other Intergovernmental Charges	436,566	456,839	453,600	493,307	475,464
Total Expenditures	**$ 52,851,959**	**$ 56,203,207**	**$ 60,024,702**	**$ 67,057,922**	**$ 70,794,362**
Excess (Deficiency) of Revenues					
over Expenditures	$ (1,252,628)	$ 189,929	$ 3,296,264	$ 1,501,655	$ 4,185,048
Other Resources and (Uses):					
Operating Transfers In	$ -	$ -	$ -	$ -	$ -
State Revenue Pursuant to Tax Refund	-	278,054	623,134	1,469,045	1,469,046
Tax Refund Pursuant to Texas Tax Code 313	-	(278,054)	(623,134)	(1,469,045)	(1,469,046)
Total Other Resources (Uses)	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Excess (Deficiency) of					
Revenues and Other Sources					
over Expenditures and Other Uses	$ (1,252,628)	$ 189,929	$ 3,296,264	$ 1,501,655	$ 4,185,048
Ending Fund Balance	**$ 28,262,661**	**$ 28,452,590**	**$ 31,748,854**	**$ 33,250,509**	**$ 37,435,557**

(1) See "MANAGEMENT'S DISCUSSION AND ANALYSIS - Economic Factors and Next Year's Budgets and Rates" in Appendix D hereto for a discussion of the 2017/18 budget and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Possible Effects of Wealth Transfer Provisions on the District's Financial Condition" in the Official Statement.
(2) On March 23, 2009, the Federal Emergency Management Agency (FEMA) provided the District with a $5,000,000 loan to assist in rebuilding after the Hurricane Ike natural disaster. The interest rate on the loan is 2.00%. In 2014, the maturity date of this loan was extended to April 27, 2019 and $1,730,501 in principal was forgiven. The District has designated a portion of its General Fund balance for payment of the remainder of this loan.
(3) Based on the District's audited financial statements for Fiscal Year Ended June 30, 2017, as restated on January 25, 2018. The District restated its FYE 2017 financial statements to account for a property tax refund and the resulting accrual of additional state revenue and corresponding reduction in expenditures related to recapture payments. See Note 7 in Appendix D.

CHANGE IN NET ASSETS [(1)]

	Fiscal Year Ended June 30				
	2013	2014	2015	2016	2017 [(4)]
Revenues:					
Program Revenues:					
Charges for Services	$ 2,258,210	$ 2,261,613	$ 2,375,583	$ 2,627,171	$ 3,002,237
Operating Grants and Contributions	3,667,601	4,062,387	3,754,122	6,059,457	4,798,360
Capital Grants and Contributions					
General Revenues:					
Property Taxes Levied for General Purposes	42,930,331	44,046,663	55,650,226	60,192,836	56,314,252
Property Taxes Levied for Debt Service	11,341,933	12,180,323	15,721,466	17,562,911	19,730,383
Grants and Contributions Not Restricted	2,717,625	6,133,371	2,826,096	2,033,094	11,951,127
Investment Earnings	259,909	581,242	791,239	1,284,757	367,955
County Available	-	-	122,666	1,242,195	-
County Equalization	-	1,623,499	1,835,507	1,866,730	2,020,122
Miscellaneous	3,454,953	287,426	208,092	1,292,365	373,961
Total Revenue	$ 66,630,562	$ 71,176,524	$ 83,284,997	$ 94,161,516	$ 98,558,397
Expenses:					
Instruction	$ 27,425,350	$ 31,642,814	$ 31,025,696	$ 38,831,349	$ 38,357,079
Instruction Resources & Media Services	929,765	829,416	713,004	689,426	797,110
Curriculum & Staff Development	813,304	781,567	656,596	719,710	956,442
Instructional Leadership	234,365	249,711	244,096	260,307	280,518
School Leadership	2,623,072	2,668,306	2,975,216	3,325,634	3,445,067
Guidance, Counseling & Evaluation Services	1,259,298	1,362,899	1,493,467	1,712,995	1,965,922
Social Work Services	-	-	-	75,985	76,759
Health Services	589,708	622,266	787,084	799,694	801,948
Student Transportation	1,855,850	1,649,716	1,698,923	2,092,600	1,786,161
Food Service	2,421,469	2,432,388	2,678,835	2,642,093	2,724,792
Cocurricular/Extracurricular Activities	2,144,983	2,478,245	2,335,646	2,831,477	3,346,098
General Administration	2,144,379	2,438,676	2,539,621	2,296,600	2,686,496
Plant Maintenance & Operations	6,550,524	7,020,038	7,671,584	7,525,017	5,341,568
Security and Monitoring Services	483,037	521,993	527,769	566,390	573,262
Data Processing Services	241,701	910,754	1,113,233	1,165,190	1,228,262
Community Services	29,985	35,984	38,329	46,705	33,189
Debt Service - Interest on Long-term Debt	7,176,690	5,532,706	7,210,083	7,147,249	7,196,106
Bond Issuance Cost and Fees	301,503	721,572	343,918	170,293	225,059
Facilities Repair and Maintenance	-	2,116,614	621,249	892,184	4,678,576
Contracted Instructional Services Between Schools	9,191,636	10,705,782	10,720,925	14,503,753	16,301,244
Payments to Juvenile Justice Alternative Ed. Program	35,769	27,146	70,623	73,030	68,800
Other Intergovernmental Activities	436,566	456,839	453,600	493,307	475,464
Total Expenditures	$ 66,888,954	$ 75,205,432	$ 75,919,497	$ 88,860,988	$ 93,345,922 -
Change in Net Assets	$ (258,392)	$ (4,028,908)	$ 7,365,500	$ 5,300,528	$ 5,212,475
Beginning Net Assets	$ 24,414,264	$ 22,293,653	$ 18,264,745	$ 18,411,118	$ 23,711,646
Prior Period Adjustment	$ (1,862,219) [(2)]	$ -	$ (7,219,127) [(3)]	$ -	$ -
Ending Net Assets	$ 22,293,653	$ 18,264,745	$ 18,411,118	$ 23,711,646	$ 28,924,121

(1) The foregoing information represents government-wide financial information provided in accordance with GASB 34, which the District adopted for the 2002 fiscal year.
(2) Prior Period Adjustment in FYE 2013 was from implementing GASB 65 for Bond Issuance Cost.
(3) Prior Period Adjustment in FYE 2015 was from implementing GASB 68 and 71 and adjusting for Tax Refunded Payable.
(4) Based on the District's audited financial statements for Fiscal Year Ended June 30, 2017, as restated on January 25, 2018. The District restated its FYE 2017 financial statements to account for a property tax refund and the resulting accrual of additional state revenue and corresponding reduction in expenditures related to recapture payments. See Note 7 in Appendix D.

APPENDIX B

GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY

BARBERS HILL INDEPENDENT SCHOOL DISTRICT
General and Economic Information

Barbers Hill Independent School District (the "District") is a petroleum producing area that includes the City of Mont Belvieu, a retail center located 28 miles east of the downtown Houston business district on I-10. Salt domes within the District are used by oil companies as chemical storage facilities. The District's current estimated population is 19,549. Chambers County was created in 1858 and is located in southeast Texas on Galveston Bay.

Source: Texas Municipal Reports for Barbers Hill ISD and Chambers County.

Enrollment Statistics

Year Ending 6/30	Enrollment
2007	3,549
2008	3,708
2009	3,901
2010	4,111
2011	4,201
2012	4,398
2013	4,533
2014	4,676
2015	4,902
2016	4,984
2017	5,224
Current	5,380

District Staff

Teachers	396
Auxiliary Personnel	157
Teachers' Aides & Secretaries	133
Administrators	39
Other	62
Total	787

Facilities

Campus	Grades	Present Enrollment	Capacity	Year Built	Year of Addition/ Renovation
Kindergarten Center	PK-K	415	660	1974	Multi, 2005
Primary School	1	392	735	1980	Multi, 2005, 2014
Elementary School North	2-5	801	1,500	2014	2014
Elementary School South	2-5	915	1,500	2006	2009, 2014
Middle School North	6-8	594	765	1968	Multi, 2011, 2014
Middle School South	6-8	711	705	1981	Multi, 2004, 2014
High School	9-12	1,552	1,980	2001	Multi, 2004, 2014

Principal Employers within the District

Name of Company	Type of Business	Number of Employees
Enterprise Products	Industrial	1,032
Chevron Cedar Bayou	Industrial	970
Barbers Hill ISD	Public Education	787
Exxon Mobil Chemicals	Industrial	512
Targa	Industrial	250
City of Mont Belvieu/Eagle Pointe	Government	187
Oneok	Industrial	118

Unemployment Rates

	January 2016	January 2017	January 2018
Chambers County	5.6%	7.6%	6.5%
State of Texas	4.5%	5.0%	4.2%

Source: Texas Workforce Commission

APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

ANDREWS KURTH

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Houston, Texas 77002
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+1.713.220.4285 Fax
andrewskurth.com

__________, 2018

WE HAVE ACTED as Bond Counsel for the Barbers Hill Independent School District (the "District") in connection with an issue of bonds (the "Bonds") described as follows:

> BARBERS HILL INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018, dated April 1, 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 "Order") adopted by the Board of Trustees of the District authorizing their issuance.

WE HAVE ACTED as Bond Counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income under federal income tax law. In such capacity we have examined the Constitution and laws of the State of Texas; federal income tax law; and a transcript of certain certified proceedings pertaining to the issuance of the Bonds, as described in the Order. The transcript contains certified copies of certain proceedings of the District; certain certifications and representations and other material facts within the knowledge and control of the District, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds. We have also examined executed Bond No. ICI-1 of this issue.

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. 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.

BASED ON SUCH EXAMINATION, it is our opinion as follows:

(1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect; the Bonds constitute valid and legally binding obligations of the District enforceable in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Bonds may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors of political subdivisions and the exercise of

judicial discretion in appropriate cases; and the Bonds have been authorized and delivered in accordance with law; and

(2) The Bonds are payable, both as to principal and interest, from the receipts of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property located within the District, which taxes have been pledged irrevocably to pay the principal of and interest on the Bonds.

BASED ON OUR EXAMINATION AS DESCRIBED ABOVE, it is further our opinion that, subject to the restrictions hereinafter described, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes under existing law and is not subject to the alternative minimum tax on individuals or, except as hereinafter described, corporations. The opinion set forth in the first sentence of this paragraph is subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted in the Order to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. The Code and the existing regulations, rulings and court decisions thereunder, upon which the foregoing opinions of Bond Counsel are based, are subject to change, which could prospectively or retroactively result in the inclusion of the interest on the Bonds in gross income of the owners thereof for federal income tax purposes.

INTEREST ON the Bonds owned by a corporation (other than an S corporation, a regulated investment company, a real estate investment trust (REIT), a real estate mortgage investment conduit (REMIC) or a financial asset securitization investment trust (FASIT)) will be included in such corporation's adjusted current earnings for purposes of calculating such corporation's alternative minimum taxable income. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by the Code is computed. The Tax Cuts and Jobs Act, signed into law on December 22, 2017, repeals the alternative minimum tax on corporations for taxable years beginning after December 31, 2017.

EXCEPT AS DESCRIBED HEREIN, we express no opinions as to any other matters except with respect to the excludability of the interest on the Bonds from gross income from the owners thereof for federal income tax purposes.

IN PROVIDING THE FOREGOING OPINIONS, we have relied upon representations of the District with respect to matters solely within the knowledge of the District, which we have not independently verified, and have assumed the accuracy and completeness thereof.

IN ADDITION, EXCEPT AS DESCRIBED ABOVE, we express no opinion as to any federal, state or local tax consequences under present law, or future legislation, resulting from the ownership of, receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations, such as the Bonds, may result in collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who are deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualified for the earned income credit. For the foregoing reasons, prospective purchasers should consult their tax advisors as to the consequences of investing in the Bonds.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

APPENDIX D

AUDITED FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2017

BARBERS HILL
Independent School District

ANNUAL FINANCIAL
&
COMPLIANCE REPORT

JUNE 30, 2017

Mont Belvieu, Texas

Barbers Hill Independent School District
Annual Financial Report
For the Fiscal Year Ended June 30, 2017
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Barbers Hill Independent School District
Annual Financial Report
For the Fiscal Year Ended June 30, 2017
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Certificate of the Board

Barbers Hill Independent School District	**Chambers**	**036-902**
Name of School District	County	Co.-Dist Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and ✓ approved ______ disapproved for the fiscal year ended June 30, 2017 at a meeting of the Board of Trustees of such school district on the 25th day of September, 2017.

Signature of Board Secretary

Signature of Board President

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

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Financial Section

Independent Auditor's Report

The Board of Trustees of
Barbers Hill Independent School District
P.O. Box 1108
Mont Belvieu, Texas 77580

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Barbers Hill Independent School District (the District), as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

AN INDEPENDENT MEMBER OF BAKER TILLY INTERNATIONAL
WEAVER AND TIDWELL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS
1406 WILSON ROAD, SUITE 100, CONROE, TX 77304
P: 936.756.8127 F: 936.756.8132

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 discretely presented component unit, each major fund, and the aggregate remaining fund information of Barbers Hill Independent School District, as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Required Supplementary Information**,** as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Barbers Hill Independent School District's basic financial statements. The Supplementary Information as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

The Schedule of Required Responses to Selected School FIRST Indicators has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

The Board of Trustees of
Barbers Hill Independent School District

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2017 on our consideration of Barbers Hill Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Barbers Hill Independent School District's internal control over financial reporting and compliance.

Emphasis of Matter

As discussed in Note 7 to the financial statements, the 2017 financial statements have been restated for a subsequent event. Our opinion is not modified with respect to this matter.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas
September 21, 2017, except as to Note 7, which is as of January 25, 2018

Management's Discussion and Analysis

As management of the Barbers Hill Independent School District (the District), we offer readers of the accompanying report this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2017. In reviewing this report, readers should be mindful that it is often necessary for management to make and use estimates in the preparation of financial statements. Examples of the use of such estimates may be found in amounts reported for depreciation, net taxes receivable, claims payable of the District's self-insured workers' compensation program, and net pension liability.

Financial Highlights

- Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at year-end by $28,924,121 (net position). Of this amount, $7,567,858 (unrestricted net position) is available to meet the District's ongoing obligations in subsequent years.
- The District's total net position increased by $5,212,475.
- At the end of the year, unassigned fund balance in the general fund was $21,142,915 while total fund balance in the general fund was $37,435,557, an increase of $4,185,048.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains required supplementary information and supplementary information in addition to the basic financial statements.

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector enterprise.

The *Statement of Net Position* (Exhibit A-1) presents information on all of the District's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as *net position.* Over time, increases or decreases in net position may serve as an indicator of how the financial position of the District is changing.

The *Statement of Activities* (Exhibit B-1) presents information showing how the District's net position changed during the year. Changes in net position are reported upon occurrence of the underlying event giving rise to the change, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some transactions that will not result in cash flows until future fiscal periods (e.g., uncollected taxes and incurred but unpaid workers' compensation benefits).

The government-wide financial operations (*governmental activities*) of the District are principally supported by taxes and intergovernmental revenues. The governmental activities of the District include *Instruction, Instructional Resources and Media Services, Curriculum and Staff Development, Instructional Leadership, School Leadership, Guidance, Counseling, and Evaluation Services, Social Work Services, Health Services, Student Transportation, Food Service, Extracurricular Activities, General Administration, Plant Maintenance and Operations, Security and Monitoring Services, Data Processing Services, Community Services, Interest on Long-term Debt, Issuance Costs and Fees, Facilities Repair and Maintenance, Contracted Instructional Services between Schools, Payments to Juvenile Justice Alternative Education Programs and Other Intergovernmental Charges.*

The government-wide financial statements can be found as noted in the table of contents of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, as do other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of cash resources*, as well as on *balances of cash resources* available at the end of the fiscal year. Such information may be useful in evaluating near-term financing requirements.

Because the focus of governmental funds financial statements is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term effect of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities.*

The District maintained fifteen individual governmental funds during the year. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and capital projects fund, which are considered to be major funds. Data from the other twelve governmental funds are combined into a single, aggregated presentation titled *total nonmajor funds.*

The District adopts an annual revenue and appropriations budget for its general fund. Subsequent to adoption, amendments approved by the governing body are reflected in a revised budget. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements are noted in the table of contents of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of students and student organizations. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs and activities. A statement of fiduciary assets and liabilities is the only financial statement presented for fiduciary funds, as noted in the table of contents of this report.

Notes to the Basic Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements are noted in the table of contents of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report presents required supplementary information and supplementary information, including schedules required by the Texas Education Agency. Such information is noted in the table of contents of this report.

Government-wide Financial Analysis

As mentioned earlier, net position may, over time, serve as an indicator of a District's changing financial position. At the close of the District's most recent fiscal year, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $28,924,121.

Barbers Hill Independent School District's Net Position

	Governmental Activities					
	2017		2016		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Current and other assets	$ 83,500,904	32	$ 80,270,196	32	$ 3,230,708	4
Capital assets, net of accumulated depreciation	181,327,537	68	173,894,779	68	7,432,758	4
Total assets	264,828,441	100	254,164,975	100	10,663,466	
Total deferred outflows of resources	8,800,746	100	8,991,845	100	(191,099)	(2)
Other liabilities	14,982,260	6	14,354,217	6	628,043	4
Long-term liabilities outstanding	227,361,588	94	224,094,473	94	3,267,115	1
Total liabilities	242,343,848	100	238,448,690	100	3,895,158	
Total deferred inflows of resources	2,361,218	100	996,484	100	1,364,734	137
Net position:						
Net investment in capital assets	13,716,803	47	4,593,379	19	9,123,424	199
Restricted	7,639,460	27	7,208,005	30	431,455	6
Unrestricted	7,567,858	26	11,910,262	51	(4,342,404)	(36)
Total net position	$ 28,924,121	100	$ 23,711,646	100	$ 5,212,475	

The excess of assets/deferred outflows of resources over liabilities/deferred inflows of resources reported on the government-wide Statement of Net Position of $28,924,121 at June 30, 2017 results from several factors.

Such increase in net position was primarily due to an increase in payments in lieu of taxes, which totaled approximately $5.2 million.

The largest portion of the District's net position is net investment in capital assets. Investment in capital assets (e.g., land and improvements, buildings and improvements, furniture and equipment and construction in progress), less any related debt used to acquire those assets is $13,716,803, an increase of $9.1 million from June 30, 2016. The District utilizes capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net position that is restricted for debt service and grants totals $7,639,460 or 27 percent of net position.

The remaining balance of net position, *unrestricted net position* $7,567,858, may be used to meet future obligations to students and creditors.

Governmental Activities. Governmental activities increased the District's net position by $5,212,475 from current operations. The elements giving rise to this change may be determined from the table below.

Barbers Hill Independent School District's Changes in Net Position

	Governmental Activities					
	2017		2016		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Revenue:						
Program revenues:						
Charges for services	$ 3,002,237	3	$ 2,627,171	3	$ 375,066	14
Operating grants and contributions	4,798,360	5	6,059,457	6	(1,261,097)	(21)
General revenues:						
Property taxes, levied for general purpose	56,314,252	57	60,192,836	65	(3,878,584)	(6)
Property taxes, levied for debt service	19,730,383	20	17,562,911	19	2,167,472	12
Grants and contributions not restricted to specific programs	11,951,127	12	2,033,094	2	9,918,033	488
Investment earnings	367,955	-	1,284,757	1	(916,802)	(71)
County available	-	-	1,242,195	1	(1,242,195)	(100)
County equalization	2,020,122	3	1,866,730	2	153,392	8
Miscellaneous	373,961	-	1,292,365	1	(918,404)	(71)
Total revenues	98,558,397	100	94,161,516	100	4,396,881	
Expenses:						
Instruction	38,357,079	41	38,831,349	44	(474,270)	(1)
Instructional resources and media services	797,110	1	689,426	1	107,684	16
Curriculum and staff development	956,442	1	719,710	1	236,732	33
Instructional leadership	280,518	-	260,307	-	20,211	8
School leadership	3,445,067	4	3,325,634	4	119,433	4
Guidance, counseling, and evaluation services	1,965,922	2	1,712,995	2	252,927	15
Social work services	76,759	-	75,985	-	774	1
Health services	801,948	1	799,694	1	2,254	-
Student transportation	1,786,161	2	2,092,600	2	(306,439)	(15)
Food service	2,724,792	3	2,642,093	3	82,699	3
Extracurricular activities	3,346,098	4	2,831,477	3	514,621	18
General administration	2,686,496	3	2,296,600	3	389,896	17
Plant maintenance and operations	5,341,568	6	7,525,017	8	(2,183,449)	(29)
Security and monitoring services	573,262	1	566,390	1	6,872	1
Data processing services	1,228,262	1	1,165,190	1	63,072	5
Community services	33,189	-	46,705	-	(13,516)	(29)
Interest on long-term debt	7,196,106	8	7,147,249	8	48,857	1
Issuance costs and fees	225,059	-	170,293	-	54,766	32
Facilities repair and maintenance	4,678,576	5	892,184	1	3,786,392	424
Contracted instructional services between schools	16,301,244	17	14,503,753	16	1,797,491	12
Payments to juvenile justice alternative				-		
education programs	68,800	-	73,030	-	(4,230)	(6)
Other intergovernmental charges	475,464	-	493,307	1	(17,843)	(4)
Total expenses	93,345,922	100	88,860,988	100	4,484,934	
Change in net position	5,212,475		5,300,528		(88,053)	
Net position - beginning	23,711,646		18,411,118		5,300,528	
Net position - ending	$ 28,924,121		$ 23,711,646		$ 5,212,475	

The current period increase in net position primarily resulted from an increase in grant and contributions not restricted to specific programs.

Revenues, aggregating $98,558,397, were generated primarily from two sources. Property taxes totaling $76,044,635 represent 77 percent of total revenues, while grants and contributions (including those not restricted for program-specific use as well as for general operations, totaling $16,749,487), represent 17 percent of total revenues. The remaining 6 percent is generated from investment earnings, charges for services, county equalization and miscellaneous revenues.

The primary functional expenses of the District are instruction $38,357,079, which represents 41 percent of total expenses, plant maintenance and operations $5,341,568 which represents 6 percent of total expenses, contracted instructional services between public schools $16,301,244 which represents 17 percent of total expenses, interest on long-term debt $7,196,106 which represents 8 percent of total expenses, and facilities repair and maintenance $4,678,576 which represents 5 percent of total expenses. The remaining functional expense categories are 4 percent or less of total expenses.

Financial Analysis of the Government's Funds

As mentioned earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. At the end of the fiscal year, the District's governmental funds had combined ending fund balances of $69,595,107, an increase of $4,092,303 from the preceding year. Comments as to each major individual fund's change in fund balance follows.

The general fund is the primary operating fund of the District. At year-end, unassigned fund balance of the general fund was $21,142,915, while total fund balance was $37,435,557. To evaluate the general fund's liquidity, it may be helpful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 30 percent of total general fund expenditures, while total fund balance represents 53 percent of that same total. The fund balance of the general fund increased $4,185,048 during the year, primarily due to an increase in Foundation School Program revenues exceeded the increases in expenditures for instruction and contracted instructional services between schools.

The debt service fund ended the year with a total fund balance of $9,502,882, all of which is reserved for the payment of principal and interest on debt. The debt service fund balance increased by $535,462 during the year primarily due to the increase in debt service requirements was offset by the increase in revenues from property taxes.

The capital projects fund ended the year with a total fund balance of $21,957,118, all of which is reserved for capital acquisition program and contractual obligations. The capital projects fund balance decreased by $826,880 primarily due to expenditures related to capital projects as outlined in the bond issue.

Governmental funds financial statements may be found by referring to the table of contents.

General Fund Budgetary Highlights

The significant differences between the original adopted budget and the final amended budget of the general fund were primarily from an increase in projected property tax revenues resulting from revised estimates of the certified taxable values.

The District's general fund budget differs significantly from actual primarily due to a decrease of $3,165,545 in state program revenues. This is a result of a change in state funding factors after issuance of the final budget by the District.

Capital Assets and Long-term Liabilities

Capital Assets. The District's investment in capital assets for its governmental activities as of June 30, 2017 was $181,327,537 (net of accumulated depreciation). This investment in capital assets includes land and improvements, buildings and improvements, furniture and equipment, and construction in progress. The increase in total capital assets, net of accumulated depreciation, for the current fiscal year was $7,432,758.

Major capital asset activity during the year included the following:

- $7.1 million on high school additions and renovations
- $1.6 million turf on baseball/softball field
- $1.0 million for various District wide vehicles and equipment, including eight 2017 Freightliner buses

Barbers Hill Independent School District's Capital Assets
(net of depreciation)

	Governmental Activities					
	2017		2016		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Land and improvements	$ 4,751,708	2	$ 4,695,478	3	$ 56,230	1
Buildings and improvements	160,711,837	89	151,124,938	87	9,586,899	6
Furniture and equipment	7,221,567	4	7,203,934	4	17,633	-
Construction in progress	8,642,425	5	10,870,429	6	(2,228,004)	(20)
Totals	$ 181,327,537	100	$ 173,894,779	100	$ 7,432,758	

Additional information on the District's capital assets can be found in Note 3 D of the notes to the financial statements as noted in the table of contents of this report.

Construction Commitments. At the end of the current fiscal year, the District's commitments with construction contractors, including purchase orders, totaled $19,569,605.

Noncurrent Liabilities. At year-end, the District had the following long-term liabilities:

Barbers Hill Independent School District's Long-term Liabilities Outstanding

	Governmental Activities					
	2017		2016		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
General obligation bonds (net)	$ 209,709,391	93	$ 207,240,278	93	$ 2,469,113	1
Note payable	3,269,499	1	3,269,499	1	-	-
Workers' compensation	101,156	-	137,331	-	(36,175)	(26)
Compensated absences	31,234	-	37,565	-	(6,331)	(17)
Net pension liability	14,250,308	6	13,409,800	6	840,508	6
Totals	$ 227,361,588	100	$ 224,094,473	100	$ 3,267,115	

The District’s total long-term liabilities increased by $3,267,115. The key factor was the increase in general obligation bonds resulting from the sale of Series 2016 Building Bonds.

The District’s general obligation debt is backed by the full faith and credit of the District and when eligible, is further guaranteed by the Texas Permanent School Fund Guarantee Program. State statutes do not limit the tax rate or amount of local tax support of school districts’ bonded indebtedness. However, approval of the Attorney General of the State of Texas is required prior to the sale of bonds.

Additional information on the District’s long-term debt can be found in Note 3. E. in the notes to the financial statements as noted in the table of contents of this report.

Additional information on the District’s net pension liability can be found in Note 4. C. to the financial statements as indicated in the table of contents of this report.

Economic and Other Factors and Fiscal Year 2017-18 Budgets

- Student enrollment is 5,224 compared to 5,154 in the prior year.
- District staff totals 759 employees in 2017-18, excluding substitutes and other part-time employees. This includes 372 teachers and 123 teacher aids and secretaries.
- Certified property values of the District increased by 4% for maintenance and operations and increased by 23% for interest and sinking for the 2017-18 year.
- A maintenance and operations tax rate of $1.06 and a debt service tax rate of $.2698, a total rate of $1.3298, was adopted for 2017-18, which did not change from the prior year.
- Unemployment rates for the State and County were 4.7% and 7.0%, respectively.

All of these factors and others were considered in preparing the District’s budget for the 2017-18 fiscal year.

During the current fiscal year, unassigned fund balance in the general fund increased to $21,142,915. The District plans to utilize unassigned fund balance to fund current period expenditures prior to collecting the current year tax levy.

Requests for Information

This financial report is intended to provide a general overview of the District's finances for those with an interest in this information. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Assistant Superintendent of Finance, Barbers Hill Independent School District, P.O. Box 1108, Mont Belvieu, Texas 77580.

Basic Financial Statements

Barbers Hill Independent School District **Exhibit A-1**

Statement of Net Position
June 30, 2017

Data Control Codes		1 Primary Government: Governmental Activities	Component Unit: Barbers Hill ISD Education Foundation
	ASSETS		
1110	Cash and cash equivalents	$ 36,348,655	$ 24,094
1120	Current investments	20,470,556	15,873,211
1220	Property taxes receivable	2,640,484	-
1230	Allowance for uncollectable taxes	(158,429)	-
1240	Due from other governments	4,230,738	-
1250	Accrued interest	220,799	39,421
1290	Other receivables	3,508	-
1300	Inventories	169,243	-
1410	Prepaid items	748,399	-
1910	Long-term investments	18,826,951	4,902,306
	Capital assets:		
1510	Land and improvements	4,751,708	-
1520	Buildings and improvements (net)	160,711,837	-
1530	Furniture and equipment (net)	7,221,567	-
1580	Construction in progress	8,642,425	-
1000	Total assets	264,828,441	20,839,032
	DEFERRED OUTFLOWS OF RESOURCES		
1705	Deferred outflows - pension	6,388,814	-
1710	Deferred charge on refunding	2,411,932	-
1700	Total deferred outflows of resources	8,800,746	-
	LIABILITIES		
2110	Accounts payable	437,824	-
2140	Interest payable	3,558,518	-
2150	Payroll deductions and withholdings	229,821	-
2160	Accrued wages payable	5,142,843	-
2180	Due to other governments	4,688,506	-
2200	Accrued liabilities	900,875	-
2300	Unearned revenue	23,873	-
	Noncurrent liabilities:		
2501	Due within one year	13,062,390	-
2502	Due in more than one year	200,048,890	-
2540	Net pension liabilities	14,250,308	-
2000	Total liabilities	242,343,848	-
	DEFERRED INFLOWS OF RESOURCES		
2605	Deferred inflows - pension	2,361,218	-
2600	Total deferred inflows of resources	2,361,218	-
	NET POSITION		
3200	Net investment in capital assets	13,716,803	-
3820	Restricted for grants	699,550	-
3850	Restricted for debt service	6,939,910	-
3900	Unrestricted	7,567,858	20,839,032
3000	**TOTAL NET POSITION**	$ 28,924,121	$ 20,839,032

The Notes to the Financial Statements are an integral part of this statement.

Barbers Hill Independent School District

Exhibit B-1

Statement of Activities
For the Fiscal Year Ended June 30, 2017

Data Control Codes	Functions/Programs	1 Expenses	3 Program Revenues Charges for Services	4 Program Revenues Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position Governmental Activities	Component Unit Barbers Hill ISD Education Foundation
	Primary government:					
	Governmental activities:					
0011	Instruction	$ 38,357,079	$ 360,904	$ 3,223,063	$ (34,773,112)	-
0012	Intructional resources and media services	797,110	-	38,535	(758,575)	-
0013	Curriculum and staff development	956,442	-	81,023	(875,419)	-
0021	Instructional leadership	280,518	-	14,958	(265,560)	-
0023	School leadership	3,445,067	-	195,405	(3,249,662)	-
0031	Guidance, counseling, & evaluation services	1,965,922	-	117,378	(1,848,544)	-
0032	Social work services	76,759	-	3,783	(72,976)	-
0033	Health services	801,948	-	43,011	(758,937)	-
0034	Student transportation	1,786,161	-	55,778	(1,730,383)	-
0035	Food service	2,724,792	2,337,985	502,961	116,154	-
0036	Extracurriculur activities	3,346,098	303,348	93,627	(2,949,123)	-
0041	General administration	2,686,496	-	98,605	(2,587,891)	-
0051	Plant maintenance and operations	5,341,568	-	142,538	(5,199,030)	-
0052	Security and monitoring services	573,262	-	18,371	(554,891)	-
0053	Data processing services	1,228,262	-	36,226	(1,192,036)	-
0061	Community services	33,189	-	-	(33,189)	-
0072	Interest on long-term debt	7,196,106	-	117,274	(7,078,832)	-
0073	Issuance costs and fees	225,059	-	-	(225,059)	-
0081	Facilities repair and maintenance	4,678,576	-	15,824	(4,662,752)	-
0091	Contracted instructional services between schools	16,301,244	-	-	(16,301,244)	-
0095	Payments to juvenile justice alternative education programs	68,800	-	-	(68,800)	-
0099	Other intergovernmental charges	475,464	-	-	(475,464)	-
TG	Total governmental activities	93,345,922	3,002,237	4,798,360	(85,545,325)	
TP	**TOTAL PRIMARY GOVERNMENT**	$ 93,345,922	$ 3,002,237	$ 4,798,360	(85,545,325)	
1C	**Barbers Hill ISD Education Foundation**	$ 261,077	$ -	$ -		$ (261,077)
	General revenues:					
MT	Property taxes, levied for general purposes				56,314,252	-
DT	Property taxes, levied for debt services				19,730,383	-
GC	Grants and contributions not restricted to specific programs				11,951,127	5,731,426
IE	Investment earnings				367,955	1,966,092
CE	County equalization				2,020,122	-
MI	Miscellaneous				373,961	-
TR	Total general revenues				90,757,800	7,697,518
CN	Change in net position				5,212,475	7,436,441
NB	Net position - beginning				23,711,646	13,402,591
NE	**NET POSITION - ENDING**				$ 28,924,121	$ 20,839,032

The Notes to the Financial Statements are an integral part of this statement.

Barbers Hill Independent School District
Balance Sheet - Governmental Funds
June 30, 2017

Data Control Codes		199 General Fund	599 Debt Service Fund
	ASSETS		
1110	Cash and cash equivalents	$ 9,665,016	$ 4,603,506
1120	Current investments	18,994,473	1,472,758
1220	Property taxes receivable	2,146,766	493,718
1230	Allowance for uncollectable taxes	(128,806)	(29,623)
1240	Due from other governments	3,922,256	-
1250	Accrued interest	160,970	37,351
1260	Due from other funds	193,573	-
1290	Other receivables	3,508	-
1300	Inventories	169,243	-
1410	Prepaid items	748,399	-
1910	Long-term investments	14,280,407	3,569,044
1000	Total assets	50,155,805	10,146,754
1000a	**TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES**	$ 50,155,805	$ 10,146,754
	LIABILITIES		
2110	Accounts payable	$ 172,041	$ -
2150	Payroll deductions and withholdings	217,314	-
2160	Accrued wages payable	4,902,830	-
2170	Due to other funds	-	-
2180	Due to other governments	4,680,988	7,255
2200	Accrued liabilities	728,353	172,522
2300	Unearned revenue	762	-
2000	Total liabilities	10,702,288	179,777
	DEFERRED INFLOWS OF RESOURCES		
2600	Unavailable revenue - property taxes	2,017,960	464,095
	Total deferred inflows of resources	2,017,960	464,095
	FUND BALANCES		
3410	Nonspendable - inventories	169,243	-
3430	Nonspendable - prepaid items	748,399	-
3450	Restricted - grants	-	-
3470	Restricted - capital acquisitions and contractual obligations	-	-
3480	Restricted - debt service	-	9,502,882
3520	Committed - claims and judgements	2,500,000	-
3525	Committed - loans/notes payable	3,875,000	-
3545	Committed - other	9,000,000	-
3600	Unassigned	21,142,915	-
3000	Total fund balances	37,435,557	9,502,882
4000	**TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES**	$ 50,155,805	$ 10,146,754

The Notes to the Financial Statements are an integral part of this statement.

Exhibit C-1

699 Capital Projects Fund	Total Nonmajor Funds	98 Total Governmental Funds
$ 21,219,441	$ 860,692	$ 36,348,655
3,325	-	20,470,556
-	-	2,640,484
-	-	(158,429)
-	308,482	4,230,738
22,478	-	220,799
-	-	193,573
-	-	3,508
-	-	169,243
-	-	748,399
977,500	-	18,826,951
22,222,744	1,169,174	83,694,477
$ 22,222,744	$ 1,169,174	$ 83,694,477
$ 265,576	$ 207	$ 437,824
-	12,507	229,821
50	239,963	5,142,843
-	193,573	193,573
-	263	4,688,506
-	-	900,875
-	23,111	23,873
265,626	469,624	11,617,315
-	-	2,482,055
-	-	2,482,055
-	-	169,243
-	-	748,399
-	699,550	699,550
21,957,118	-	21,957,118
-	-	9,502,882
-	-	2,500,000
-	-	3,875,000
-	-	9,000,000
-	-	21,142,915
21,957,118	699,550	69,595,107
$ 22,222,744	$ 1,169,174	$ 83,694,477

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Barbers Hill Independent School District **Exhibit C-1R**

Reconciliation of The Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2017

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS (EXHIBIT C-1)		$ 69,595,107
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The governmental capital assets at year-end consist of:		
Governmental capital assets costs	$ 251,095,659	
Accumulated depreciation of governmental capital assets	(69,768,122)	181,327,537
Property taxes receivable, which will be collected subsequent to year-end, but are not available soon enough to pay expenditures and, therefore, are deferred in the funds.		2,482,055
Long-term liabilities and the respective accrued interest payable, including bonds payable, note payable, workers compensation, compensated absences, and net pension liability, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Liabilities at year-end related to such items consist of:		
Bonds payable, at original par	$ (193,630,000)	
Premium on bonds payable	(16,115,435)	
Discount on bonds payable	36,044	
Accrued interest on the bonds	(3,027,067)	
Note payable	(3,269,499)	
Accrued interest on notes payable	(531,451)	
Workers' compensation	(101,156)	
Compensated absences	(31,234)	
Net pension liability	(14,250,308)	(230,920,106)
Deferred charge on refunding is reported as a deferred outflow of resources in the statement of net position and it is not reported in the governmental funds as it is not a current financial resource available to pay for current expenditures.		2,411,932
Deferred outflows of resources for pension represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenses/expenditures) until then.		6,388,814
Deferred inflows of resources for pension represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.		(2,361,218)
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES (EXHIBIT A-1)		$ 28,924,121

The Notes to the Financial Statements are an integral part of this statement.

Barbers Hill Independent School District
Statement of Revenues, Expenditures, and Changes
in Fund Balances - Governmental Funds
For the Fiscal Year Ended June 30, 2017

Data Control Codes		199 General Fund	599 Debt Service Fund
	REVENUES		
5700	Local and intermediate revenues	$ 60,530,105	$ 20,053,763
5800	State program revenues	14,086,523	117,274
5900	Federal program revenues	362,782	-
5020	Total revenues	74,979,410	20,171,037
	EXPENDITURES:		
	Current:		
0011	Instruction	31,967,767	-
0012	Instructional resources and media services	628,788	-
0013	Curriculum and staff development	867,450	-
0021	Instructional leadership	267,761	-
0023	School leadership	3,268,096	-
0031	Guidance, counseling, and evaluation services	1,847,792	-
0032	Social work services	76,093	-
0033	Health services	750,410	-
0034	Student transportation	1,300,794	-
0035	Food service	-	-
0036	Extracurricular activities	2,418,653	-
0041	General administration	2,465,917	-
0051	Plant maintenance and operations	6,584,232	-
0052	Security and monitoring services	438,275	-
0053	Data processing services	1,034,597	-
0061	Community services	32,229	-
	Debt service:		
0071	Principal on long-term debt	-	11,410,000
0072	Interest on long-term debt	-	8,223,473
0073	Issuance costs and fees	-	6,850
	Capital outlay:		
0081	Facilities aquisition and construction	-	-
	Intergovernmental:		
0091	Contracted instructional services between schools	16,301,244	-
0095	Payments to juvenile justice alternative education programs	68,800	-
0099	Other intergovernmental charges	475,464	-
6030	Total expenditures	70,794,362	19,640,323
1100	Excess (deficiency) of revenues over (under)expenditures	4,185,048	530,714
	OTHER FINANCING SOURCES (USES)		
7911	Capital-related debt issued (regular bonds)	-	-
7916	Premium or (discount) on issuance of bonds	-	4,748
7949	State revenue pursuant to tax refund	1,469,046	-
8948	Tax refund pursuant to Texas Tax Code 313	(1,469,046)	-
7080	Total other financing sources (uses)	-	4,748
1200	Net change in fund balances	4,185,048	535,462
0100	Fund balances - beginning	33,250,509	8,967,420
3000	**FUND BALANCES - ENDING**	$ 37,435,557	$ 9,502,882

The Notes to the Financial Statements are an integral part of this statement.

699 Capital Projects Fund	Total Nonmajor Funds	98 Total Governmental Funds
$ 383,132	$ 2,337,835	$ 83,304,835
12,563	204,481	14,420,841
-	1,479,378	1,842,160
395,695	4,021,694	99,567,836
1,163,494	1,138,869	34,270,130
75,041	-	703,829
12,940	44,979	925,369
-	-	267,761
13,496	-	3,281,592
2,346	-	1,850,138
-	300	76,393
10,340	-	760,750
864,307	-	2,165,101
-	2,638,873	2,638,873
258,632	-	2,677,285
26,203	-	2,492,120
288,785	-	6,873,017
8,053	-	446,328
118,876	-	1,153,473
960	-	33,189
-	-	11,410,000
-	-	8,223,473
218,209	-	225,059
13,379,102	-	13,379,102
-	-	16,301,244
-	-	68,800
-	-	475,464
16,440,784	3,823,021	110,698,490
(16,045,089)	198,673	(11,130,654)
13,860,000	-	13,860,000
1,358,209	-	1,362,957
-	-	1,469,046
-	-	(1,469,046)
15,218,209	-	15,222,957
(826,880)	198,673	4,092,303
22,783,998	500,877	65,502,804
$ 21,957,118	$ 699,550	$ 69,595,107

Barbers Hill Independent School District — Exhibit C-3

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2017

TOTAL NET CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS (EXHIBIT C-2)		$ 4,092,303
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is capitalized allocated over their estimated useful lives as depreciation expense.		
Capital assets *increased*	$ 13,866,057	
Depreciation expense	(5,805,523)	8,060,534
The net effect of miscellaneous transactions involving capital assets (transfers, adjustments and dispositions) is an increase (decrease) to net position.		(627,776)
Because some property taxes will not be collected for several months after the District's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues increased (decreased) by this amount this year.		(1,395,925)
Issuance of bonds provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.		
Par value	$ (13,860,000)	
(Premium) discount	(1,362,957)	(15,222,957)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		11,410,000
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due, and includes amortization of related long-term debt accounts. The (increase) decrease in interest expense reported in the statement of activities consist of the following:		
Accrued interest on current interest bonds payable *(increased) decreased*	$ (28,278)	
Accrued interest on notes payable *(increased) decreased*	(65,435)	
Amortization of bond premium and discount	1,343,844	
Amortization of deferred charge on refunding	(222,764)	1,027,367
The (increase) decrease in workers' compensation is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds.		36,175
The (increase) decrease in compensated absences is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds.		6,331
The net change in net pension liability, deferred outflows, and deferred inflows is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. The net change consists of the following:		
Deferred outflows increased (decreased)	$ 31,665	
Deferred inflows (increased) decreased	(1,364,734)	
Net pension liability (increased) decreased	(840,508)	(2,173,577)
CHANGE IN NET POSITION FOR GOVERNMENTAL ACTIVITIES (EXHIBIT B-1)		$ 5,212,475

The Notes to the Financial Statements are an integral part of this statement.

Barbers Hill Independent School District **Exhibit E-1**

Statement of Assets and Liabilities

Fiduciary Fund

June 30, 2017

Data Control Codes		865 Agency Fund Student Activity
	ASSETS	
1110	Cash and cash equivalents	$ 521,412
1120	Current investments	1,063
1000	**TOTAL ASSETS**	$ 522,475
	LIABILITIES	
2190	Due to student groups	$ 522,475
2000	**TOTAL LIABILITIES**	$ 522,475

The Notes to the Financial Statements are an integral part of this statement.

Note 1. Summary of Significant Accounting Policies

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government (the District) and its component unit. All fiduciary activities are reported only in the fund financial statements. *Governmental activities* normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions. Likewise, the *primary government* is reported separately from the legally separate *component unit* for which the primary government is financially accountable.

B. Reporting Entity

The Barbers Hill Independent School District (the District) is governed by a seven-member board of trustees (the Board), which has governance responsibilities over all activities related to public, elementary and secondary, education within the District. Members of the Board are elected by the public; have authority to make decisions; appoint management and significantly influence operations; and have primary accountability for fiscal matters. The District is not included in any other governmental reporting entity. The accompanying financial statements present the District and its component unit, an entity for which the District is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the District.

Discretely Presented Component Unit. The Barbers Hill Independent School District Education Foundation (Foundation) was created to provide grants to Barbers Hill Independent School District teachers for the purpose of enhancing education of the Barbers Hill Independent School District students. The Foundation is governed by at least 3 but not to exceed 15 members who are elected by the Foundation's directors. The District maintains the Foundation's accounting records. The District is reimbursed for the aforementioned functions. Due to the significant benefits provided by the Foundation to the District, the component unit is reported as a discretely presented component unit.

C. Basis of Presentation – Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As discussed earlier, the District has one discretely presented component unit which is shown in a separate column in the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category—governmental and fiduciary—are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The District reports the following major governmental funds:

> The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those accounted for in another fund.
>
> The *debt service fund* is used to account for the accumulation of resources that are restricted, committed, or assigned for the payment of principal and interest on long-term obligations of governmental funds.
>
> The *capital projects fund* accounts for the acquisition and construction of the District's major capital facilities, other than those financed by proprietary funds.

Additionally, the District reports the following fund types:

> The *agency fund* accounts for assets held by the District for student organizations. The fund is custodial in nature (assets equal liabilities) and does not involve measurement or results of operations.

During the course of operations, the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the amount due from/to agency is included in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds are eliminated in governmental activities.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources or economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as required under accrual accounting. However, debt service and note payable expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Interest associated with the current fiscal period is considered to be susceptible to accrual and has been recognized as revenues in the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items, including property taxes, are considered to be measurable and available only when cash is received by the District.

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand and bank demand or time deposits with original maturities of one year or less from the date of acquisition.

2. Investments

Investments for the District, except for certain investment pools, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized costs or net asset value; i.e. fair value.

3. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

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

4. Capital Assets

Capital assets, which include land and improvements, construction in progress, buildings and improvements, and furniture and equipment, are reported in the applicable governmental activities column in the government-wide financial statements. The District's infrastructure includes parking lots and sidewalks associated with various buildings. The cost of the infrastructure was initially capitalized with the building cost and is being depreciated over the same useful life as the building. Capital assets are defined by the District as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of five years.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities), the District chose to include all such items regardless of their acquisition date or amount. The District was able to estimate the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the District constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

Land and improvements and construction in progress are not depreciated. The buildings and improvements and furniture and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

Capital Asset Classes	Lives
Buildings and Improvements	5-50
Furniture and Equipment	3-50

5. *Deferred Outflows/Inflows of Resources*

Deferred outflows of resources represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditures) until then. Deferred inflows of resources represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

The components of the deferred outflows of resources and deferred inflows of resources in the government-wide and fund level financial statements are as follows:

	Statement of Net Position	Balance Sheet - Governmental Funds	
	Governmental Activities	General Fund	Debt Service Fund
Deferred outflows of resources:			
Deferred outflows from pension activities	$ 5,377,005	$ -	$ -
Deferred contribution after the measurement date	1,011,809	-	-
Deferred charge on refunding	2,411,932	-	-
Total deferred outflows of resources	$ 8,800,746	$ -	$ -
Deferred inflows of resources:			
Deferred inflows from pension activities	$ 2,361,218	$ -	$ -
Unavailable property taxes	-	2,017,960	464,095
Total deferred inflows of resources	$ 2,361,218	$ 2,017,960	$ 464,095

Deferred outflows/inflows of resources are amortized as follows:

- Deferred outflows/inflows from pension activities are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan, except for projected and actual earnings differences on investments which are amortized on a closed basis over a 5-year period.
- District contributions after the measurement date are recognized in the subsequent year.
- Deferred charge/gain on refunding is amortized over the shorter of the life of the refunded or refunding debt.
- Property taxes are recognized in the period the amount becomes available.

6. *Net Position Flow Assumption*

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

It is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

7. Fund Balance Flow Assumptions

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

8. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The board of trustees (the Board) is the highest level of decision-making authority for the District that can, by board action or adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by board action or the resolution remains in place until performance of commitment or a similar action is taken (the board action or adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The Board has, by policy, authorized the superintendent or his designee to assign fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

In the general fund, the District shall maintain at a minimum unassigned fund balance equal to or greater than 20 percent of the combined budgeted expenditures of the District's general fund.

9. Pension

In government-wide financial statements, pensions are required to be recognized and disclosed using the accrual basis of accounting (see Note 4.C. and the Required Supplementary Information section immediately following the Notes to the Financial Statements), regardless of the amount recognized as pension expenditures on the modified accrual basis of accounting. The District recognizes a net pension liability for the qualified pension plan in which it participates, which represents the excess of the total pension liability over the fiduciary net position of the qualified pension plan, or the District's proportionate share thereof in the case of a cost-sharing multiple-employer plan, measured as of the respective pensions' fiscal year-end. Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

G. Revenues and Expenditures/Expenses

1. Program Revenues
Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property Taxes
Property values are determined by the County Central Appraisal District as of January 1 of each year. Prior to July 1 of each year, the District adopts its annual budget and as soon thereafter as practicable, shall adopt a tax rate thus creating the tax levy. Property taxes for the current calendar year are levied on approximately October 1 of each year and are payable by January 31 of the following year. Property tax receivables are recorded as of the date levied. Unpaid taxes become delinquent on February 1 and a tax lien on real property is created as of July 1 of each year.

3. Compensated Absences
The District grants 3-5 local sick days per contract year depending on the number of days in the employees' contracts. Additionally, the State grants each employee 5 state days regardless of the number of days in their contract.

Prior to July 1, 1995, all accrued local and state days are vested and will be paid as follows:

- An eligible employee who has filed the necessary paperwork for retirement under the Texas Teacher Retirement System (TRS) shall be reimbursed for unused local leave at his or her current daily rate of pay for the balance of unused local leave days accumulated as of the last day of the 1995-96 contract or employment year.
- Prior to retirement, an eligible employee may request reimbursement at his or her current daily rate of pay for the balance of unused local leave days and/or vacation days accumulated as of the last day of the 1995-96 contract or employment year. A letter of request must be submitted to the Superintendent or designee.

Effective July 1, 1995, employees' local and state days accrue and vest up to 20 days at 35% of their midpoint upon retirement through TRS.

A liability for accrued, vested amounts is included in long term liabilities in the Statement of Net Position.

4. Use of Estimates
The presentation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

5. Data Control Codes

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

Note 2. Stewardship, Compliance, and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, National School Breakfast/Lunch Program special revenue fund, and Debt Service Fund. All annual appropriations lapse at fiscal year-end. The following procedures are followed in establishing the budgetary data reflected in the financial statements.

1. Prior to June 19 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
3. Prior to July 1, the budget is legally enacted through passage of a resolution by the Board.

The appropriated budget is prepared by fund, function, and campus/department. The District's campus/department heads may make transfers of appropriations within a campus/department. Transfers of appropriations between campus/departments require the approval of the District's management. Transfers of appropriations between functions require the approval of the Board. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the function level within a fund. The District made one supplemental budgetary amendment during the year.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as restricted, committed, or assigned fund balances as appropriate. The encumbrances do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

Significant encumbrances included in governmental fund balances are as follows:

	Encumbrances Included in: Restricted Fund Balance
Capital projects fund	$ 19,569,605
Total encumbrances	$ 19,569,605

Note 3. Detailed Notes on All Funds

A. Deposits and Investments

Cash Deposits
The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Texas School Depository Act. The depository bank pledges securities which comply with state law and these securities are held for safekeeping and trust with the District's and the depository banks' agent bank. The pledged securities shall be 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.

Investments
The District's investment policy is in accordance with the Public Funds Investment Act (PFIA), the Public Funds Collateral Act, and federal and state laws. State law and District policy limits credit risk by allowing investing in 1) Obligations of the United States or its agencies which are backed by the full faith and credit of the United States, obligations of the State of Texas or its agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized statistical rating organization (NRSRO) not less than A or its equivalent; 2) Certificates of deposit issued by a depository located in Texas which is insured by the FDIC or purchased through a broker who has an office located in Texas; 3) Repurchase agreements secured by obligations of the United States or its agencies not to exceed 90 days to maturity from the date of purchase; 4) Bankers acceptances with a stated maturity of 270 days or fewer which are eligible for collateral for borrowing from a Federal Reserve Bank; 5) No-load money market mutual funds which shall be registered with the Securities and Exchange Commission which have an average weighted maturity of less than two years, investments comply with the Public Funds Investment Act and are continuously rated not less than AAA by at least one NRSRO . 6) A guaranteed investment contract (for bond proceeds only) which meets the criteria and eligibility requirements established by the Public Funds Investment Act; 7) Public funds investment pools which meets the requirements of the Public Funds Investment Act; 8) Commercial paper if it has a stated maturity of 271 days or fewer from the day of its issuance; and is rated not less than A-1 or P-1 or an equivalent rating by at least: two nationally recognized credit ratings agencies; or one nationally recognized agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state; 9) Securities lending program as permitted by Government Code 2256.0115.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72, *Fair Value Measurement and Application* provides a framework for measuring fair value which establishes a three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 inputs are inputs—other than quoted prices included within Level 1—that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

The District's governmental and fiduciary funds had recurring fair value measurements as presented in the table below. The District's investment balances and weighted average maturity of such investments are as follows:

Governmental Funds' Investment Type	Moody's / S&P Rating	June 30, 2017	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Percentage of Total Investments	Weighted Average Maturity (Days)
Investments measured at amortized costs							
Investment pools:							
Texpool	AAAm	$ 4,907	$ -	$ -	$ -	0%	38
Lonestar - Corporate Overnight	AAAm	4,304	-	-	-	0%	43
Investments measured at fair value, not subject to level reporting							
Investment pools:							
TexStar	AAAm	2,607	-	-	-	0%	32
Investments by fair value level, subject to level reporting							
U.S. government agencies	AA- to AA+	3,933,036	3,933,036	-	-	10%	814
Municipal government securities	A+ to AAA	35,352,653	35,352,653	-	-	90%	1,321
Total value		$ 39,297,507	$ 39,285,689	$ -	$ -	100%	
Portfolio weighted average maturity							1,270

Fiduciary Funds' Investment Type	Moody's / S&P Rating	June 30, 2017	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Percentage of Total Investments	Weighted Average Maturity (Days)
Investments measured at amortized costs							
Investment pools:							
Lonestar - Corporate Overnight	AAAm	$ 1,063	$ -	$ -	$ -	100%	43
Total value		$ 1,063	$ -	$ -	$ -	100%	
Portfolio weighted average maturity							43.00

Investment pools are measured at amortized cost or net asset value, i.e. fair value. Such investments are not required to be reported in the fair value hierarchy.

U.S. Government Agency Securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

Municipal Government Securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

The Texpool and Lone Star investment pools are external investment pools measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, investment pools must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity and diversification requirements within the investment pool. The investment pools transact at a net asset value of $1.00 per share, have weighted average maturity of 60 days or less and weighted average life of 120 days or less, investments held are highly rated by nationally recognized statistical rating organization, have no more than 5% of portfolio with one issuer (excluding US government securities), and can meet reasonably foreseeable redemptions. Texpool and Lone Star have a redemption notice period of one day and no maximum transaction amounts. The investment pools' authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities market, general banking moratorium or national or state emergency that affects the pools' liquidity.

The TexStar investment pool is an external investment pool measured at their net asset value. TexStar's strategy is to seek preservation of principal, liquidity and current income through investment in a diversified portfolio of short-term marketable securities. The District has no unfunded commitments related to the investment pool. TexStar has a redemption notice period of one day and may redeem daily. The investment pool's authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities market, general banking moratorium or national or state emergency that affects the pool's liquidity.

Credit Risk
At year-end, the District's investments were rated as noted in the table above. All credit ratings met acceptable levels required by legal guidelines prescribed in both the PFIA and the District's investment policy.

Interest Rate Risk
Interest rate risk is the risk that changes in interest rates may adversely affect the value of the investments. The District monitors interest rate risk utilizing weighted average maturity analysis and specific identification. Investments with maturities longer than one year shall be authorized by the Superintendent and shall not exceed legal limits prescribed by the state and federal laws.

Concentration of Credit Risk
The District's investment policy does not limit an investment in any one issuer. The investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting from over-concentration of assets in a specific class of investments, specific maturity, or specific issuer.

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. On June 30, 2017, District's banks' balances of $37,233,310 were not exposed to custodial credit risk because it was insured and collateralized with securities held by the District's agent in the District's name.

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. The District's investments are held by the District's agent in the District's name for the benefit of the District.

As of June 30, 2017, the Barbers Hill Independent School District Education Foundation had investments as follows:

			Fair Value Measurements Using			
Barbers Hill ISD Education Foundation	Moody's/ S&P Rating	June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Percentage of Total Investments
Money market funds	Not Rated	$ 1,532,263	$ -	$ 1,532,263	$ -	7%
Fixed income funds	BBB- to AA+	5,362,464	-	5,362,464	-	26%
Equity securities	Not Rated	13,880,790	13,880,790	-	-	67%
Total value		$ 20,775,517	$ 13,880,790	$ 6,894,727	$ -	100%
Portfolio weighted average maturity						

The Foundation does not have an investment policy.

Money Market Funds classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Fixed Income Funds (Corporate Bonds) classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Mutual Funds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

Equity Securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

B. Receivables

Tax revenues of the general and debt service funds are reported net of estimated uncollectible amounts. Total change in uncollectible amounts related to revenues of the current period increased (decreased) revenues as follows:

Change in uncollectibles related to General Fund property taxes	$	(29,901)
Change in uncollectibles related to Debt Service property taxes		(8,318)
Total uncollectibles of the current fiscal year	$	(38,219)

Approximately 33% of the outstanding balance of property taxes is not anticipated to be collected within the next year.

A concentration of risk exists for local revenue sources since approximately 38% of the District's taxable property value is attributed to three taxpayers. Similarly, the District's ten largest taxpayers approximate 70% of the total taxable value of the District.

C. Interfund Receivables, Payables, and Transfers

1. Receivables/Payables

The composition of interfund receivable/payable balances as of June 30, 2017, is as follows:

Due From/To Other Funds		Interfund Receivables		Interfund Payables
General Fund	$	193,573	$	-
Nonmajor governmental funds		-		193,573
Totals	$	193,573	$	193,573

Interfund balances consist of short-term lending/borrowing arrangements that result primarily from payroll and other regularly occurring charges that are primarily paid by the general fund and then charged back to the appropriate other fund. Additionally, some lending/borrowing may occur between two or more nonmajor governmental funds.

2. Transfers

There were no interfund transfers between the various funds at June 30, 2017.

D. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2017 was as follows:

		Beginning Balance		Additions		Reductions		Transfers & Adjustments		Ending Balance
Governmental activities:										
Capital assets, not being depreciated:										
Land and improvements	$	4,695,478	$	8,101	$	-	$	48,129	$	4,751,708
Construction in progress		10,870,429		8,531,055		(619,717)		(10,139,342)		8,642,425
Total capital assets, not being depreciated		15,565,907		8,539,156		(619,717)		(10,091,213)		13,394,133
Capital assets, being depreciated:										
Buildings and improvements		201,918,301		4,254,534		-		9,679,727		215,852,562
Furniture and equipment		20,821,071		1,072,367		(455,960)		411,486		21,848,964
Total capital assets, being depreciated		222,739,372		5,326,901		(455,960)		10,091,213		237,701,526
Less accumulated depreciation for:										
Buildings and improvements		(50,793,363)		(4,347,362)		-		-		(55,140,725)
Furniture and equipment		(13,617,137)		(1,458,161)		447,901		-		(14,627,397)
Total accumulated depreciation		(64,410,500)		(5,805,523)		447,901		-		(69,768,122)
Total capital assets, being depreciated, net		158,328,872		(478,622)		(8,059)		10,091,213		167,933,404
Governmental activities capital assets, net	$	173,894,779	$	8,060,534	$	(627,776)	$	-	$	181,327,537

Depreciation expense was charged to functions/programs of the District as follows:

Governmental activities:		
11 Instruction	$	3,182,932
12 Instructional resources and media services		55,995
13 Curriculum and staff development		2,271
23 School leadership		176
31 Guidance, counseling, & evaluation services		144
33 Health services		750
34 Student transportation		445,981
35 Food service		49,567
36 Extracurricular activities		582,111
41 General administration		104,988
51 Plant maintenance and operations		1,184,279
52 Security and monitoring services		125,085
53 Data processing services		71,244
Total depreciation expense-governmental activities	$	5,805,523

Construction Commitments

The District has active construction projects as of June 30, 2017. The projects include the construction and equipment of school facilities. At year-end, the District's commitments with contractors are as follows:

Project		Remaining Commitment
High school additions and renovations	$	19,569,605
Totals	$	19,569,605

The commitment for construction and equipment of school facilities is being financed by general obligation bonds secured by tax revenues and local funds.

E. Long-term Liabilities

The District's long-term liabilities consist of bond indebtedness, note payable, workers' compensation claims, compensated absences, and net pension liability. The current requirements for general obligation bonds principal and interest expenditures are accounted for in the debt service fund. The general fund has been used to liquidate any other long-term liability not accounted for in the debt service fund.

Changes in Long-term Liabilities
Long-term liability activity for the fiscal year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	$ 191,180,000	$ 13,860,000	$ (11,410,000)	$ 193,630,000	$ 12,930,000
Less deferred amounts:					
For issuance premiums (CIB's)	16,099,394	1,362,957	(1,346,916)	16,115,435	-
For issuance discounts (CIB's)	(39,116)	-	3,072	(36,044)	-
Total bonds payable, net	207,240,278	15,222,957	(12,753,844)	209,709,391	12,930,000
Note payable	3,269,499	-	-	3,269,499	-
Workers' compensation	137,331	2,447	(38,622)	101,156	101,156
Compensated absences	37,565	655	(6,986)	31,234	31,234
Net pension liability	13,409,800	2,100,987	(1,260,479)	14,250,308	-
Governmental activities long-term liabilities	$ 224,094,473	$ 17,327,046	$ (14,059,931)	$ 227,361,588	$ 13,062,390

General Obligation Bonds
The District issues general obligation bonds to provide funds for the construction and equipment of school buildings (BLDG and QSCB) and to refund general obligation bonds (REF).

General obligation bonds are direct obligations and pledge the full faith and credit of the District.

The following is a summary of changes in the general obligation bonds for the fiscal year:

Series	Interest Rate	Original Issue	Maturity Date	Beginning Balance	Additions	Reductions	Ending Balance
2007 BLDG	4.00-5.50%	$ 9,660,000	2025	$ 3,130,000	$ -	$ (300,000)	$ 2,830,000
2010 REF	3.00-4.00%	2,340,000	2027	1,650,000	-	(120,000)	1,530,000
2011 BLDG	4.25-4.50%	9,450,000	2036	9,450,000	-	-	9,450,000
2012 BLDG	2.00-5.00%	65,395,000	2037	61,835,000	-	(1,820,000)	60,015,000
2012 QSCB	3.88%	7,085,000	2029	7,085,000	-	-	7,085,000
2012 REF	2.00-5.00%	7,220,000	2022	4,945,000	-	(755,000)	4,190,000
2013 REF	2.00-3.00%	9,375,000	2029	7,370,000	-	-	7,370,000
2014 BLDG	2.00-5.00%	42,895,000	2025	40,615,000	-	(4,130,000)	36,485,000
2014 REF	2.00-5.00%	21,195,000	2030	19,880,000	-	(1,295,000)	18,585,000
2014A REF	2.00-5.00%	28,885,000	2027	26,480,000	-	(1,895,000)	24,585,000
2015 REF	2.00-4.00%	8,845,000	2032	8,740,000	-	-	8,740,000
2016 BLDG	2.00-4.00%	13,860,000	2037	-	13,860,000	(1,095,000)	12,765,000
Totals				$ 191,180,000	$ 13,860,000	$ (11,410,000)	$ 193,630,000

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30	Principal	Interest	Total Requirements
2018	$ 12,930,000	$ 8,012,823	$ 20,942,823
2019	12,250,000	7,541,923	19,791,923
2020	12,410,000	6,982,623	19,392,623
2021	12,635,000	6,427,261	19,062,261
2022	12,775,000	5,859,511	18,634,511
2023	12,920,000	5,318,573	18,238,573
2024	13,085,000	4,780,698	17,865,698
2025	13,000,000	4,251,686	17,251,686
2026	9,375,000	3,715,435	13,090,435
2027	9,755,000	3,334,360	13,089,360
2028	7,300,000	2,958,360	10,258,360
2029	14,805,000	2,693,060	17,498,060
2030	6,565,000	2,124,462	8,689,462
2031	5,945,000	1,861,862	7,806,862
2032	5,965,000	1,624,062	7,589,062
2033	6,235,000	1,379,137	7,614,137
2034	6,535,000	1,083,862	7,618,862
2035	6,850,000	779,312	7,629,312
2036	7,145,000	457,375	7,602,375
2037	5,150,000	184,325	5,334,325
Totals	$ 193,630,000	$ 71,370,710	$ 265,000,710

As of June 30, 2017, the District has $120,000,000 of authorized but unissued bonds from the January 2017 bond election or any other election.

Beginning February 2015, the 2012 Qualified School Construction Bond (QSCB) payments are deposited annually into an escrow account in the Debt Service Fund until maturity of the bonds on February 15, 2029. At which time, the accumulation of deposits will total $7,085,000 and will pay off the outstanding QSCB debt.

In prior years, the District defeased certain previously issued and outstanding bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District’s financial statements. At June 30, 2017, the District had no outstanding defeased bonds.

Note Payable

On March 23, 2009, the District received a community disaster loan from the Federal Emergency Management Agency (FEMA) in the amount of $5,000,000. The interest rate on the loan is 2.00%. The District submitted a cancellation application to FEMA on January 27, 2014 as a result of the major disaster declaration on September 13, 2008 for the State of Texas. The application was approved by FEMA for a partial cancellation in the amount of $1,730,501. Principal and interest on the original loan was due on April 27, 2014. A time extension was granted by FEMA to extend the loan due date until April 27, 2019. Debt service requirements due April 27, 2019 include principal of $3,269,499 and interest of $650,675.

F. Fund Balance

Other committed fund balance includes the following commitments of funds:

General Fund:		
Potential property value decline	$	9,000,000
Total other committed fund balance	$	9,000,000

G. Revenues from Local and Intermediate Sources

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

	General Fund	Debt Service Fund	Capital Projects Fund	Total Nonmajor Funds	Totals
Property taxes	$ 57,435,775	$ 20,004,785	$ -	$ -	$ 77,440,560
Charges for services	664,518	-	-	2,337,719	3,002,237
County equalization	2,020,122	-	-	-	2,020,122
Investment earnings	186,796	48,978	132,065	116	367,955
Other	222,894	-	251,067	-	473,961
Totals	$ 60,530,105	$ 20,053,763	$ 383,132	$ 2,337,835	$ 83,304,835

Note 4. Other Information

A. Risk Management

General

Like all public school districts, the District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the fiscal year 2017, the District purchased commercial insurance or participated in risk pools in which the District transfers the risk for claims related to property and liability risks.

Health Care Coverage

During the year ended June 30, 2017, employees of the District were covered by TRS-Active Care (the Plan) a statewide health coverage program for Texas public education employees, implemented by the Teacher Retirement System of Texas (TRS). The District paid premiums of $175 per month, per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to the TRS. The legislature created the Plan for public school employee group health coverage in 2002-03, requiring all Districts with fewer than 500 employees to participate in the Plan.

Workers' Compensation

During the year ended June 30, 2017, the District met its statutory workers' compensation obligations 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 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.

Barbers Hill ISD 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 Fund and its members are protected against higher than expected claims costs through the purchase of stop loss coverage for any claim in excess of the Fund's self-insured retention of $2 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 fiscal year ended June 30, 2017, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contributions and reimbursable aggregate deductibles.

The liability estimation requires the estimate of loss development over an extended period of time. During the self-insurance period of time, numerous internal and external factors will affect the ultimate settlement value of claims. Due to the inherent uncertainty with regard to the impact of these factors, there can be no guarantee that actual losses will not vary, perhaps significantly, from the estimates. There were no significant reductions in insurance coverage from the prior year or settlements exceeding insurance coverage for each of the past three fiscal years. The following is a summary of the changes in the balances of claims liabilities for workers' compensation for the fiscal year ended June 30:

	Year Ended 6/30/2017	Year Ended 6/30/2016
Unpaid claims, beginning of fiscal year	$ 137,331	$ 170,416
Incurred claims (including IBNR's and changes in provisions)	2,447	92,990
Claim payments	(38,622)	(126,075)
Unpaid claims, end of fiscal year	$ 101,156	$ 137,331

The Fund engages the services of independent auditors to conduct a financial audit after the close of each plan year on August 31. The audit is approved by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2015, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

B. Contingencies

The District participates in a number of federal and state financial assistance programs. Although the District's grant programs have been audited in accordance with the provisions of the Single Audit Act through June 30, 2017, these programs are subject to financial and compliance audits by the grantor agencies. The District is also subject to audit by the TEA of the attendance data upon which payments from the agency are based. These audits could result in questioned costs or refunds to be paid back to the granting agencies.

C. Defined Benefit Pension Plan

Plan Description

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

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

Pension Plan Fiduciary Net Position

Detailed information about the TRS's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information. That report may be obtained on the Internet at http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR; 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 Plan fiscal year 2015. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for plan fiscal years 2016 and 2017. Rates for such plan fiscal years are as follows:

	2017	2016	2015
Member	7.7%	7.2%	6.7%
Non-employer contributing entity (state)	6.8%	6.8%	6.8%
Employers/district	6.8%	6.8%	6.8%

The contribution amounts for the District's fiscal year 2017 are as follows:

		2016
District contributions	$	1,011,809
Member contributions		3,142,962
NECE on-behalf contributions (state)		2,050,468

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

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

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

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

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

Actuarial Assumptions

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

Valuation date	August 31, 2016
Actuarial cost method	Individual entry age normal
Asset valuation method	Market value
Single discount rate	8.00%
Long-term expected investment rate of return	8.00%
Municipal Bond Rate*	N/A*
Last year ending August 31 in the 2016 to 2115 projection period (100 years)	2115
Inflation	2.5%
Salary increases including inflation	3.5% to 9.5%
Benefit changes during the year	None
Ad hoc post-employment benefit changes	None

*If a municipal bond rate was to be used, the rate would be 2.84% as of August 2016 (i.e. the weekly rate closest to but not later than the Measurement Date). The source for the rate is the Federal Reserve Statistical Release H.15, citing the Bond Buyer Index of general obligation bonds with 20 years to maturity and an average AA credit rating.

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:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns*
Global equity			
U.S.	18.0%	4.6%	1.0%
Non-U.S. developed	13.0%	5.1%	0.8%
Emerging markets	9.0%	5.9%	0.7%
Directional hedge funds	4.0%	3.2%	0.1%
Private equity	13.0%	7.0%	1.1%
Stable value			
U.S. treasuries	11.0%	0.7%	0.1%
Absolute return	0.0%	1.8%	0.0%
Stable value hedge funds	4.0%	3.0%	0.1%
Cash	1.0%	-0.2%	0.0%
Real return			
Global inflation linked bonds	3.0%	0.9%	0.0%
Real assets	16.0%	5.1%	1.1%
Energy and natural resources	3.0%	6.6%	0.2%
Commodities	0.0%	1.2%	0.0%
Risk parity			
Risk parity	5.0%	6.7%	0.3%
Inflation expectation	-	-	2.2%
Alpha	-	-	1.0%
Totals	100.0%		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 table presents the District's proportionate share of net pension liability for TRS calculated using the discount rate of 8.0%, as well as the District's proportionate share of the respective net pension liability if it was calculated using a discount rate that is 1-percentage-point lower (7%) or 1-percentage-point higher (9%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
TRS	$ 22,054,676	$ 14,250,308	$ 7,630,626

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

At June 30, 2017, the District reported a liability of $14,250,308 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District are as follows:

District's proportionate share of the net pension liability	$ 14,250,308
State's proportionate share of the net pension liability associated with the District	23,482,791
Total	$ 37,733,099

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

At August 31, 2016, the employer's proportion of the collective net pension liability was .0377107%, which was a decrease of .0002251% from its proportion measured as of August 31, 2015.

Changes Since the Prior Actuarial Valuation

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

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

For the fiscal year ended June 30, 2017, the District recognized pension expense of $4,610,531 and on-behalf revenue of $2,436,954 for support provided by the State.

At June 30, 2017, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actuarial economic experience	$ 223,442	$ 425,506
Changes in actuarial assumptions	434,324	395,000
Net difference between projected and actual earnings on pension plan investments	2,746,054	1,539,367
Changes in proportion and differences between District contributions and proportionate share of contributions (cost-sharing plan)	1,973,185	1,345
District contribution after measurement date	1,011,809	-
Totals	$ 6,388,814	$ 2,361,218

$1,011,809 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources (deferred inflows of resources) related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	
2018	$ 505,589
2019	505,589
2020	1,275,272
2021	446,456
2022	230,088
Thereafter	52,793
Totals	$ 3,015,787

D. School District Retiree Health Plan

Plan Description

The Barbers Hill Independent School District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The Teacher Retirement System of Texas issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS website at www.trs.state.tx.us under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8778, or by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701.

Funding Policy

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

Contribution Rates and Amounts

	Active Member		State		School District	
Year	Rate	Amount	Rate	Amount	Rate	Amount
2017	0.65%	$ 268,013	1.00%	$ 404,638	0.55%	$ 226,780
2016	0.65%	$ 255,443	1.00%	$ 385,501	0.55%	$ 216,144
2015	0.65%	$ 236,116	1.00%	$ 355,648	0.55%	$ 199,790

In addition, the State of Texas contributed $201,168, $122,807, and $109,797 in 2017, 2016, and 2015, respectively, for on-behalf payments for Medicare Part D.

For the current fiscal year and each of the past two years, the District’s actual contributions were equal to 100 percent of the required contributions. The contributions made by the State are on behalf of the District and have been recorded in the governmental funds’ financial statements of the District as both state revenues and expenditures. These contributions are the legal responsibility of the State.

Note 5. Tax Abatements

Barbers Hill Independent School District entered into property tax abatement agreements with local businesses under Texas Tax Code, Title 3. Subtitle B. Chapter 313. Texas Economic Development Act (the Act) beginning September 1, 2009 through November 18, 2016. Under the Act, Texas school districts may grant property tax abatements according to the category of taxable value of property in the District for the preceding tax year. Barbers Hill Independent School District is a Category II district, which limits the minimum amount per qualified investment to $80 million. The qualified property is limited only from maintenance and operation (M&O) property tax. The tax abatements, which are approved by the Texas Comptroller’s office and the District’s board of trustees, are granted for the purpose of enhancing the local community; improving the public education system; creating high-paying jobs; and advancing economic development goals.

The agreements were for local businesses to invest a minimum capital investment totaling $680,000,000 within the District’s boundaries during a qualifying period and to create jobs. Such investments would be limited to taxable value of the lesser of qualified appraised value or the agreements that range individually from $30,000,000 to $80,000,000. The District’s tax abatements expire in increments beginning in December 31, 2020 through December 31, 2023.

For the fiscal year ended June 30, 2017, the District foregoes collecting property taxes totaling $31,108,743 resulting from the M&O tax rate of $1.06 per $100 of taxable value. The qualified property per the agreements had a taxable value of $3,354,787,088 and was limited to a taxable value of $420,000,000. However, in foregoing the property tax revenue, the District receives state funding through the Foundation School Program funding formula to offset the loss of property tax revenues. In addition, the local businesses receiving such property tax abatements have committed to compensate the District for the loss of M&O revenue, reimburse the District for all non-reimbursed costs for extraordinary education related expenses not funded by state aid, and compensate the District for the greater of $100 per student per average daily attendance (ADA) or $50,000 during the term of the agreement.

Note 6. Subsequent Events

Sale of Bonds

In July 2017, the District sold $45,620,000 of Unlimited Tax School Buildings Bonds, Series 2017. The bonds consist of $36,955,000 of serial bonds maturing in varying amounts from 2018 through 2039 with coupons ranging from 2.00% to 5.00%, as well as $8,665,000 in term bonds maturing on February 15, 2042 with a coupon of 4.00%. Proceeds from the sale of the bonds will be used to acquire, construct and equip school buildings in the District, purchase new school buses, and pay for costs of issuing the bonds.

Damages Resulting from Hurricane Harvey

In August 2017, the District was effected by a hurricane and flooding. The extent of the damage and the cost to the District has not yet been determined. The District will seek reimbursement from the insurance carrier first and then the District expects to file a claim with FEMA as the District is in the area declared a national disaster.

Note 7. Subsequent Event and Restatement

Subsequently, the District incurred a property tax refund of $677,760 and $172,522 for the general fund and debt service fund, respectively. Such refund of property tax in the general fund resulted in additional accrual of state revenue of $441,225 and a reduction in expenditures of $234,413 related to recapture for the period ended June 30, 2017. The government-wide governmental activities financial statements and the respective fund level financial statements were restated for such items. The effect on net position and fund balance for such changes are as follows:

	Governmental Activities	General Fund	Debt Service Fund
Net position decreased	$ 174,644	$ -	$ -
Fund balance decreased	-	2,122	172,522

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Required Supplementary Information

Barbers Hill Independent School District **Exhibit G-1**

Required Supplementary Information
General Fund
Schedule of Revenues, Expenditures, and Changes in
Fund Balance-Budget and Actual
For the Fiscal Year Ended June 30, 2017

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance with Final Budget Positive (Negative)
	REVENUES				
5700	Local and intermediate revenues	$ 60,490,503	$ 61,594,503	$ 60,530,105	$ (1,064,398)
5800	State program revenues	17,143,068	17,252,068	14,086,523	(3,165,545)
5900	Federal program revenues	255,000	374,000	362,782	(11,218)
5020	Total revenues	77,888,571	79,220,571	74,979,410	(4,241,161)
	EXPENDITURES				
	Current:				
0011	Instruction	32,212,640	32,212,640	31,967,767	244,873
0012	Instructional resources and media services	637,196	637,196	628,788	8,408
0013	Curriculum and staff development	888,441	888,441	867,450	20,991
0021	Instructional leadership	309,640	309,640	267,761	41,879
0023	School leadership	3,270,623	3,290,623	3,268,096	22,527
0031	Guidance, counseling, and evaluation services	1,913,992	1,913,992	1,847,792	66,200
0032	Social work services	77,433	77,433	76,093	1,340
0033	Health services	740,335	766,335	750,410	15,925
0034	Student transportation	2,034,456	2,034,456	1,300,794	733,662
0035	Food service	38,302	38,302	-	38,302
0036	Extracurricular activities	2,145,759	2,447,759	2,418,653	29,106
0041	General administration	2,217,579	2,624,579	2,465,917	158,662
0051	Plant maintenance and operations	6,815,299	6,815,299	6,584,232	231,067
0052	Security and monitoring services	425,193	454,193	438,275	15,918
0053	Data processing services	1,020,413	1,043,413	1,034,597	8,816
0061	Community services	32,275	32,275	32,229	46
	Intergovernmental:				
0091	Contracted instructional services between schools	16,000,000	16,600,000	16,301,244	298,756
0095	Payments to juvenile justice alternative education programs	84,000	84,000	68,800	15,200
0099	Other intergovernmental charges	615,000	615,000	475,464	139,536
6030	Total expenditures	71,478,576	72,885,576	70,794,362	2,091,214
1100	Excess (deficiency) of revenues over (under) expenditures	6,409,995	6,334,995	4,185,048	(2,149,947)
	OTHER FINANCING SOURCES (USES)				
7949	State revenue pursuant to tax refund	-	1,470,000	1,469,046	(954)
8948	Tax refund pursuant to Texas Tax Code 313	(1,469,045)	(1,469,045)	(1,469,046)	(1)
7080	Total other financing sources (uses)	(1,469,045)	955	-	(955)
1200	Net change in fund balance	4,940,950	6,335,950	4,185,048	(2,150,902)
0100	Fund balance - beginning	33,250,509	33,250,509	33,250,509	-
3000	**FUND BALANCE - ENDING**	$ 38,191,459	$ 39,586,459	$ 37,435,557	$ (2,150,902)

The Notes to the Required Supplementary Information are an integral part of this statement.

Barbers Hill Independent School District **Exhibit G-2**

Required Supplementary Information
Schedule of the District's Proportionate Share of the Net Pension Liability
of a Cost-Sharing Multiple-Employer Pension Plan
Teacher Retirement System of Texas
For the Last Three Fiscal Years*

	2017	2016	2015
District's proportion of the net pension liability	0.0377107%	0.0379358%	0.0289778%
District's proportionate share of the net pension liability	$ 14,250,308	$ 13,409,800	$ 7,740,371
State's proportionate share of the net pension liability associated with the District	23,482,791	21,228,484	17,284,882
Totals	$ 37,733,099	$ 34,638,284	$ 25,025,253
District's covered-employee payroll	$ 39,867,733	$ 36,566,914	$ 34,374,026
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	35.74%	36.67%	22.52%
Plan fiduciary net position as a percentage of the total pension liability	78.00%	78.43%	83.25%

* The amounts presented for the fiscal years were determined as of the Plan's fiscal year end, August 31 of the prior year. Ten years of data is not available.

The Notes to the Required Supplementary Information are an integral part of this statement.

Barbers Hill Independent School District **Exhibit G-3**

Required Supplementary Information
Schedule of the District's Contributions to the
Teacher Retirement System of Texas Pension Plan
For the Last Three Fiscal Years*

	2017	2016	2015
TRS			
Contractually required contributions	$ 1,011,809	$ 1,185,438	$ 1,062,115
Contributions in relation to the contractually Required contributions	(1,011,809)	(1,185,438)	(1,062,115)
Contribution deficiency (excess)	$ -	$ -	$ -
District's covered-employee payroll	$ 41,232,770	$ 39,298,947	$ 36,325,507
Contributions as a percentage of covered-employee payroll	2.45%	3.02%	2.92%

* The amounts presented for the fiscal years were determined as of the District's fiscal year end June 30.
Ten years of data is not available.

The Notes to the Required Supplementary Information are an integral part of this statement.

Note 1. Budget

A. Budgetary Information

Each school district in Texas is required by law to prepare annually a budget of anticipated revenues and expenditures for the general fund, debt service fund, and the National School Breakfast and Lunch Program special revenue fund. The Texas Education Code requires the budget to be prepared not later than June 19 and adopted by June 30 of each year. The budgets are prepared on a basis of accounting that is used for reporting in accordance with generally accepted accounting principles.

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

1. Prior to June 19 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
3. Prior to July 1, the budget is formally approved and adopted by the Board.

The appropriated budget is prepared by fund and function. The District's campus/department heads may make transfers of appropriations within a campus or department. Transfers of appropriations between campuses or departments require the approval of the District's management. Increasing any one of the functional spending categories, or revenues object accounts and other resources require the approval of the Board. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the function level within a fund. All annual appropriations lapse at fiscal year end.

B. Variances Between Original and Final Budget and Final Budget and Actual

The District's general fund budget differs from the original budget primarily due to the following budget revisions that were made during the fiscal period:

- The net increase of $1,332,000 to estimated revenues in the final amended budget was primarily from revised estimates for certified taxable values, which resulted in increased property tax collections.

The District's variances between final general fund budget and actual consist primarily of the following:

- The variance of $3,165,545 in state program revenues from the final budget is a result of a decrease in state funding factors.

Note 2. Pension

TRS – Actuarial Assumptions for Contribution Rate

Actuarial Assumptions – The information presented in the following table was used in the actuarial valuation for determining the actuarially determined contribution rate. The assumptions are as follows:

Valuation date	August 31, 2016
Actuarial cost method	Ultimate entry age normal
Amortization method	Level percentage of payroll, Floating
Remaining amortization period	33 years
Asset valuation method	5 year smoothed market
Actuarial assumptions:	
Inflation	2.50%
Salary increases	3.50% to 9.50% including inflation
Investment rate of return	8.00%
Ad hoc post-employment benefit changes	None
Benefit changes during the year	None

Supplementary Information

Barbers Hill Independent School District
Combining Balance Sheet
Nonmajor Governmental Funds - Special Revenue Funds
June 30, 2017

Data Control Codes		211 ESEA Title I, Part A - Improving Basic Programs	224 IDEA-Part B Formula
	ASSETS		
1110	Cash and cash equivalents	$ -	$ -
1240	Due from other governments	63,056	200,523
1000	**TOTAL ASSETS**	$ 63,056	$ 200,523
	LIABILITIES		
2110	Accounts payable	$ -	$ 207
2150	Payroll deductions and withholdings	992	2,416
2160	Accrued wages payable	24,422	72,173
2170	Due to other funds	37,642	125,727
2180	Due to other governments	-	-
2300	Unearned revenue	-	-
2000	Total liabilities	63,056	200,523
	FUND BALANCES		
3450	Restricted - grants	-	-
	Total fund balances	-	-
	TOTAL LIABILITIES AND FUND BALANCES	$ 63,056	$ 200,523

225	240	244	255	263	289
IDEA-Part B Preschool	National School Breakfast/Lunch Program	Career and Technical Basic Grant	ESEA Title II, Part A,: Teacher & Principal Training & Recruiting	Title III, Part A English Language Acquisition and Enhancement	Title VI Summer School L.E.P.
$ -	$ 837,487	$ -	$ -	$ 13	$ -
3,016	-	6,667	13,874	250	-
$ 3,016	$ 837,487	$ 6,667	$ 13,874	$ 263	$ -
$ -	$ -	$ -	$ -	$ -	$ -
36	8,410	-	591	-	-
1,920	129,608	-	8,424	-	-
1,060	-	6,667	4,859	-	-
-	-	-	-	263	-
-	-	-	-	-	-
3,016	138,018	6,667	13,874	263	-
-	699,469	-	-	-	-
-	699,469	-	-	-	-
$ 3,016	$ 837,487	$ 6,667	$ 13,874	$ 263	$ -

Barbers Hill Independent School District
Combining Balance Sheet
Nonmajor Governmental Funds - Special Revenue Funds - Continued
June 30, 2017

Data Control Codes		397 Advanced Placement Incentives	404 Student Success Initiatives
	ASSETS		
1110	Cash and cash equivalents	$ -	$ 81
1240	Due from other governments	-	-
1000	**TOTAL ASSETS**	$ -	$ 81
	LIABILITIES		
2110	Accounts payable	$ -	$ -
2150	Payroll deductions and withholdings	-	-
2160	Accrued wages payable	-	-
2170	Due to other funds	-	-
2180	Due to other governments	-	-
2300	Unearned revenue	-	-
2000	Total liabilities	-	-
	FUND BALANCES		
3450	Restricted - grants	-	81
	Total fund balances	-	81
	TOTAL LIABILITIES AND FUND BALANCES	$ -	$ 81

410	429	
State Textbook Fund	**Pre-K Grant Program**	**Total Nonmajor Funds (See Exhibit C-1)**
$ 23,111	$ -	$ 860,692
-	21,096	308,482
$ 23,111	$ 21,096	$ 1,169,174
$ -	$ -	$ 207
-	62	12,507
-	3,416	239,963
-	17,618	193,573
-	-	263
23,111	-	23,111
23,111	21,096	469,624
-	-	699,550
-	-	699,550
$ 23,111	$ 21,096	$ 1,169,174

Barbers Hill Independent School District
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds - Special Revenue Funds
For the Fiscal Year Ended June 30, 2017

Data Control Codes		211 ESEA Title I, Part A - Improving Basic Programs	224 IDEA-Part B Formula
	REVENUES		
5700	Local and intermediate revenues	$ -	$ -
5800	State program revenues	-	-
5900	Federal program revenues	247,389	678,095
5020	Total revenues	247,389	678,095
	EXPENDITURES		
	Current:		
0011	Instruction	221,084	678,095
0013	Curriculum and staff development	26,005	-
0032	Social work services	300	-
0035	Food service	-	-
6030	Total expenditures	247,389	678,095
1100	Excess (deficiency) of revenues		
1100	over (under) expenditures	-	-
1200	Net change in fund balances	-	-
0100	Fund balances - beginning	-	-
3000	**FUND BALANCES - ENDING**	$ -	$ -

225	240	244	255	263	289
IDEA-Part B Preschool	National School Breakfast/Lunch Program	Career and Technical Basic Grant	ESEA Title II, Part A,: Teacher & Principal Training & Recruiting	Title III, Part A English Language Acquisition and Enhancement	Title VI Summer School L.E.P.
$ -	$ 2,337,835	$ -	$ -	$ -	$ -
-	55,834	-	-	-	-
12,593	443,877	31,463	58,392	6,404	1,165
12,593	2,837,546	31,463	58,392	6,404	1,165
12,593	-	27,834	58,392	3,659	1,165
-	-	3,629	-	2,745	-
-	-	-	-	-	-
-	2,638,873	-	-	-	-
12,593	2,638,873	31,463	58,392	6,404	1,165
-	198,673	-	-	-	-
-	198,673	-	-	-	-
-	500,796	-	-	-	-
$ -	$ 699,469	$ -	$ -	$ -	$ -

Barbers Hill Independent School District
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds - Special Revenue Funds - Continued
For the Fiscal Year Ended June 30, 2017

Data Control Codes		397 Advanced Placement Incentives	404 Student Success Initiatives
	REVENUES		
5700	Local and intermediate revenues	$ -	$ -
5800	State program revenues	12,600	-
5900	Federal program revenues	-	-
5020	Total revenues	12,600	-
	EXPENDITURES		
	Current:		
0011	Instruction	-	-
0013	Curriculum and staff development	12,600	-
0032	Social work services	-	-
0035	Food service	-	-
6030	Total expenditures	12,600	-
1100	Excess (deficiency) of revenues		
1100	over (under) expenditures	-	-
1200	Net change in fund balances	-	-
0100	Fund balances - beginning	-	81
3000	**FUND BALANCES - ENDING**	$ -	$ 81

410	429	
State Textbook Fund	**Pre-K Grant Program**	**Total Nonmajor Funds (See Exhibit C-2)**
$ -	$ -	$ 2,337,835
92,537	43,510	204,481
-	-	1,479,378
92,537	43,510	4,021,694
92,537	43,510	1,138,869
-	-	44,979
-	-	300
-	-	2,638,873
92,537	43,510	3,823,021
-	-	198,673
-	-	198,673
-	-	500,877
$ -	$ -	$ 699,550

Barbers Hill Independent School District
Schedule of Delinquent Taxes Receivable
For the Fiscal Year Ended June 30, 2017

	1	2	3
Year Ended June 30	Tax Rates		Assessed/Appraised Value For School Tax Purposes
	Maintenance	Debt Service	
2008 and prior years	$ Various	$ Various	$ Various
2009	1.0601	.2698	3,245,583,126
2010	1.0601	.2698	2,886,732,837
2011	1.0601	.2698	2,788,955,260
2012	1.0600	.2698	3,262,025,643
2013	1.0600	.2698	3,947,441,269
2014	1.0600	.2698	4,055,523,537
2015	1.0600	.2698	4,805,775,079
2016	1.0600	.2698	5,586,723,191
2017 (School year under audit)	1.0600	.2698	4,874,789,592
1000 TOTALS			

9000 - Portion of Row 1000 for Taxes Paid into Tax Increment Zone Under Chapter 311, Tax Code

Exhibit J-1

10 Beginning Balance 7/1/16	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 6/30/17
$ 1,066,547	$ -	$ 126,961	$ 23,164	$ (36,071)	$ 880,351
46,080	-	460	128	-	45,492
54,407	-	572	145	-	53,690
42,195	-	795	202	-	41,198
39,334	-	1,848	471	138	37,153
42,811	-	4,057	1,033	577	38,298
53,332	-	8,421	2,144	2,969	45,736
194,639	-	106,674	27,153	1,915	62,727
2,458,845	-	1,862,606	474,122	(9,768)	112,349
-	64,824,952	44,954,753	19,360,300	813,591	1,323,490
$ 3,998,190	$ 64,824,952	$ 47,067,147	$ 19,888,862	$ 773,351	$ 2,640,484
		$ -	$ -		

Barbers Hill Independent School District **Exhibit J-2**

Schedule of Revenues, Expenditures, and Changes
in Fund Balance – Budget and Actual
National School Breakfast and Lunch Program
For the Fiscal Year Ended June 30, 2017

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance with Final Budget Positive (Negative)
	REVENUES				
5700	Local and intermediate revenues	$ 2,265,000	$ 2,348,000	$ 2,337,835	$ (10,165)
5800	State program revenues	6,000	60,000	55,834	(4,166)
5900	Federal program revenues	379,000	454,000	443,877	(10,123)
5020	Total revenues	2,650,000	2,862,000	2,837,546	(24,454)
	EXPENDITURES				
	Current:				
	Support services - student (pupil):				
0035	Food service	2,545,999	2,653,999	2,638,873	15,126
	Total support services - student (pupil)	2,545,999	2,653,999	2,638,873	15,126
6030	Total expenditures	2,545,999	2,653,999	2,638,873	15,126
1200	Net change in fund balance	104,001	208,001	198,673	(9,328)
0100	Fund balance - beginning	500,796	500,796	500,796	-
3000	**FUND BALANCE - ENDING**	$ 604,797	$ 708,797	$ 699,469	$ (9,328)

Barbers Hill Independent School District **Exhibit J-3**

Schedule of Revenues, Expenditures, and Changes
in Fund Balance – Budget and Actual
Debt Service Fund
For the Fiscal Year Ended June 30, 2017

Data Control Codes		Budgeted Amounts Original	Final	Actual	Variance with Final Budget Positive (Negative)
	REVENUES				
5700	Local and intermediate revenues	$ 19,541,364	$ 20,331,364	$ 20,053,763	$ (277,601)
5800	State program revenues	120,000	125,000	117,274	(7,726)
5020	Total revenues	19,661,364	20,456,364	20,171,037	(285,327)
	EXPENDITURES				
	Debt service:				
0071	Principal on long-term debt	10,785,000	11,410,000	11,410,000	-
0072	Interest on long-term debt	7,967,623	8,223,473	8,223,473	-
0073	Issuance costs and fees	15,000	22,150	6,850	15,300
	Total debt service	18,767,623	19,655,623	19,640,323	15,300
6030	Total expenditures	18,767,623	19,655,623	19,640,323	15,300
1100	Excess (deficiency) of revenues over (under) expenditures	893,741	800,741	530,714	(270,027)
	OTHER FINANCING SOURCES (USES)				
7916	Premium or (discount) on issuance of bonds	-	5,000	4,748	(252)
7080	Total other financing sources (uses)	-	5,000	4,748	(252)
1200	Net change in fund balance	893,741	805,741	535,462	(270,279)
0100	Fund balance - beginning	8,967,420	8,967,420	8,967,420	-
3000	**FUND BALANCE - ENDING**	$ 9,861,161	$ 9,773,161	$ 9,502,882	$ (270,279)

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Overall Compliance, Internal Control Section and Federal Awards

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Trustees of
Barbers Hill Independent School District
P.O. Box 1108
Mont Belvieu, Texas 77580

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Barbers Hill Independent School District (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 21, 2017.

Internal Control over Financial Reporting

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

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

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

The Board of Trustees of
Barbers Hill Independent School District

Compliance and Other Matters

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

Purpose of this Report

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

Emphasis of Matter

As discussed in Note 7 to the financial statements, the 2017 financial statements have been restated for a subsequent event. Our opinion is not modified with respect to this matter.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas
September 21, 2017, except as to Note 7, which is as of January 25, 2018

Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance

The Board of Trustees of
Barbers Hill Independent School District
P.O. Box 1108
Mont Belvieu, Texas 77580

Report on Compliance for Each Major Federal Program

We have audited Barbers Hill Independent School District's (the District) compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2017. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

The Board of Trustees of
Barbers Hill Independent School District

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Emphasis of Matter

As discussed in Note 7 to the financial statements, the 2017 financial statements have been restated for a subsequent event. Our opinion is not modified with respect to this matter.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas
September 21, 2017, except as to Note 7, which is as of January 25, 2018

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Barbers Hill Independent School District
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2017

Section 1. Summary of Auditor's Results

Financial Statements

1. Type of auditor's report issued	Unmodified
2. Internal Control over Financial Reporting:	
a. Material Weakness(es) identified?	No
b. Significant Deficiency(ies) identified that are not considered to be material weaknesses?	None reported
3. Noncompliance material to Financial Statements noted?	No

Federal Awards

4. Internal control over major programs:	
a. Material Weakness(es) identified?	No
b. Significant Deficiency(ies) identified that are not considered to be material weaknesses?	None reported
5. Type of auditor's report issued on compliance with major programs	Unmodified
6. Any Audit Findings Disclosed that are Required to be Reported in Accordance with Uniform Guidance	No
7. Identification of Major Programs	Special Education Cluster 84.027A and 84.173A
8. Dollar Threshold Used to Distinguish Between Type A and Type B Federal Programs	$750,000
9. Auditee Qualified as a Low-Risk Auditee?	Yes

Section 2. Financial Statement Findings

None reported

Section 3. Federal Award Findings and Questioned Costs

None reported

Barbers Hill Independent School District
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2017

Prior Year Findings

None reported

Barbers Hill Independent School District
Corrective Action Plan
For the Fiscal Year Ended June 30, 2017

Current Year Findings

None reported

Barbers Hill Independent School District **Exhibit K-1**

Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

(1) Federal Grantor/ Pass-Through Grantor/ Program Title	(2) Federal CFDA Number	(2A) Pass-Through Entity Identifying Number	(3) Federal Expenditures
U.S. GENERAL SERVICES ADMINISTRATION:			
Passed Through Texas Facilities Commission's Federal Surplus Program:			
Donation of Federal Surplus Personal Property	39.003	40140	$ 1,715
TOTAL U.S. DEPARTMENT OF EDUCATION			**1,715**
U.S. DEPARTMENT OF EDUCATION:			
Passed Through State Department of Education:			
ESEA Title I Part A - Improving Basic Programs	84.010A	17610101036902	241,985
ESEA Title I Part A - Improving Basic Programs	84.010A	16610101036902	5,404
Total Program 84.010A			**247,389**
Special Education Cluster (IDEA):			
IDEA - Part B Formula	84.027A	176600010369026600	672,454
IDEA - Part B Formula	84.027A	166600010369026600	5,641
IDEA - Part B Preschool	84.173A	176610010369026610	12,454
IDEA - Part B Preschool	84.173A	166610010369026610	139
Total Special Education Cluster (IDEA)			**690,688**
Carl D. Perkins Basic Formula Grant	84.048A	16420006036902	2,842
Carl D. Perkins Basic Formula Grant	84.048A	17420006036902	28,621
Total Program 84.048A			**31,463**
Title III Part A English Language Acquisition and Language Enhancement	84.365A	17671001036902	6,404
ESEA Title II Part A - Teacher & Principal Training & Recruiting	84.367A	17694501036902	57,651
ESEA Title II Part A - Teacher & Principal Training & Recruiting	84.367A	16694501036902	741
Total Program 84.367A			**58,392**
Title VI, Part A, Summer School LEP	84.369A	69551602	1,165
TOTAL U.S. DEPARTMENT OF EDUCATION			**1,035,501**
U.S. DEPARTMENT OF AGRICULTURE:			
Child Nutrition Cluster:			
Passed Through State Department of Agriculture - Non Cash Assistance:			
National School Lunch Program	10.555	00174	78,003
Passed Through State Department of Education - Cash Assistance:			
School Breakfast Program	10.553	71401701	95,051
National School Lunch Program	10.555	71301701	270,823
Total Child Nutrition Cluster			**443,877**
TOTAL U.S. DEPARTMENT OF AGRICULTURE			**443,877**
TOTAL EXPENDITURES OF FEDERAL AWARDS			**$ 1,481,093**

The Notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

Barbers Hill Independent School District

Notes to the Schedule of Expenditures of Federal Awards

June 30, 2017

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Barbers Hill Independent School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Single Audit Act Amendments of 1996 and *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. Presented below is a reconciliation of federal revenues:

Total expenditures of federal awards per Exhibit K-1	$	1,479,378
General Fund - federal revenue		
Interest subsidy on QSCB		256,067
SHARS		106,715
Total federal revenues per Exhibit C-2	$	1,842,160

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Barbers Hill Independent School District **Exhibit L-1**

Schedule of Required Responses to Selected
School FIRST Indicators (Unaudited)
For the Fiscal Year Ended June 30, 2017

Data Control Codes		Responses
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8	Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end?	$ -
SF11	Net pension assets (1920) at fiscal year-end.	$ -
SF12	Net pension liabilities (2540) at fiscal year-end.	$ 14,250,308
SF13	Pension expense (6147) at fiscal year-end, excluding On-behalf pension expense (6144).	$ 2,173,577

Financial Advisory Services
Provided By:

SAMCO CAPITAL MARKETS, INC.