Ratings: Moody's: "Aa2"
S&P: "AA"
(See "RATINGS" herein)

OFFICIAL STATEMENT
Dated: October 18, 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, including the alternative minimum tax consequences for corporations.

$26,075,000
BARBERS HILL INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Chambers County, Texas)
Unlimited Tax Refunding Bonds, Series 2018

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

The Barbers Hill Independent School District Unlimited Tax Refunding Bonds, Series 2018 (the "Bonds") are being issued pursuant to the Constitution and general laws of the State of Texas, including Chapter 1207, Texas Government Code, as amended ("Chapter 1207"), Chapter 1371, Texas Government Code, as amended ("Chapter 1371"), and an order (the "Bond Order") authorizing the issuance of the Bonds adopted on February 26, 2018 by the Board of Trustees (the "Board") of the Barbers Hill Independent School District (the "District"). As permitted by the provisions of Chapter 1207 and Chapter 1371, the Board, in the Bond Order, delegated the authority to certain District officials to execute approval of a pricing certificate establishing the pricing terms for the Bonds (the "Pricing Certificate") (the Pricing Certificate together with the Bond Order are collectively referred to herein as the "Order"). The Pricing Certificate was executed by the Assistant Superintendent of Finance of the District on October 18, 2018, which completed the sale of the Bonds. 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.

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 February 15, 2019, until stated maturity. The Bonds will be issued in fully registered form in principal denominations of $5,000 or any integral multiple thereof. Principal 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"), upon presentation and surrender of the Bonds for payment; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under "BOOK-ENTRY-ONLY SYSTEM" herein. 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 to (i) refund a portion of the District's outstanding bonds for debt service savings and (ii) pay the costs of issuing the Bonds. (See "THE BONDS - Authorization and Purpose" and "SCHEDULE I – Schedule of Refunded Bonds").

The Bonds are not subject to redemption prior to maturity.

MATURITY SCHEDULE
(On Inside Cover)

The Bonds are offered for delivery when, as and if issued, and received by the Underwriter subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Hunton Andrews Kurth LLP, Houston, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by its counsel, Bracewell LLP, Houston, Texas. The Bonds are expected to be available for initial delivery through the services of DTC on or about November 20, 2018.

PIPER JAFFRAY & CO.

$26,075,000
BARBERS HILL INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Chambers County, Texas)
UNLIMITED TAX REFUNDING BONDS, SERIES 2018

MATURITY SCHEDULE[(1)]
Base CUSIP No.: 067167[(2)]

Maturity Date 2/15	Principal Amount	Interest Rate	Initial Yield	CUSIP No. Suffix[(2)]
2019	$ 550,000	3.00%	1.97%	XV3
2020	4,655,000	5.00	2.14	XW1
2021	4,545,000	5.00	2.21	XX9
2022	4,360,000	5.00	2.33	XY7
2023	4,250,000	5.00	2.42	XZ4
2024	4,080,000	5.00	2.56	YA8
2025	3,635,000	5.00	2.64	YB6

(Interest to accrue from the Dated Date)

(1) The Bonds are not subject to redemption.

(2) 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, nor the Underwriter are responsible for the selection or correctness of the CUSIP numbers set forth herein.

BARBERS HILL INDEPENDENT SCHOOL DISTRICT

BOARD OF TRUSTEES

Name	Date Initially Elected	Current Term Expires	Occupation
Becky Tice, President	2009	2021	Finance Manager
George Barrera, Vice President	2002	2020	County Purchasing Agent
Cynthia Erwin, Secretary	2010	2019	Medical Sales
Eric Davis, Member	2018	2021	General Manager
Jef Farrell, Member	2014	2019	Municipal Supervisor
Chase Mitchell, Member	2018	2021	General Manager
Fred Skinner, Member	2007	2021	Engineer

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	9 Months	9 Months

CONSULTANTS AND ADVISORS

Hunton Andrews Kurth 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

This Official Statement, which includes the cover page, Schedule I 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 Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in the Official Statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

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, the Financial Advisor or the Underwriter. 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 "CONTINUING DISCLOSURE OF INFORMATION" for a description of the undertakings of 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.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER 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, OR THE UNDERWRITER MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY, NEW YORK, NEW YORK (“DTC”) OR ITS BOOK-ENTRY-ONLY SYSTEM.

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 THE ENTIRE OFFICIAL STATEMENT, INCLUDING SCHEDULE I AND ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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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 Bonds are being issued in the principal amount of $26,075,000 pursuant to the Constitution and general laws of the State of Texas, including Chapter 1207, Texas Government Code, as amended, ("Chapter 1207"), Chapter 1371, Texas Government Code, as amended ("Chapter 1371"), and an order adopted by the Board of Trustees on February 26, 2018 (the "Bond Order"). As permitted by the provisions of Chapter 1207 and Chapter 1371, the Board, in the Bond Order, delegated the authority to certain District officials to execute a pricing certificate establishing the pricing terms for the Bonds (the "Pricing Certificate") (the Pricing Certificate and the Bond Order are collectively referred to herein as the "Order"). The Pricing Certificate was executed by the Assistant Superintendent of Finance of the District on October 18, 2018, which completed the sale of the Bonds. Proceeds from the sale of the Bonds will be used to (i) refund a portion of the District's outstanding bonds for debt service savings and (ii) pay the costs of issuing the Bonds. (See "THE BONDS - Authorization and Purpose" and "SCHEDULE I – Schedule of Refunded Bonds").
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" herein).
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. (See "THE BONDS – Security" herein).
No Optional Redemption	The Bonds are not subject to redemption prior to maturity. (See "THE BONDS – No Optional Redemption").
Ratings	The District's current unenhanced, underlying ratings, including the Bonds, are "Aa2" by Moody's Investors Service, Inc. ("Moody's") and "AA" by S&P Global Ratings ("S&P"). (See "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" herein).
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 Hunton Andrews Kurth LLP, Houston, Texas, Bond Counsel.
Delivery	When issued, anticipated to be on or about November 20, 2018.

INTRODUCTORY STATEMENT

This Official Statement (the "Official Statement"), which includes the cover page, Schedule I and the Appendices attached hereto, 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 Refunding Bonds, Series 2018 (the "Bonds") identified on page ii hereof.

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

There follows in this Official Statement descriptions of the Bonds, the Order (as defined below) and certain other information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained by writing the 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 to its date, and the information contained herein is subject to change. A copy of this Final Official Statement pertaining to the Bonds and the Escrow Agreement (as defined below) 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 $26,075,000 pursuant to the Constitution and general laws of the State, including Chapter 1207, Texas Government Code, as amended ("Chapter 1207"), Chapter 1371, Texas Government Code, as amended ("Chapter 1371"), and an order adopted on February 26, 2018 (the "Bond Order") by the Board of Trustees of the District (the "Board") authorizing the issuance of the Bonds. As permitted by the provisions of Chapter 1207 and Chapter 1371, the Board, in the Bond Order, delegated the authority to certain District officials to execute a pricing certificate establishing the pricing terms for the Bonds (the "Pricing Certificate") (the Pricing Certificate and the Bond Order are collectively referred to herein as the "Order"). The Pricing Certificate was executed by the Assistant Superintendent of Finance of the District on October 18, 2018, which completed the sale of the Bonds. Proceeds from the sale of the Bonds will be used to (i) refund a portion of the District's outstanding Unlimited Tax Schoolhouse Bonds, Series 2007 (the "2007 Refunded Bonds") and Unlimited Tax School Building Bonds, Series 2014 (the "2014 Refunded Bonds" and, together with the 2007 Refunded Bonds, the "Refunded Bonds") for debt service savings and (ii) pay the costs of issuing the Bonds. (See "Schedule I – Schedule of Refunded Bonds").

Refunded Bonds

The Refunded Bonds and the interest due thereon are to be paid on their dates of redemption from funds to be deposited with The Bank of New York Mellon Trust Company, N.A. (the "Escrow Agent"), pursuant to an Escrow Agreement (the "Escrow Agreement") between the District and the Escrow Agent.

The Order provides that from a portion of the proceeds of the sale of the Bonds to the Underwriter the District will deposit with the Escrow Agent an amount, together with other lawfully available funds, which, when added to the investment earnings thereon, if any, will be sufficient to accomplish the discharge and final payment of the 2007 Refunded Bonds on November 21, 2018 and the 2014 Refunded Bonds on February 15, 2019 (the "Redemption Dates"). Such funds will be held by the Escrow Agent in an escrow account (the "Escrow Fund") used to purchase direct obligations of the United States of America (the "Federal Securities"). SAMCO Capital Markets, Inc., in its capacity as Financial Advisor to the District, will certify as to the sufficiency of the amounts initially deposited with the Escrow Agent to pay the principal of and interest on the Refunded Bonds on the Redemption Dates. Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Bonds.

By the deposit of cash and Federal Securities with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of the Refunded Bonds pursuant to the terms of Chapter 1207, Texas Government Code, and the orders authorizing the issuance of the Refunded Bonds. It is the opinion of Bond Counsel that as a result of such deposit, and in reliance on the certification of sufficiency from the Financial Advisor to the District, the Refunded Bonds will be outstanding only for the purpose of receiving payments from the cash held for such purpose by the Escrow Agent, and the Refunded Bonds will not be deemed as being outstanding obligations of the District, payable from the sources and secured in the manner provided in the orders authorizing their issuance or for any other purpose, and the District will have no further responsibility with respect to amounts available in the Escrow Fund for the payment of the Refunded Bonds.

General Description

The Bonds are dated November 1, 2018 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 will be computed on the basis of a 360-day year of twelve 30-day months, and is payable initially on February 15, 2019, and on each August 15 and February 15 thereafter until stated maturity.

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 registration 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. 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 banking institutions in the city in which the designated office of the Paying Agent/Registrar is located are 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.

No Optional Redemption

The Bonds are not subject to redemption prior to maturity at the option of the District.

Security

The Bonds are direct obligations of the District and are payable as to both principal and interest from ad valorem taxes levied annually on all taxable property within the District, without legal limitation as to rate or amount. (See "AD VALOREM TAX PROCEDURES" 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 Hunton Andrews Kurth 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.

Sources and Uses of Funds

The proceeds from the sale of the Bonds, together with a cash contribution from the District, will be applied approximately as follows:

Sources		
Par Amount	$	26,075,000.00
Original Issue Premium		2,211,996.85
Accrued interest		68,228.47
Issuer Contribution		2,500,000.00
Total Sources of Funds	$	30,855,225.32
Uses		
Deposit to Escrow Fund	$	30,490,783.33
Costs of Issuance[(1)]		160,000.00
Deposit to Interest and Sinking fund[(2)]		70,016.86
Underwriter's Discount		134,425.13
Total Uses of Funds	$	30,855,225.32

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

[(2)] *Includes accrued interest and contingency amounts.*

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 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.

BOOK-ENTRY-ONLY SYSTEM

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

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

DTC, 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 an 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 tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from DTC and the District and the Underwriter believe such information to be reliable, but none of the District, the Financial Advisor nor the Underwriter 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 Order will be given only to DTC.

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 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 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 or trust company organized under the laws of the United States or any state 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 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 registered mail to the new registered owner at the registered owner's request, risk and expense. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in authorized denominations and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer.

Record Date For Interest Payment

The record date ("Record Date") for determining the person to whom the interest on the Bonds is payable 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, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest (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 fifteenth business day next preceding the date of mailing of such notice.

Limitation on Transfer of Bonds

The Paying Agent/Registrar shall not be required to make any such transfer, conversion or exchange, during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date.

Replacement Bonds

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

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 is 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 82nd Texas Legislature, 1st 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.

Section 11.131 of the Texas Tax Code states that a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. Furthermore, the surviving spouse of a deceased veteran who qualified for such an exemption when the disabled veteran died, or a surviving spouse of a disabled veteran who would have qualified for such exemption if such exemption had been in effect on the date the disabled veteran died, is entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries.

A partially disabled veteran or the surviving spouse of a partially disabled veteran, if such spouse has not remarried since the death of the disabled veteran and the property was the residence homestead of the surviving spouse when the disabled veteran died and remains the residence homestead of the surviving spouse, is entitled to an exemption equal to the percentage of the veteran's disability, if the residence was donated to the disabled veteran by a charitable organization at no cost to the disabled veteran, or at some cost to the disabled veteran in the form of a cash payment, a mortgage, or both in an aggregate amount that is not more than 50% of the good faith estimate of the market value of the residence homestead made by the charitable organization as of the date the donation is made. 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.

Also, the surviving spouse of a member of the armed forces who is killed in action is entitled to a property tax exemption for all or part of the market value of such surviving spouse's residences homestead, if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

The surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to an exemption from taxation of the total appraised value of such surviving spouse's residence homestead, if the surviving spouse has not remarried since the first responder's 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. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM"

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 five 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
Targa Downstream, LLC	1228	2019/20	$231,000,000	$80,000,000	2020/21
Oneok Hydrocarbon, L.P.	1236	2019/20	$265,000,000	$80,000,000	2020/21
Enterprise Products Operating LLC	1272	2019/20	$557,000,000[4]	$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.*
[4] *On September 28, 2018, Enterprise Products Operating LLC submitted a request to the Comptroller an amendment to their application for #1272 revising the investment to $790,000,000.*

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

Date	Penalty	Cumulative Interest	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, the 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 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 Basic Allotment, EDA and NIFA.

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

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

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

Tier Two supplements the basic funding of Tier One and provides two levels of enrichment with different guaranteed yields (i.e., guaranteed levels of funding by the State) depending on the district's local tax effort. The first six cents of tax effort that exceeds the compressed tax rate (for most districts, M&O tax rates ranging from $1.00 to $1.06 per $100 of taxable value) will, for most districts, generate 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 2018-19 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 2018-19 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 maximum permitted level, must be reduced by exercise of one of the permitted wealth equalization options. Accordingly, if the District's wealth per student should continue to exceed the maximum permitted level in future school years, it will be required each year to exercise one or more of the wealth reduction options. If the District were to consolidate (or consolidate its tax base for all purposes) with a property-poor district, the outstanding debt of each district could become payable from the consolidated district's combined property tax base, and the District's ratio of taxable property to debt could become diluted. If the District were to detach property voluntarily, a portion of its outstanding debt (including the Bonds) could be assumed by the district to which the property is annexed, in which case timely payment of the Bonds could become dependent in part on the financial performance of the annexing district.

TAX RATE LIMITATIONS

A school district is authorized to levy maintenance and operation ("M&O") taxes subject to approval of a proposition submitted to district voters. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the succeeding paragraphs. The maximum voted M&O tax rate for the District is $1.50 per $100 of assessed valuation as approved by the voters at an election held on 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 net bonded indebtedness of the District after the issuance of the Bonds will be approximately 2.61% 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 "THE BONDS – Security").

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

$100 of assessed valuation before bonds may be issued. In demonstrating the ability to pay debt service at a rate of $0.50, a district may take into account EDA and IFA allotments to the district, which effectively reduces the district's local share of debt service, and may also take into account Tier One funds allotted to the district. The District is required to deposit any State allotments provided solely for payment of debt service into the District's interest and sinking fund upon receipt of such amounts. In addition, the District must, prior to levying an interest and sinking fund tax rate that exceeds $0.50 per $100 of assessed valuation, credit to the interest and sinking fund other State assistance, including Tier One funds that may be used for either operating purposes or for payment of debt service, in an amount equal to the amount needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Once the prospective ability to pay such tax has been shown and the bonds are issued, a district may levy an unlimited tax to pay debt service. Taxes levied to pay refunding bonds issued pursuant to Chapter 1207, Texas Government Code, are not subject to the $0.50 tax rate test; however, taxes levied to pay debt service on such bonds (other than bonds issued to refund exempt bonds) are included in maximum annual debt service for calculation of the $0.50 threshold tax rate test when applied to subsequent bond issues that are subject to the tax rate test. The Bonds are refunding bonds and are not subject to the $0.50 threshold tax rate test. Under current law, a district may demonstrate its ability to comply with the $0.50 threshold tax rate test by applying the $0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a district uses projected future taxable values to meet the $0.50 threshold tax rate test and subsequently imposes a tax at a rate greater than $0.50 per $100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the 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." In demonstrating compliance with the requirement, a district may take into account State equalization payments, and, effective September 1, 1997, if compliance with such requirement is contingent on receiving State assistance, a district may not adopt a tax rate for a year for purposes of paying the principal of and interest on the bonds unless the district credits to the interest and sinking fund of the bond the amount of state assistance received or to be received in that year. The State Attorney General reviews a district's calculations showing the compliance with such test as a condition to the legal approval of the debt.

EMPLOYEE BENEFIT PLANS 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 District's current unenhanced, underlying ratings, including the Bonds, are "Aa2" by Moody's Investors Service, Inc. ("Moody's") and "AA" by S&P Global Ratings ("S&P").

An explanation of the significance of such rating may be obtained from Moody's and S&P. The ratings of the Bonds by Moody's and S&P reflect only the view of said company at the time the rating is 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 or S&P, if, in the judgment of Moody's or S&P, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

The above rating is not a recommendation to buy, sell or hold the Bonds, and such rating may be subject to revision or withdrawal at any time by Moody's or S&P. Any downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

LEGAL MATTERS

The District will furnish the Underwriter with a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the 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 Underwriter from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the District in 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 Underwriter by Bracewell LLP, Houston, Texas. The fee of Bracewell LLP as counsel to the Underwriter, 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 Hunton Andrews Kurth 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.

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.

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.

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 State 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 of 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.

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

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. As an integral part of its investment policy, the District is required to adopt a separate written investment strategy for each of the funds under its control. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas law, 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 the fully accrued interest during the reporting period of each pooled fund group, (4) the book value and market value of each separately listed asset at the end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the 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 non-money market mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (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 June 30, 2018, the District had approximately $13,062 (unaudited) invested in government investment pools that generally have the characteristics of a money-market mutual fund; $95,183,859 (unaudited) invested in U.S. Agency Securities and municipal bonds; $1,223,294 (unaudited) invested in bank certificates of deposit; and $4,734,338 (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 United States 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.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act, Chapter 2256, Texas Government Code, 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.

CONTINUING DISCLOSURE OF INFORMATION

In the Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually and timely notice of specified events to the Municipal Securities Rulemaking Board (the "MSRB"). The information provided to the MSRB will be available to the public free of charge via the Electronic Municipal Market Access ("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 six 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 six months after any such fiscal year end, then the District shall file unaudited Financial Statements within such six-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 must be provided by the last day of December in each year, and the Financial Statements must be provided by June 30 of each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

The District's 2018 audited Financial Statements will be adopted by the Board on October 22, 2018 and will be uploaded to the EMMA system as part of the annual filing referenced above.

Event Notices

The District will also provide 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 and not more than 10 business days after 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. For these purposes, any event described in the immediately preceding clause (12) 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. Neither the Bonds nor the Order make any provision for a bond trustee, debt service reserves, credit enhancement or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The District will provide each notice described in this paragraph to the MSRB.

Availability of Information

All information and documentation filing required to be made by the District in accordance with its undertaking made for the Bonds will be made 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 at www.emma.msrb.org.

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

The District may amend its continuing disclosure agreement 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 (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the registered owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the SEC Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of the SEC Rule 15c2-12 are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

During the last 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 Assets" in APPENDIX A and "Note 7" in APPENDIX D.

LITIGATION

In the opinion of District officials, except as described in this Official Statement, 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 or operations of the District.

At the time of the initial delivery of the Bonds, the District will provide the Underwriter 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 Underwriter has agreed, subject to certain customary conditions, to purchase the Bonds at a price of $28,152,571.72 (representing the par amount of the Bonds, plus a premium of $2,211,996.85, less an underwriting discount of $134,425.13) plus accrued interest from the Dated Date to the date of initial delivery. The Underwriter's obligations are subject to certain conditions precedent, and the Underwriter will be obligated to purchase all of the Bonds, if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriter.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement pursuant to their respective responsibilities to investors under the federal securities laws but the Underwriter does 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 Order contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and the Order. These summaries do not purport to be complete statements of such provisions and reference is made to such summarized documents for further information. Reference is made to official documents in all respects.

The Bond Order authorized the Pricing Officer to approve the form and content of this Official Statement and any addenda, supplement or amendment thereto and authorized its further use in the re-offering of the Bonds by the Underwriter. This Official Statement was approved by the Pricing Officer of the District for distribution in accordance with the provisions of Rule 15c2-12.

/s/ Rebecca McManus

Pricing Officer

BARBERS HILL INDEPENDENT SCHOOL DISTRICT

Schedule I - Schedule of Refunded Bonds

Unlimited Tax Schoolhouse Bonds, Series 2007

Maturities Being Redeemed	Original CUSIP	Principal Amount Outstanding	Interest Rate	Principal Amount Being Refunded	Call Date	Principal Amount Unrefunded
2/15/2019	067167NP7	$ 330,000.00	4.000%	$ 330,000.00	November 21, 2018	-
2/15/2020	067167NQ5	345,000.00	4.250%	345,000.00	November 21, 2018	-
2/15/2021	067167NR3	360,000.00	4.250%	360,000.00	November 21, 2018	-
2/15/2022	067167NS1	375,000.00	4.250%	375,000.00	November 21, 2018	-
2/15/2023	067167NT9	390,000.00	4.250%	390,000.00	November 21, 2018	-
2/15/2024	067167NU6	405,000.00	4.250%	405,000.00	November 21, 2018	-
2/15/2025	067167VE3	310,000.00	4.250%	310,000.00	November 21, 2018	-
		$ 2,515,000.00		$ 2,515,000.00		$ -

Unlimited Tax School Building Bonds, Series 2014

Maturities Being Redeemed	Original CUSIP	Principal Amount Outstanding	Interest Rate	Principal Amount Being Refunded	Call Date	Principal Amount Unrefunded
2/15/2020	067167TJ5	$ 5,020,000.00	4.000%	$ 5,020,000.00	February 15, 2019	-
2/15/2021	067167TK2	4,880,000.00	4.000%	4,880,000.00	February 15, 2019	-
2/15/2022	067167TL0	4,660,000.00	4.000%	4,660,000.00	February 15, 2019	-
2/15/2023	067167TM8	4,520,000.00	4.000%	4,520,000.00	February 15, 2019	-
2/15/2024	067167TN6	4,320,000.00	4.000%	4,320,000.00	February 15, 2019	-
2/15/2025	067167TP1	3,980,000.00	5.000%	3,980,000.00	February 15, 2019	-
		$ 27,380,000.00		$ 27,380,000.00		$ -

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APPENDIX A

FINANCIAL INFORMATION OF THE DISTRICT

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BARBERS HILL INDEPENDENT SCHOOL DISTRICT

Financial Information

ASSESSED VALUATION [1]

2018/19 Total Valuation………………………………………………………………………………………			$ 11,050,485,689
Less Exemptions & Deductions [2]:			
State Homestead Exemption	$ 139,878,170		
State Over-65 Exemption	12,345,440		
Disabled Homestead Exemption	8,304,230		
Local Disabled Exemption	12,903,290		
Local Over-65 Exemption	143,876,350		
Local Homestead Exemption	277,246,160		
Veterans Exemption	1,115,260		
Freeport Exemptions	210,008,790		
Pollution Exemption	99,109,541		
Productivity Loss	173,632,560		
Homestead Cap Loss	31,787,280		
	$ 1,110,207,071		
2018/19 Net Taxable Valuation ……………………………………………………………………………			$ 9,940,278,618

(1) Source: Chambers County Appraisal District Certified Values as of July 2018. 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 2018/19 tax roll for the District's M&O tax levy is $4,729,537,280.
(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		$ 274,990,000
Less: The Refunded Bonds		(29,895,000)
Plus: The Bonds		26,075,000
Total Unlimited Tax Bonds		271,170,000
Less: Interest & Sinking Fund Balance (As of June 30, 2018) [1]		(11,797,748)
Net General Obligation Debt		$ 259,372,252
Ratio of Net G.O. Debt to Net Taxable Valuation [2]	2.61%	
2019 Population Estimate	20,474	
Per Capita Net Taxable Valuation	$485,507	
Per Capita Net G.O. Debt	$12,668	

(1) Source: Barbers Hill ISD.
(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 relative to the District's obligations. The District's 2018 audited Financial Statements will be adopted by the Board on October 22, 2018 and will be uploaded to the EMMA system as part of the annual filing. 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 [5] Current [6]	Total [6]
2006/07	$ 2,787,057,320 [2]	$ 1.6199 [7]	97.74%	100.26%
2007/08	2,900,935,170 [2]	1.3299 [7]	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][4]	1.3298	99.41%	100.70%
2016/17	7,222,124,757 [2][4]	1.3298	98.01%	102.04%
2017/18	8,892,351,117 [2][4]	1.3298	98.00% [8]	100.00% [8]
2018/19	9,940,278,618 [3][4]			

(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) Source: Chambers County Appraisal District Certified Values as of July 2018.
(4) The passage of a Texas constitutional amendment on November 3, 2015 election increased the homestead exemption from $15,000 to $25,000.
(5) Source: Barbers Hill ISD Audited Financial Statements.
(6) Excludes penalties and interest.
(7) 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.
(8) Estimate as of September 2018.

TAX RATE DISTRIBUTION (1)

	2014/15	2015/16	2016/17	2017/18	2018/19
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 (1)	Bond Debt Outstanding (2)	Ratio Debt to A.V. (3)
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	280,325,000	3.15%
2018/19	9,940,278,618	257,555,000 (4)	2.59%

(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. The 2018/19 tax roll for the District's M&O tax levy is $4,729,537,280.
(2) The Bonds are illustrated on the State of Texas fiscal year end of August 31st, although the District's fiscal year ends June 30th.
(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.
(4) Includes the Bonds and excludes the Refunded Bonds.

ESTIMATED OVERLAPPING DEBT STATEMENT

Taxing Body	Amount	Percent Overlapping	Amount Overlapping
Chambers County	$ 23,265,000	67.59%	$ 15,724,814
Chambers County Improvement District #1	71,070,000	5.84%	4,150,488
Mont Belvieu, City of	51,965,000	100.00%	51,965,000
Total Overlapping Debt (1)			$ 71,840,302
Barbers Hill Independent School District (2)			259,372,252
Total Direct & Overlapping Debt			$ 331,212,554

Ratio of Net Direct & Overlapping Debt to Net Taxable Valuation	3.33%
Per Capita Direct & Overlapping Debt	$16,177

(1) Equals gross debt less self-supporting debt.
(2) Net General Obligation Debt includes the Bonds and excludes the Refunded Bonds.

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

2018/19 Top Ten Taxpayers [(1)]

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Enterprise Prod. Operating LP	Petro Chemical Processing/Fractionator	$ 3,123,648,431	31.42%
Lone Star NGL Mt Belvieu LP	Petro Chemical Stored Inventory	1,395,736,090	14.04%
Exxon Mobil Corp	Petro Chemical Polyethylene Manufacturing Facility	1,129,347,668	11.36%
Cedar Bayou Fractionators LP	Petro Chemical Processing/Fractionator	548,609,956	5.52%
Oneok Hydrocarbon, LP	Petro Chemical Processing/Fractionator	480,169,924	4.83%
Chevron Phillips Co	Petro Chemical Processing/Fractionator	220,272,191	2.22%
Equistar Chemicals LP	Underground Petro Chemical Storage/Pipeline	155,125,719	1.56%
Belvieu Enviromental Fuels	Petro Chemical Processing/Fractionator	101,847,370	1.02%
Marathon Petroleum LLC	Petro Chemical Stored Inventory	101,091,204	1.02%
Targa Downstream LP	Underground Petro Chemical Storage/Pipeline	97,990,247	0.99%
		$ 7,353,838,800	73.98%

2017/18 Top Ten Taxpayers [(2)]

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 [(2)]

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%

(1) Source: Chambers County Appraisal District as of July 2018.
(2) 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 74% 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.

CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY

Category	2018/19 (1)	% of Total	2017/18 (2)	% of Total	2016/17 (2)	% of Total
Real, Residential, Single-Family	$ 1,648,220,490	14.92%	$ 1,537,303,940	15.50%	$ 1,253,642,600	15.86%
Real, Residential, Multi-Family	10,895,480	0.10%	10,689,940	0.11%	10,337,800	0.13%
Real, Vacant Lots/Tracts	37,855,800	0.34%	33,339,970	0.34%	28,641,230	0.36%
Real, Acreage	177,883,180	1.61%	172,698,990	1.74%	89,999,770	1.14%
Real, Farm & Ranch Improvements	117,596,460	1.06%	109,390,180	1.10%	100,313,110	1.27%
Real, Commercial & Industrial	7,379,702,340	66.78%	6,555,567,050	66.09%	5,272,069,719	66.70%
Oil & Gas	11,705,632	0.11%	9,780,506	0.10%	10,330,075	0.13%
Utilities	118,796,820	1.08%	116,843,822	1.18%	112,058,188	1.42%
Tangible Personal, Commercial & Industrial	1,531,485,567	13.86%	1,356,786,045	13.68%	1,016,619,773	12.86%
Tangible Personal, Mobile Homes & Other	3,715,060	0.03%	3,418,490	0.03%	3,158,050	0.04%
Tangible Personal, Residential Inventory	8,535,680	0.08%	8,215,550	0.08%	1,950,670	0.02%
Tangible Personal, Special Inventory	4,093,180	0.04%	4,453,190	0.04%	5,051,090	0.06%
Total Appraised Value	$ 11,050,485,689	100.00%	$ 9,918,487,673	100.00%	$ 7,904,172,075	100.00%
Less:						
Homestead Cap Adjustment	$ 31,787,280		$ 77,393,860		$ 8,117,830	
Productivity Loss	173,632,560		168,676,430		86,685,430	
Exemptions	904,787,231 (3)		780,066,266 (3)		587,244,058 (3)	
Total Exemptions/Deductions (4)	$ 1,110,207,071		$ 1,026,136,556		$ 682,047,318	
Net Taxable Assessed Valuation	$ 9,940,278,618		$ 8,892,351,117		$ 7,222,124,757	

Category	2015/16 (2)	% of Total	2014/15 (2)	% of Total	2013/14 (2)	% of Total
Real, Residential, Single-Family	$ 1,157,210,400	16.14%	$ 1,101,618,000	17.17%	$ 948,930,280	19.30%
Real, Residential, Multi-Family	8,168,500	0.11%	8,169,720	0.13%	8,266,530	0.17%
Real, Vacant Lots/Tracts	30,334,300	0.42%	28,231,920	0.44%	27,793,030	0.57%
Real, Acreage	96,101,060	1.34%	97,124,300	1.51%	62,722,650	1.28%
Real, Farm & Ranch Improvements	90,358,590	1.26%	98,664,950	1.54%	63,233,040	1.29%
Real, Commercial & Industrial	4,244,851,487	59.22%	3,481,980,609	54.28%	2,468,840,473	50.20%
Oil & Gas	22,445,623	0.31%	60,375,469	0.94%	52,834,757	1.07%
Utilities	107,052,107	1.49%	89,885,877	1.40%	72,570,222	1.48%
Tangible Personal, Commercial & Industrial	1,400,888,372	19.54%	1,439,645,257	22.44%	1,206,490,941	24.53%
Tangible Personal, Mobile Homes & Other	3,401,170	0.05%	3,189,670	0.05%	3,188,510	0.06%
Tangible Personal, Residential Inventory	1,740,900	0.02%	3,240,980	0.05%	1,015,450	0.02%
Tangible Personal, Special Inventory	5,076,350	0.07%	3,219,100	0.05%	2,012,370	0.04%
Total Appraised Value	$ 7,167,628,859	100.00%	$ 6,415,345,852	100.00%	$ 4,917,898,253	100.00%
Less:						
Homestead Cap Adjustment	$ 4,873,780		$ 21,821,270		$ 1,696,220	
Productivity Loss	93,317,720		94,611,470		60,444,400	
Exemptions	561,493,969 (3)		502,165,941		461,145,779	
Total Exemptions/Deductions (4)	$ 659,685,469		$ 618,598,681		$ 523,286,399	
Net Taxable Assessed Valuation	$ 6,507,943,390		$ 5,796,747,171		$ 4,394,611,854	

(1) Source: Chambers County Appraisal District Ceritifed Totals as of July 2018.
(2) Source: Comptroller of Public Accounts - Property Tax Division.
(3) The passage of a Texas Constitutional Amendment on November 3, 2015 increased homestead exemption from $15,000 to $25,000.
(4) 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]	Less: Refunded Bonds	Plus: The Bonds	Total [2]	Bonds Unpaid At Year End	Percent of Principal Retired
2019	$ 13,395,000.00	$ 330,000.00	$ 550,000.00	$ 13,615,000.00	$ 257,555,000.00	5.02%
2020	14,510,000.00	5,365,000.00	4,655,000.00	13,800,000.00	243,755,000.00	10.11%
2021	15,210,000.00	5,240,000.00	4,545,000.00	14,515,000.00	229,240,000.00	15.46%
2022	16,415,000.00	5,035,000.00	4,360,000.00	15,740,000.00	213,500,000.00	21.27%
2023	16,085,000.00	4,910,000.00	4,250,000.00	15,425,000.00	198,075,000.00	26.96%
2024	14,275,000.00	4,725,000.00	4,080,000.00	13,630,000.00	184,445,000.00	31.98%
2025	13,855,000.00	4,290,000.00	3,635,000.00	13,200,000.00	171,245,000.00	36.85%
2026	13,905,000.00			13,905,000.00	157,340,000.00	41.98%
2027	13,735,000.00			13,735,000.00	143,605,000.00	47.04%
2028	13,770,000.00			13,770,000.00	129,835,000.00	52.12%
2029	12,270,000.00			12,270,000.00	117,565,000.00	56.65%
2030	12,450,000.00			12,450,000.00	105,115,000.00	61.24%
2031	13,000,000.00			13,000,000.00	92,115,000.00	66.03%
2032	13,090,000.00			13,090,000.00	79,025,000.00	70.86%
2033	13,655,000.00			13,655,000.00	65,370,000.00	75.89%
2034	12,285,000.00			12,285,000.00	53,085,000.00	80.42%
2035	12,880,000.00			12,880,000.00	40,205,000.00	85.17%
2036	13,010,000.00			13,010,000.00	27,195,000.00	89.97%
2037	13,350,000.00			13,350,000.00	13,845,000.00	94.89%
2038	2,525,000.00			2,525,000.00	11,320,000.00	95.83%
2039	2,655,000.00			2,655,000.00	8,665,000.00	96.80%
2040	2,775,000.00			2,775,000.00	5,890,000.00	97.83%
2041	2,885,000.00			2,885,000.00	3,005,000.00	98.89%
2042	3,005,000.00			3,005,000.00	-	100.00%
Total	$ 274,990,000.00	$ 29,895,000.00	$ 26,075,000.00	$ 271,170,000.00		

(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.

DEBT SERVICE REQUIREMENTS [1]

Fiscal Year Ending 8/31	Outstanding Debt Service	Less: Refunded Debt Service [2]	Plus: The Bonds [2] Principal	Interest	Total	Combined Total [2] [3]
2019	$ 24,835,698.00	$ 1,564,462.50	$ 550,000.00	$ 1,011,586.11	$ 1,561,586.11	$ 24,832,821.61
2020	25,363,666.75	6,485,131.25	4,655,000.00	1,159,875.00	5,814,875.00	24,693,410.50
2021	25,430,960.50	6,147,150.00	4,545,000.00	929,875.00	5,474,875.00	24,758,685.50
2022	25,962,491.75	5,735,731.25	4,360,000.00	707,250.00	5,067,250.00	25,294,010.50
2023	24,961,735.50	5,410,875.00	4,250,000.00	492,000.00	4,742,000.00	24,292,860.50
2024	22,544,816.75	5,032,181.25	4,080,000.00	283,750.00	4,363,750.00	21,876,385.50
2025	21,575,760.50	4,396,087.50	3,635,000.00	90,875.00	3,725,875.00	20,905,548.00
2026	21,060,023.00					21,060,023.00
2027	20,331,335.50					20,331,335.50
2028	19,817,035.50					19,817,035.50
2029	17,648,336.50					17,648,336.50
2030	17,177,212.50					17,177,212.50
2031	17,182,412.50					17,182,412.50
2032	16,727,600.00					16,727,600.00
2033	16,731,600.00					16,731,600.00
2034	14,798,287.50					14,798,287.50
2035	14,844,443.75					14,844,443.75
2036	14,427,100.00					14,427,100.00
2037	14,228,462.50					14,228,462.50
2038	3,067,475.00					3,067,475.00
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
	$ 390,978,529.00	$ 34,771,618.75	$ 26,075,000.00	$ 4,675,211.11	$ 30,750,211.11	$ 386,957,121.36

(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 accrued interest in the amount of $68,228.47.
(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 2018/19. 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]	$ 25,294,010.50
Projected State Financial Assistance for Hold Harmless of Increased Homestead Exemption [2]	110,000.00
Projected Net Debt Service Requirement	$ 25,184,010.50
$0.25591 Tax Rate @ 99% Collections Produces	$ 25,184,016.60
2018/19 Net Taxable Assessed Valuation	$ 9,940,278,618

(1) Includes the Bonds.
(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 2018/19, but will receive additional state aid for the increase in the homestead exemption which took effect in 2015/16.

AUTHORIZED BUT UNISSUED BONDS

Following the issuance of the Bonds, the District will have $14,000,000 of 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 [(4)]	**$ 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.
(4) The 2017/18 Expected Ending General Fund Balance is $46,249,746. The District's 2018 audited Financial Statements will be adopted by the Board on October 22, 2018 and will be uploaded to the EMMA system as part of the annual filing.

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. The District's 2018 audited Financial Statements will be adopted by the Board on October 22, 2018 and will be uploaded to the EMMA system as part of the annual filing.

APPENDIX B

GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY

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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 20,474. 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
2018	5,380
Current	5,641

District Staff

Teachers	403
Auxiliary Personnel	177
Teachers' Aides & Secretaries	144
Administrators	43
Other	66
Total	833

Facilities

Campus	Grades	Present Enrollment	Capacity	Year Built	Year of Addition/ Renovation
Kindergarten Center	PK-K	500	660	1974	Multi, 2005
Primary School	1	399	735	1980	Multi, 2005, 2014
Elementary School North	2-5	846	1,500	2014	2014
Elementary School South	2-5	919	1,500	2006	2009, 2014
Middle School North	6-8	644	1,015	1968	Multi, 2011, 2014, 2018
Middle School South	6-8	708	955	1981	Multi, 2004, 2014, 2018
High School	9-12	1,625	2,480	2001	Multi, 2004, 2014, 2018

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	833
Exxon Mobil Chemicals	Industrial	512
Targa	Industrial	250
City of Mont Belvieu/Eagle Pointe	Government	187
Oneok	Industrial	118

Unemployment Rates

	August 2016	August 2017	August 2018
Chambers County	6.7%	6.8%	5.4%
State of Texas	5.0%	4.4%	3.9%

Source: Texas Workforce Commission

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APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

HUNTON
ANDREWS KURTH

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600 Travis, Suite 4200
Houston, Texas 77002
+1.713.220.4200 Phone
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HuntonAK.com

November 20, 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 REFUNDING BONDS, SERIES 2018, dated November 1, 2018 in the aggregate principal amount of $26,075,000.
>
> The Bonds mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds, in the order (the "Bond Order") adopted by the Board of Trustees of the District authorizing their issuance and in the pricing certificate relating to the Bonds executed pursuant thereto (together with the Bond Order, the "Order").

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 and the bonds that are being refunded (the "Refunded Bonds") with the proceeds of the Bonds, as described in the Order. The transcript contains certified copies of certain proceedings of the District and The Bank of New York Mellon Trust Company, N.A. (the "Escrow Agent"); the certificate (the "Certificate") of SAMCO Capital Markets Inc., in its capacity as financial advisor to the District, which verifies the sufficiency of the deposits made with the Escrow Agent for the defeasance of the Refunded Bonds; 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 and the firm banking and financial arrangements for the discharge and final payment of the Refunded 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;

(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; and

(3) The escrow agreement between the District and the Escrow Agent (the "Escrow Agreement") has been duly executed and delivered and constitutes a binding and enforceable agreement in accordance with its terms; the establishment of the Escrow Fund pursuant to the Escrow Agreement and the deposit made therein constitute the making of firm banking and financial arrangements for the discharge and final payment of the Refunded Bonds; in reliance upon the Certificate, the Refunded Bonds, having been discharged and paid, are no longer outstanding and the lien on and pledge of ad valorem taxes and other revenues as set forth in the order authorizing their issuance will be appropriately and legally defeased; the holders of the Refunded Bonds may obtain payment of the principal of, redemption premium, if any, and interest in the Refunded Bonds only out of the funds provided therefor now held in escrow for that purpose by the Escrow Agent pursuant to the terms of the Escrow Agreement; and therefore the Refunded Bonds are deemed to be fully paid and no longer outstanding, except for the purpose of being paid from the funds provided therefor in such Escrow Agreement.

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.

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APPENDIX D

AUDITED FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2017

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BARBERS HILL

Independent School District

ANNUAL FINANCIAL
&
COMPLIANCE REPORT

JUNE 30, 2017

Mont Belvieu, Texas

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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

The Board of Trustees of
Barbers Hill Independent School District

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.

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:

			Fair Value Measurements Using				
Governmental Funds' Investment Type	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	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

			Fair Value Measurements Using				
Fiduciary Funds' Investment Type	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	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
	Tax Rates		Assessed/Appraised Value For School
Year Ended June 30	Maintenance	Debt Service	Tax Purposes
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			

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	Budgeted Amounts 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.

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.

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

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.

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

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Financial Advisory Services
Provided By:

SAMCO CAPITAL MARKETS, INC.