OFFICIAL STATEMENT DATED SEPTEMBER 26, 2018

Rating: Moody's Investors Service: "Aaa"
(See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and
"OTHER INFORMATION–Rating" herein)

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes, and will not be included in the federal alternative minimum taxable income of individuals 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" herein for a discussion of Bond Counsel's opinion.

$42,320,000
BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
(Brazoria County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS
SERIES 2018

(The Bonds will not be designated as Qualified Tax-Exempt Obligations for Financial Institutions)

Dated Date: October 1, 2018 **Due: as shown on the inside cover page hereof**

The Brazosport Independent School District Unlimited Tax School Building Bonds, Series 2018 (the "Bonds") are being issued pursuant to the Constitution and general laws of the State of Texas (the "State") including particularly, Chapter 45, Texas Education Code and Chapter 1371, Texas Government Code, and are direct obligations of the Brazosport Independent School District (the "District"), payable from the receipts of an ad valorem tax levied, without legal limit as to rate or amount, on all taxable property located within the District, as provided in an order authorizing the Bonds. In the order, the Board delegated pricing of the Bonds and certain other matters to a pricing officer who approved a pricing certificate containing final pricing information for the Bonds (the order and the pricing certificate are jointly referred to herein as the "Order"). Additionally, the Bonds are authorized pursuant to an election held in the District on November 4, 2014. See "THE BONDS-Authority for Issuance" herein.

The Bonds are dated October 1, 2018. Interest on the Bonds will accrue from the delivery date of the Bonds, and will be payable on February 15 and August 15 of each year thereafter until maturity or prior redemption, commencing February 15, 2019. Principal of the Bonds will be payable by the Paying Agent/Registrar, initially 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. See "THE BONDS—Description" herein.

The definitive Bonds will be initially registered and delivered to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of $5,000 of principal or integral multiples thereof. **No physical delivery of the Bonds will be made to the beneficial owners thereof**. Principal, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amount so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS–Book-Entry-Only System" herein.

The District has applied for and received conditional approval for the payment of the principal and interest of the Bonds to be guaranteed by the corpus of the Permanent School Fund of the State of Texas. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.

Proceeds from the sale of the Bonds will be used for (i) the construction, acquisition, and equipment of school buildings in the District, including new elementary schools and renovations to existing facilities, the purchase of necessary sites for school buildings, and the purchase of new school buses and (ii) the costs of issuing the Bonds. See "THE BONDS—Sources and Uses of Funds" herein.

The Bonds maturing on and after February 15, 2028, are subject to optional redemption in whole or in part on February 15, 2027, or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest from the most recent interest payment date to the date of redemption. See "THE BONDS—Optional Redemption" herein.

SEE MATURITY SCHEDULE ON THE INSIDE COVER PAGE

The Bonds are offered for delivery when, as and if issued and received by the initial purchaser (the "Initial Purchaser") and will be subject to the approving opinion of the Attorney General of Texas and the approval of certain legal matters by Hunton Andrews Kurth LLP, Houston, Texas, Bond Counsel (see "APPENDIX C – FORM OF BOND COUNSEL'S OPINION" attached hereto).

It is expected that the Bonds will be available for delivery through the facilities of DTC on or about October 25, 2018..

MATURITY SCHEDULE

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
(Brazoria County, Texas)

$42,320,000 UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018

Maturity	Principal Amount	Interest Rate	Initial Reoffering Yield (b)	CUSIP No (c)	Maturity	Principal Amount	Interest Rate	Initial Reoffering Yield (b)	CUSIP No (c)
2/15/2019	$ 3,865,000	5.000%	1.900%	106241 A93	2/15/2027	$ 3,235,000	5.000%	2.800%	106241 B92
2/15/2020	2,700,000	5.000%	2.000%	106241 B27	2/15/2028 (a)(d)	3,100,000	5.000%	2.870%	106241 C26
2/15/2021	2,440,000	5.000%	2.120%	106241 B35	2/15/2029 (a)	2,630,000	3.000%	3.100%	106241 C34
2/15/2022	1,860,000	5.000%	2.230%	106241 B43	2/15/2030 (a)	2,715,000	3.000%	3.200%	106241 C42
2/15/2023	1,875,000	5.000%	2.340%	106241 B50	2/15/2031 (a)(d)	3,000,000	4.000%	3.210%	106241 C59
2/15/2024	1,160,000	5.000%	2.460%	106241 B68	2/15/2032 (a)(d)	3,000,000	4.000%	3.320%	106241 C67
2/15/2025	1,640,000	5.000%	2.600%	106241 B76	2/15/2033 (a)(d)	3,000,000	4.000%	3.370%	106241 C75
2/15/2026	3,100,000	5.000%	2.700%	106241 B84	2/15/2034 (a)(d)	3,000,000	4.000%	3.420%	106241 C83

(Interest to accrue from the date of delivery of the Bonds)

(a) The Bonds maturing on and after February 15, 2028, are subject to optional redemption in whole or in part on February 15, 2027, or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest from the most recent interest payment date to the date of redemption. See "THE BONDS—Optional Redemption" herein.

(b) The initial yields at which Bonds are priced are established by and are the sole responsibility of the Initial Purchaser and may be changed at any time at the discretion of the Initial Purchaser.

(c) CUSIP numbers have been assigned to this issue by the CUSIP Global Services managed by S&P Global Market Intelligence on behalf of the American Bankers Association and are included solely for the convenience of the purchasers of the Bonds. None of the District, the Financial Advisor, or the Initial Purchaser shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

(d) Priced to February 15, 2027.

DISTRICT OFFICIALS, STAFF AND CONSULTANTS

Board of Trustees

Name	Title	Years of Service	Term Expires May	Occupation
Mason Howard	President	7	2020	Construction Contractor
Scott Schwertner	Vice President	4	2020	Senior Sales Tax Manager
Jerry Adkins	Secretary	5	2021	Retired
Patty Sayes	Assistant Secretary	4	2021	General Manager (Brazos Mall)
Liz Cuellar	Member	2	2019	Community Volunteer
Michael Speir	Member	3	2019	Engineer
Joe Rinehart	Member	New	2021	Retired

Administrators

Name	Title	Years of Service
Danny Massey	Superintendent	4
Rebecca Kelley	Chief Financial & Governmental Affairs Officer	1

Consultants and Advisors

Certified Public Accountant	Kennemer, Masters & Lunsford, LLC Lake Jackson, Texas
Bond Counsel	Hunton Andrews Kurth LLP Houston, Texas
Financial Advisor	USCA Municipal Advisors, LLC Houston, Texas

USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

The information set forth herein has been obtained from the District and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Financial Advisor or the Initial Purchaser. 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 District's undertaking 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 THESE SECURITIES HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

NEITHER THE DISTRICT NOR ITS FINANCIAL ADVISOR MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM DESCRIBED UNDER "THE BONDS–BOOK-ENTRY-ONLY SYSTEM" HEREIN NOR AS TO THE INFORMATION PROVIDED BY TEXAS EDUCATION AGENCY UNDER THE CAPTION "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" HEREIN.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE INITIAL PURCHASER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN 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.

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

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OFFICIAL STATEMENT SUMMARY

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

The District	The Brazosport Independent School District (the "District") operates as an independent school district under the laws of the State of Texas (the "State"). The District is located in Brazoria County, Texas. See "THE DISTRICT" herein.
The Bonds	The Bonds are being issued in the principal amounts and mature on the dates set forth on the inside cover page hereof. The Bonds bear interest from the date of delivery of the Bonds, at the rates per annum set forth on the inside cover hereof, which interest is payable each February 15 and August 15, commencing February 15, 2019, until maturity or prior redemption. See "THE BONDS—Description" herein.
Authority for Issuance ..	The Bonds are being issued pursuant to an order passed by the Board of Trustees of the District (the "Order") and the Constitution and general laws of the State, particularly, Chapter 45, Texas Education Code and Chapter 1371, Texas Government Code. In the order, the Board delegated pricing of the Bonds and certain other matters to a pricing officer who will approve a pricing certificate containing final pricing information for the Bonds (the order and the pricing certificate are jointly referred to herein as the "Order"). Additionally, the Bonds are authorized pursuant to an election held in the District on November 4, 2014. See "THE BONDS Authority for Issuance" herein.
Use of Proceeds	Proceeds from the sale of the Bonds will be used for (i) the construction, acquisition, and equipment of school buildings in the District, including new elementary schools and renovations to existing facilities, the purchase of necessary sites for school buildings and the purchase of new school buses and (ii) the costs of issuing the Bonds. See "THE BONDS—Sources and Uses of Funds" herein.
Security for Bonds	Principal of and interest on the Bonds will be payable from the receipts of an ad valorem tax levied, without legal limit as to rate or amount, on all taxable property within the District. See "THE BONDS-Security and Source of Payment" and "TAX RATE LIMITATIONS" herein.
Permanent School Fund Guarantee............	The District applied to the Texas Education Agency and has received conditional approval for the Bonds to be guaranteed by the corpus of the Permanent School Fund. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.
Redemption	The Bonds maturing on and after February 15, 2028, are subject to optional redemption in whole or in part on February 15, 2027, or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest from the most recent interest payment date to the date of redemption. See "THE BONDS—Optional Redemption" herein.
Tax Exemption..............	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.
Rating	Moody's Investors Service, Inc. ("Moody's") has assigned its municipal bond rating of "Aaa", to the Bonds by virtue of the guarantee of the Permanent School Fund of the State of Texas on the Bonds. See "OTHER INFORMATION-Rating" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein. Moody's generally rates all bonds that are guaranteed by the Permanent School Fund Guarantee Program as "Aaa."
Book-Entry-Only System	The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC, pursuant to the Book-Entry-Only System described herein. The Bonds will be issued in principal denominations of $5,000, or any integral multiple thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS-Book-Entry-Only System" herein.
Payment Record	The District has never defaulted in the payment of its tax-supported debt.

SELECTED FINANCIAL INFORMATION

Fiscal Year End	Estimated Population[a]	Taxable Assessed Valuation[b]	Per Capita Assessed Valuation	Ad Valorem Tax Supported Debt[c]	Per Capita Tax Supported Debt	Ratio Tax Debt to Assessed Valuation	Tax Year
2015	57,961	$ 6,933,187,931	$ 119,618	$ 168,483,609	$ 2,907	2.430%	2014
2016	57,554	8,001,042,265	139,018	155,509,028	2,702	1.944%	2015
2017	57,860	8,457,052,204	146,164	220,074,447	3,804	2.602%	2016
2018	57,306	11,846,037,312	206,715	203,445,802	3,550	1.717%	2017
2019	57,306	15,214,735,987	265,500	221,673,863 [d]	3,868	1.457%	2018

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[a] Source: Municipal Advisory Council of Texas.

[b] Source: The District's Annual Financial Reports and the Brazoria County Appraisal District.

[c] Includes the Unlimited and Limited Tax Debt. See "Table 7 - Tax Supported Debt Service Requirements" in Appendix A.

[d] Includes the Bonds.

General Fund Consolidated Statement Summary

	2017	2016	2015	2014	2013
Beginning Balance	$ 35,216,559	$ 30,287,726	$ 33,668,612	$ 29,458,523	$ 27,222,059
Adjustments to Fund Balance	-	-	-	-	-
Total Revenue	110,126,283	110,126,283	90,950,459	92,214,232	86,233,924
Total Expenses	106,558,474	106,558,474	94,440,724	87,923,171	83,948,273
Net Other Resources (Uses)	38,050	38,050	109,379	(80,972)	(49,187)
Ending Balance	$ 38,822,418	$ 33,893,585	$ 30,287,726	$ 33,668,612	$ 29,458,523

Note: The District estimates a General Fund balance as of August 31, 2018 of approximately $42,595,010.

For Additional Information Regarding the District Contact:

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Superintendent
Brazosport Independent School District
301 West Brazoswood Dr.
Clute, TX 77531
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Fax: 979-266-2486

Rebecca Kelley
Chief Financial & Governmental Affairs Officer
Brazosport Independent School District
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Clute, TX 77531
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Lewis A. Wilks
USCA Municipal Advisors
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Houston, Texas 77027
Phone: 713-366-0592

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OFFICIAL STATEMENT

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
(Brazoria County, Texas)

$42,320,000
UNLIMITED TAX SCHOOL BUILDING BONDS
SERIES 2018

INTRODUCTION

This Official Statement, including the Appendices hereto, provides certain information regarding the issuance of the Brazosport Independent School District Unlimited School Building Bonds, Series 2018 (the "Bonds"). Except as otherwise indicated herein, capitalized terms used in this Official Statement have the same meanings assigned to such terms in the order adopted by the Board of Trustees (the "Board of Trustees") of the Brazosport Independent School District (the "District") authorizing the issuance of the Bonds. In the order, the Board delegated pricing of the Bonds and certain other matters to a pricing officer who approved a pricing certificate containing final pricing information for the Bonds (the order and the pricing certificate are jointly referred to herein as the "Order").

There follows in this Official Statement descriptions of the Bonds and certain information regarding 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 from the Financial Advisor, USCA Municipal Advisors, LLC, Houston, Texas, by electronic mail or upon payment of reasonable handling, mailing, and delivery charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. Copies of the final Official Statement pertaining to the Bonds will be deposited with the Municipal Securities Rulemaking Board at www.emma.msrb.org. See "CONTINUING DISCLOSURE OF INFORMATION" herein for a description of the District's undertaking to provide certain information on a continuing basis.

THE BONDS

Description

The following is a description of some of the terms and conditions of the Bonds, which description is qualified in its entirety by the Order which may be obtained upon request to the District.

The Bonds are dated October 1, 2018. The Bonds mature on February 15 in each of the years and in the amounts shown on the inside cover page hereof. Interest on the Bonds will accrue from the delivery date of the Bonds and will be payable on February 15, 2019 and each August 15 and February 15 thereafter until maturity or earlier redemption. Interest on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

The definitive Bonds will be issued only in fully registered form in any integral multiple of $5,000 of principal amount for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the beneficial owners thereof**. Principal of, premium, if any, and accrued interest on the Bonds be payable by the Paying Agent/Registrar, initially The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent/Registrar") to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS-Book-Entry-Only System" herein.

Authority for Issuance

The Bonds are issued pursuant to the Order and by the authority conferred by the Constitution and laws of the State of Texas, including particularly, Chapter 45, Texas Education Code, and Chapter 1371, Texas Government Code. The Bonds were favorably voted at an election held in the District on November 4, 2014 (the "2014 Election") and constitute the fourth installment of the total $175,000,000 unlimited tax school building bonds approved for that purpose at the 2014 Election. After the issuance of the Bonds, the District will have no authorized but unissued bonds from the 2014 Election. See “APPENDIX A – Table 8” for authorized but unissued unlimited tax bonds.

Security and Source of Payment

The Bonds constitute direct obligations of the District, payable as to principal and interest from an annual ad valorem tax levied, without legal limit as to rate or amount, against all taxable property within the District. Additionally, the payment of principal and interest on the Bonds is expected to be guaranteed by the Permanent School Fund Guarantee Program of Texas. See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein.

Optional Redemption

The Bonds maturing on and after February 15, 2028, are subject to optional redemption in whole or in part on February 15, 2027, or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest from the most recent interest payment date to the date of redemption.

Notice of Redemption

Not less than 30 days prior to a redemption date for the Bonds, the Paying Agent/Registrar shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds to be redeemed, in whole or in part at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

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

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

Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC. In such an event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement redemption of such Bonds from the beneficial owners. Any such selection of Bonds to be redeemed will not be governed by the Order and will not be conducted by the District or the Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Bonds for redemption (see “THE BONDS – Book-Entry Only System”).

Defeasance

The Order provides for the defeasance of the Bonds in any manner permitted by law. Under current Texas law, defeasance would include when payment of the principal amount of and interest on the Bonds to their due date (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with the Paying Agent/Registrar, or a trust company or commercial bank authorized to serve as Escrow Agent, (a) cash in an amount sufficient to make such payment or (b) pursuant to an escrow or trust agreement, cash and/or (1) direct, non-callable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (2) non-callable 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 are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (3) non-callable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, the principal and interest on which will, when due or redeemable at the option of the holder, without further investment or reinvestment of either the principal amount thereof or the interest earnings thereon, provide money in an amount which, together with other money, if any, held in such escrow, will be sufficient to provide for the timely payment of the principal of and interest on such Bonds to their due date. Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding obligations for purposes of applying any limitation on indebtedness or for purposes of taxation.

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

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

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

Book-Entry-Only System

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

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities 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 certificate will be issued for the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

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

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmation 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 physical 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 Paying Agent/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 Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest payments on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/Registrar. Disbursement of such payments to Direct Participants will be the responsibility of DTC, and reimbursement 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. Discontinuance by the District of use of the system of book-entry transfers through DTC may require compliance with DTC operational arrangements.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). Discontinuance of the system of book-entry transfers by the District may require the consent of Participants under DTC's Operational Arrangements. In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but none of the District, the Financial Advisor or the Initial Purchaser take 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 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.

Paying Agent/Registrar

The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. In the Order, the District retains the right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times while any Bonds are outstanding and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the United States or any state and duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District agrees promptly to 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.

Transfer, Exchange and Registration

In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar at its designated payment office and such transfer or exchange shall be without expenses or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the 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 designated payment office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of $5,000 of principal or Maturity Amount for any one maturity and for a like aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer. See "THE BONDS-Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

Record Date for Interest Payment

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

Date by United States mail, first class, postage prepaid, to the address of each holder of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

Bondholders' Remedies

The Order does not establish specific events of default with respect to the Bonds or provide for the appointment of a trustee to represent the interests of the bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition. Under Texas 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. Such 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. 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.

On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3rd 325 (Tex. 2006) ("Tooke") that a waiver of sovereign immunity must be provided for by statute in "clear and unambiguous" language. In so ruling, the Court declared that statutory language such as "sue and be sued", in and of itself, did not constitute a clear and unambiguous waiver of sovereign immunity. In Tooke, the Court noted the enactment in 2005 of sections 271.151-.160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities in certain circumstances." The Local Government Immunity Waiver Act covers school districts and relates to contracts entered into by school districts for providing goods or services to school districts. The District is not aware of any Texas court construing the Local Government Immunity Waiver Act in the context of whether contractual undertakings of local governments that relate to their borrowing powers are contracts covered by the Act. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in Tooke, and it is unclear whether Tooke will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally-imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract).

Chapter 1371, Texas Government Code ("Chapter 1371"), which forms part of the authority for the issuance of the Bonds, permits the District to waive sovereign immunity in the proceedings authorizing the issuance of the Bonds. However, the District has not waived the defense of sovereign immunity with respect thereto. Because it is unclear whether the Texas Legislature has effectively waived the District's sovereign immunity from a suit for money damages beyond Chapter 1371, bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by directly levy and execution against the District's property.

The District is also eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity, which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of another 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 and may be limited by general principles of equity which permit the exercise of judicial discretion.

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

Sources and Uses of Funds

Proceeds from the sale of the Bonds will be applied in the amounts shown below.

Sources of Funds	
Par Amount of Bonds	$42,320,000.00
Net Premium	3,019,575.15
Total	$45,339,575.15
Uses of Funds	
Deposit to Construction Fund	$45,000,000.00
Costs of Issuance	185,000.00
Initial Purchaser's Discount	152,250.86
Deposit to Debt Service Fund (Additional Proceeds)	2,324.29
Total	$45,339,575.15

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

History and Purpose

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

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

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

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

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

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

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

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

Securities Exchange Act of 1934. Such filings, which consist of a list of the Fund's holdings of securities specified in Section 13(f), including exchange-traded (*e.g.*, NYSE) or NASDAQ-quoted stocks, equity options and warrants, shares of closed-end investment companies and certain convertible debt securities, is available from the SEC at www.sec.gov/edgar.shtml. A list of the Fund's equity and fixed income holdings as of August 31 of each year is posted to the TEA web site and filed with the MSRB. Such list excludes holdings in the Fund's securities lending program. Such list, as filed, is incorporated herein and made a part hereof for all purposes.

The Total Return Constitutional Amendment

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

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

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

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

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

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

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

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

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

Management and Administration of the Fund

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

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

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

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

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

Capacity Limits for the Guarantee Program

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

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

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

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

At its September 2015 meeting, the SBOE voted to modify the SDBGP Rules and the CDBGP Rules to increase the State Law Capacity from 3 times the cost value multiplier to 3.25 times. At that meeting, the SBOE also approved a new 5% capacity reserve for the Charter District Bond Guarantee Program. The change to the State Law Capacity became effective on February 1, 2016. At its November 2016 meeting, the SBOE again voted to increase the State Law Capacity and, in accordance with applicable requirements for the modification of SDBGP and CDBGP Rules, a second and final vote to approve the increase in the State Law Capacity occurred on February 3, 2017. As a result, the State Law Capacity increased from 3.25 times the cost value multiplier to 3.50 times effective March 1, 2017 and increased again to 3.75 times effective September 1, 2017; however, as described under "2017 Legislative Changes to the Charter District Bond Guarantee Program," the SBOE took action at its Winter 2018 meeting to rollback of a portion of the multiplier increase, which became effective in late March 2018. Based upon the cost basis of the Fund at August 31, 2017, the State Law Capacity increased from $97,933,360,905 on August 31, 2016 to $111,568,711,072 on August 31, 2017.

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

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

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

The School District Bond Guarantee Program

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

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

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

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

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

The Charter District Bond Guarantee Program

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

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

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

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

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

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

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

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

Beginning in July 2015, TEA began limiting new guarantees under the Charter District Bond Guarantee Program to conform to the Act and, subsequently, with CDBGP Rules that require the maintenance of a capacity reserve for the Charter District Bond Guarantee Program. Following the increase in the Program multiplier in February 2016 and the update of the percentage of students enrolled in open-enrollment charter schools to the total State scholastic census in March 2016, some new capacity became available under the Charter District Bond Guarantee Program, but that capacity was quickly exhausted. In accordance with the action of the SBOE on February 3, 2017, additional capacity for the Charter District Bond Guarantee Program became effective in two increments, implemented on March 1, 2017 and on September 1, 2017 (as described under "2017 Legislative Changes to the Charter District Bond Guarantee Program," an item to reverse the September 1, 2017 increase in the Program multiplier was approved by the SBOE at its Winter 2018 meeting). In addition, legislation enacted during the Legislature's 2017 regular session modifies the manner of calculating the capacity of the Charter District Bond Guarantee Program (the "CDBGP Capacity"), which further increases the amount of the CDBGP Capacity, beginning with State fiscal year 2018, but that provision of the law does not increase overall Program capacity, it merely allocates capacity between the School District Bond Guarantee Program and the Charter District Bond Guarantee Program. See "Capacity Limits for the Guarantee Program" and "2017 Legislative Changes to the Charter District Bond Guarantee Program." Other factors that could increase the CDBGP Capacity include Fund investment performance, future increases in the Guarantee Program multiplier, changes in State law that govern the calculation of the CDBGP Capacity, as described below, growth in the relative percentage of students enrolled in open-enrollment charter schools to the total State scholastic census, legislative and administrative changes in funding for charter districts, changes in level of school district or charter district participation in the Program, or a combination of such circumstances.

2017 Legislative Changes to the Charter District Bond Guarantee Program

The CDBGP Capacity is established by the Act. During the 85th Texas Legislature, which concluded on May 29, 2017, Senate Bill 1480 ("SB 1480") was enacted. The complete text of SB 1480 can be found at http://www.capitol.state.tx.us/tlodocs/85R/billtext/pdf/SB01480F.pdf#navpanes=0. SB 1480 modified how the CDBGP Capacity will be established under the Act effective as of September 1, 2017, and made other substantive changes to the Act that affects the Charter District Bond Guarantee Program. Prior to the enactment of SB 1480, the CDBGP Capacity was calculated as the State Capacity Limit less the amount of outstanding bond guarantees under the Guarantee Program multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population. As of August 31, 2017, the amount of outstanding bond guarantees represented 66.57% of the State Capacity Limit for the Guarantee Program. SB 1480 amended the CDBGP Capacity calculation so that the State Capacity Limit is multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population prior to the subtraction of the outstanding bond guarantees, thereby potentially substantially increasing the CDBGP Capacity. However, certain provisions of SB 1480, described below, and other additional factors described herein, could result in less than the maximum amount of the potential increase provided by SB 1480 being implemented by the SBOE or otherwise used by charter districts. Still other factors used in determining the CDBGP Capacity, such as the percentage of the charter district scholastic population to the overall public school scholastic population, could, in and of itself, increase the CDBGP Capacity, as that percentage has grown from 3.53% in September, 2012 to 5.5% in February 2018, representing a cumulative growth during that period of 56%. TEA is unable to predict how the ratio of charter district students to the total State scholastic population will change over time.

SB 1480 provides that the implementation of the new method of calculating the CDBGP Capacity will begin with the State fiscal year that commences September 1, 2021 (the State's fiscal year 2022). However, for the intervening four fiscal years, beginning with fiscal year 2018, SB 1480 provides that the SBOE may establish a CDBGP Capacity that increases the amount of charter district bonds that may be guaranteed by up to a cumulative 20% in each fiscal year (for a total maximum increase of 80% in fiscal year 2021) as compared to the capacity figure calculated under the Act as of January 1, 2017. However, SB 1480 provides that in making its annual determination of the magnitude of an increase for any year, the SBOE may establish a lower (or no) increase if the SBOE determines that an increase in the CDBGP Capacity would likely result in a negative impact on the bond ratings for the Bond Guarantee Program (see "Ratings of Bonds Guaranteed Under the Guarantee Program") or if one or more charter districts default on payment of principal or interest on a guaranteed bond, resulting in a negative impact on the bond ratings of the Bond Guarantee Program. The provisions of SB 1480 that provide for discretionary, incremental increases in the CDBGP expire September 1, 2022. If the SBOE makes a determination for any year based upon the potential ratings impact on the Bond Guarantee Program and modifies the increase that would otherwise be implemented under SB 1480 for that year, the SBOE may also make appropriate adjustments to the schedule for subsequent years to reflect the modification, provided that the CDBGP Capacity for any year may not exceed the limit provided in the schedule set forth in SB 1480. In September 2017 and June 2018, the SBOE authorized the full 20% increase in the amount of charter district bonds that may be guaranteed for fiscal years 2018 and 2019, respectively, which increases the relative capacity of the Charter District Bond Guarantee Program to the School District Bond Guarantee Program for those fiscal years.

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

In addition to modifying the manner of determining the CDBGP Capacity, SB 1480 provides that the Commissioner, in making a determination as to whether to approve a guarantee for a charter district, may consider any additional reasonable factor that the Commissioner determines to be necessary to protect the Bond Guarantee Program or minimize risk to the PSF, including: (1) whether the charter district had an average daily attendance of more than 75 percent of its student capacity for each of the preceding three school years, or for each school year of operation if the charter district has not been in operation for the preceding three school years; (2) the performance of the charter district under certain performance criteria set forth in Education Code Sections 39.053 and 39.054; and (3) any other indicator of performance that could affect the charter district's financial performance. Also, SB 1480 provides that the Commissioner's investigation of a charter district application for guarantee may include an evaluation of whether the charter district bond security documents provide a security interest in real property pledged as collateral for the bond and the repayment obligation under the proposed guarantee. The Commissioner may decline to approve the application if the Commissioner determines that sufficient security is not provided. The Act and the CDBGP Rules previously required the Commissioner to make an investigation of the accreditation status and certain financial criteria for a charter district applying for a bond guarantee, which remain in place.

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

Charter District Risk Factors

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

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

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

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

Potential Impact of Hurricane Harvey on the PSF

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

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

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

Ratings of Bonds Guaranteed Under the Guarantee Program

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

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations

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

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

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

Permanent School Fund Guaranteed Bonds

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

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

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

Permanent School Fund Guaranteed Bonds by Category(1)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2011 Constitutional Amendment

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

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

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

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

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

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

Other Events and Disclosures

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

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

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

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

PSF Continuing Disclosure Undertaking

The SBOE has adopted an investment policy rule (the "TEA Rule") pertaining to the PSF and the Guarantee Program. The TEA Rule is codified in Section I of the TEA Investment Procedure Manual, which relates to the Guarantee Program and is posted to the TEA web site at http://tea.texas.gov/Finance_and_Grants/Texas_Permanent_School_Fund/Texas_Permanent_School_Fund_Disclosure_Statement_-_Bond_Guarantee_Program/. The most recent amendment to the TEA Rule was adopted by the SBOE on November 19, 2010, and is summarized below. Through the adoption of the TEA Rule and its commitment to guarantee bonds, the SBOE has made the following agreement for the benefit of the issuers, holders and beneficial owners of guaranteed bonds. The TEA (or its successor with respect to the management of the Guarantee Program) is required to observe the agreement for so long as it remains an "obligated person," within the meaning of Rule 15c2-12, with respect to guaranteed bonds. Nothing in the TEA Rule obligates the TEA to make any filings or disclosures with respect to guaranteed bonds, as the obligations of the TEA under the TEA Rule pertain solely to the Guarantee Program. The issuer or an "obligated person" of the guaranteed bonds has assumed the applicable obligation under Rule 15c-12 to make all disclosures and filings relating directly to guaranteed bonds, and the TEA takes no responsibility with respect to such undertakings. Under the TEA agreement, the TEA will be obligated to provide annually certain updated financial information and operating data, and timely notice of specified material events, to the MSRB.

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

Annual Reports

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

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

The Fund is reported by the State of Texas as a permanent fund and accounted for on a current financial resources measurement focus and the modified accrual basis of accounting. Measurement focus refers to the definition of the resource flows measured.

Under the modified accrual basis of accounting, all revenues reported are recognized based on the criteria of availability and measurability. Assets are defined as available if they are in the form of cash or can be converted into cash within 60 days to be usable for payment of current liabilities. Amounts are defined as measurable if they can be estimated or otherwise determined. Expenditures are recognized when the related fund liability is incurred.

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

Material Event Notices

The TEA will also provide timely notices of certain events to the MSRB. Such notices will be provided not more than ten business days after the occurrence of the event. The TEA will provide notice of any of the following events with respect to the Guarantee Program: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if such event is material within the meaning of the federal securities laws; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax-exempt status of the Guarantee Program, or other material events affecting the tax status of the Guarantee Program; (7) modifications to rights of holders of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (8) bond calls, if such event is material within the meaning of the federal securities laws, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the Guarantee Program (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Guarantee Program in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Guarantee Program, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Guarantee Program); (13) the consummation of a merger, consolidation, or acquisition involving the Guarantee Program or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) the appointment of a successor or additional trustee with respect to the Guarantee Program or the change of name of a trustee, if such event is material within the meaning of the federal securities laws. (Neither the Act nor any other law, regulation or instrument pertaining to the Guarantee Program make any provision with respect to the Guarantee Program for bond calls, debt service reserves, credit enhancement, liquidity enhancement, early redemption or the appointment of a trustee with respect to the Guarantee Program.) In addition, the TEA will provide timely notice of any failure by the TEA to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information

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

Limitations and Amendments

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

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

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

Compliance with Prior Undertakings

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

SEC Exemptive Relief

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

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance

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

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

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

Possible Effects of Changes in Law on District Bonds

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

Overview

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

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

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

Local Funding for School Districts

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

State Funding for School Districts

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

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

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

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

Tier Two supplements the basic funding of Tier One and provides two levels of enrichment with different guaranteed yields (i.e., guaranteed levels of funding by the State) depending on the district’s local tax effort. The first six cents of tax effort that exceeds the compressed tax rate (for most districts, M&O tax rates ranging from $1.00 to $1.06 per $100 of taxable value) will, for most districts, generate 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 options in order to reduce their wealth level to equalized wealth levels of funding, as determined by formulas set forth in the Reform Legislation. For most Chapter 41 districts, this equalization process entails paying the portion of the district's local taxes collected in excess of the equalized wealth levels of funding to the State (for redistribution to other school districts) or directly to other school districts with a wealth per student that does not generate local funds sufficient to meet the statutory level of funding, a process known as "recapture".

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

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

THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

The District's wealth per student for the 2018-19 school year is $733,661 which is more than the equalized wealth value. Accordingly, the District has been required to exercise one of the permitted wealth equalization options. The District has elected to purchase attendance credits from the State as a wealth equalization option. For a detailed discussion of State funding for school districts, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts."

A district's wealth per student must be tested for each future school year and, if it exceeds the equalized wealth level, the District must reduce its wealth per student by the exercise of one of the permitted wealth equalization options. Accordingly, if the District's wealth per student continues 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.

AD VALOREM TAX PROCEDURES

Tax Code and County-Wide Appraisal District

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

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real and certain tangible personal property with a tax situs in the District is subject to taxation by the District. Principal categories of exempt property (including certain exemptions which are subject to local option by the Board of Trustees) include property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain improvements to real property and certain tangible personal property located in designated reinvestment zones on which the District has agreed to abate ad valorem taxes; so-called "freeport property" including property detained in the District for up to 175 days for purpose of assembly or other processing; certain household goods, family supplies and personal effects; farm products owned by the producers; certain real property and tangible personal property owned by a non-profit community business organization or a charitable organization. Other principal categories of exempt property include tangible personal property not held or used for production of income; solar and windpowered energy devices; most individually owned automobiles; $10,000 exemption to residential homesteads of disabled persons or persons ages 65 or over; $25,000 in market value for all residential homesteads; certain classes of intangible property; an exemption from $5,000 to a maximum of $12,000 for real or personal property of disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; provided, however, that a disabled veteran who receives from the from the United States Department of Veterans Affairs or its successor 100 percent disability compensation due to a service-connected disability and a rating of 100 percent 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 had received a disability rating of 100% is entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries. In addition, a partially disabled veteran or the surviving spouse of a partially disabled veteran is entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces who was killed in action is entitled to an exemption of the total appraised value of the surviving spouse's residence homestead if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of death. Such exemption may be transferred to a subsequent residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received. Effective January 1, 2018, the surviving spouse of a first responder who is killed or fatally injured in the line of duty is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

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) for a period ending December 31, 2019.

A city or a county may create a tax increment reinvestment zone ("TIF") within the city or county, as applicable, with defined boundaries and establish a base value of taxable property in the TIF at the time of its creation. Overlapping taxing units, including school districts, may agree with the city or county to contribute all or part of future ad valorem taxes levied and collected against the "incremental value" (taxable value in excess of the base value) of taxable real property in the TIF to pay or finance the costs of certain public improvements in the TIF, and such taxes levied and collected for and on behalf of the TIF are not available for general use by such contributing taxing units. Effective September 1, 2001, school districts may not enter into tax abatement agreements under the general statute that permits cities and counties to initiate tax abatement agreements. Under current law, the Comptroller of Public Accounts is to determine taxable value of property within each school district in the State (which taxable value figure is used in calculating a district's wealth per student) and in making such determination the taxable value is to exclude (i) the total dollar amount of any captured appraised value of property located in a reinvestment zone on August 31, 1999, that generates taxes paid into a tax increment fund and is eligible for tax increment financing under a reinvestment zone financing plan approved before September 1, 1999, and (ii) the total dollar value of taxable property covered by a tax abatement agreement entered into prior to June 1, 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 tax abatements on certain eligible property to encourage economic development in their tax base and provides additional State funding for each year of such tax abatement in the amount of the tax credit provided to the taxpayer by the district.

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

Article VIII, section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit" is defined by a provision of the Tax Code, which is effective for tax years 2008 and thereafter, as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. The Tax Code provision permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods-in-transit beginning the following tax year. A taxpayer may receive only one of the freeport exemptions or the goods-in-transit exemptions for items of personal property.

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. In determining the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal. The Appraisal District's chief appraiser determines the method 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 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 further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the market value of the property or (2) 110% of the appraised value of the resident homestead for the preceding tax year plus the market value of all new improvements to the property.

The Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. Landowners wishing to avail themselves of the agricultural use designation must apply for the designation, and the appraiser is required by the 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 Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three years. The District, at its expense, has the right to obtain from the Appraisal District a current estimate of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimate of appraisal values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the Appraisal District chooses to formally include such values on its appraisal rolls.

Residential Homestead Exemption

The Texas Constitution permits the exemption of certain percentages of the market value of residential homesteads from ad valorem taxation. The Constitution authorizes the governing body of each political subdivision in the State to exempt up to twenty percent (20%) of the market value of all residential homesteads from ad valorem taxation, and permits an additional optional homestead exemption for taxpayers 65 years of age or older and disabled persons.

District and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units, including the District, may appeal an order 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 Tax Code.

Public Hearing and Rollback Tax Rate

In setting its annual tax rate, the governing body of a school district generally cannot adopt a tax rate exceeding the district's "rollback tax rate" without approval by a majority of the voters voting at an election approving the higher rate. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures and (2) a rate for debt service. The rollback tax rate for a school district is the lesser of (A) the sum of (1) the product of the district's "State Compression

Percentage" for that year multiplied by $1.50, (2) the rate of $0.04, (3) any rate increase above the rollback tax rate in prior years that were approved by voters, and (4) the district's current debt rate, or the sum of (1) the district's effective maintenance and operations tax rate, (2) the product of the district's State Compression Percentage for that year multiplied by $0.06, and (3) the district's current debt rate (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM-Local Funding for School Districts" for a description of the "State Compression Percentage"). If for the preceding tax year a district adopted an M&O tax rate that was less than its effective M&O tax rate for that preceding tax year, the district's rollback tax for the current year is calculated as if the district had adopted an M&O tax rate for the preceding tax year equal to its effective M&O tax rate for that preceding tax year.

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

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

Tax Ceiling

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.

Levy and Collection of Taxes

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

District's Rights in the Event of Tax Delinquencies

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

Except with respect to taxpayers who are 65 years of age or older, at any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property.

Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights, or by bankruptcy proceedings which restrict the collection of taxpayer debts.

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

Penalties and Interest

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

Month	Cumulative 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 cumulative penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, if an account is delinquent in July, a 20% attorney's collection fee may be added to the total tax, penalty and interest charge.

District Application of Tax Code

The District has granted an additional $10,000 exemption to the market value of the residence homestead of persons 65 years of age or older over the State-mandated exemption. The District has granted an additional exemption of 10% to the market value of residence homesteads; minimum exemption of $5,000. The exemption for a disabled veteran is equal to 100% of the market value of the residence homestead.

Ad valorem taxes are not levied by the District against the exempt value of residence homesteads for the payment of debt. The District does not tax non-business personal property. The District has entered into 13 property value limitation agreements with its principal taxpayers related to specific projects. The District has five agreements with Dow Chemical Company, four with BASF Corp., one with Air Liquide, and three with Freeport LNG. Each agreement has a term of ten years and provides the taxpayer a limitation on M&O taxable value of $30 million on the taxpayer's property for the third through the tenth year of the agreement. For I&S purpose, the property is taxed at full value. The District does tax goods in transit.

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 next succeeding paragraph. The maximum voted M&O tax rate for the District is $1.50 per $100 of assessed valuation as approved by the voters at an election held on April 7, 1956, pursuant to Article 2784e-1, Texas Revised Civil Statues Annotated, as amended ("Article 2784e-1"). Article 2784e-1 limits the District's annual M&O tax rate based upon a comparison between the District's outstanding bonded indebtedness and the District's taxable assessed value per $100 of assessed valuation. Article 2784e-1 provides for a reduction of $0.10 for each one percent (1%) or major fraction thereof increase in bonded indebtedness beyond seven percent (7%) of assessed valuation of property in the District. This limitation is capped when the District's bonded indebtedness is ten percent (10%) (or greater) of the District's assessed valuation which would result in an annual M&O tax rate not to exceed $1.20. Lastly, the Texas Attorney General in reviewing the District's transcript of proceedings will allow the District to reduce the amount of its outstanding bonded indebtedness by the amount of funds (on a percentage basis) that the District receives in State assistance for the repayment of this bonded indebtedness (For example, if the District anticipates that it will pay 75% of its bonded indebtedness from State assistance, for the purposes of Article 2784e-1, the Texas Attorney General will assume that only 25% of the District's bonded indebtedness is outstanding and payable from local ad valorem taxes). The bonded indebtedness of the District after the issuance of the Bonds will be approximately 1.615% of the District's current taxable assessed valuation of property. See "Appendix A - Table 1 - Valuations, Exemptions and Tax Supported Debt" attached hereto.

The maximum tax rate per $100 of assessed valuation that may be adopted by the District may not exceed the lesser of (A) $1.50, or such lower rate as described in the preceding paragraph, and (B) the sum of (1) the rate of $0.17, and (2) the product of the "state compression percentage" multiplied by $1.50. For fiscal year 2018-19, the Commissioner has determined to maintain the State compression percentage at 66.67%. For a more detailed description of the state compression percentage, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM-Overview." 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" herein.

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

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 issues of "new debt". The Bonds are issued for school building purposes pursuant to Chapter 45, Texas Education Code, as "new debt" and are, therefore, subject to the $0.50 threshold tax test. Under current law, a district may demonstrate its ability to comply with the $0.50 threshold tax rate test by applying the $0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a district uses projected future taxable values to meet the $0.50 threshold tax rate test and subsequently imposes a tax at a rate greater than $0.50 per

$100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Attorney General must find that the district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the $0.50 threshold tax rate test from a tax rate of $0.45 per $100 of valuation. The District has not used State assistance other than EDA or IFA allotment funding or projected property values to satisfy this threshold test.

EMPLOYEES' BENEFIT PLANS

The District's employees participate in a retirement plan (the "Plan") with the State of Texas. The Plan is administered by the Teacher Retirement System of Texas ("TRS"). State contributions are made to cover costs of the TRS retirement plan up to certain statutory limits. The District is obligated for a portion of TRS costs relating to employee salaries that exceed the statutory limit.

In addition to the TRS retirement plan, the District provides health care coverage for its employees. For a discussion of the TRS retirement plan and the District's medical benefit plan, see the audited financial statements of the District that are attached hereto as Appendix B.

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

THE DISTRICT

The District, an independent school district and political subdivision of the State of Texas is located in Brazoria County, Texas. Brazoria County, along with other governmental entities, have authority to levy ad valorem taxes. See "APPENDIX A - Table 6, Estimated Overlapping Debt."

Administration

The Board of Trustees is the governing body of the District and consists of seven members, who serve three-year staggered terms and all serve without salary. The District is under the administrative supervision of the Superintendent of Schools, who is employed by the Board of Trustees.

District School Operations

As of August 1, 2018, the District owned and operated three high schools, five middle/intermediate schools, ten elementary schools and one alternative placement center. The following table provides information regarding student enrollment in the District.

	For the Year Ending August 31				
	2019[(a)]	2018	2017	2016	2015
Student Enrollment	12,253	12,233	12,332	12,558	12,378
Average Daily Attendance	11,640	11,621	11,715	11,645	11,759
Cost Per Student	$9,898	$9,020	$8,509	$8,166	$7,650

[(a)] Projected.

Financial Policies

Special Revenue Fund – accounts for resources restricted to, or designated for, specific purposes by the District or a grantor. Most Federal and some State financial assistance are accounted for in the Special Revenue Funds.

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

Internal Service Funds – accounts for District's self-funded Worker's Compensation Insurance Fund. Revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis are accounted for in an Internal Service Fund.

Agency Funds – accounts for resources held by the District for others in a custodial capacity. The District's Agency Funds consist of various school activity funds.

Private Purpose Trust Funds – is used to account for donations for scholarship moneys. These are donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District.

Impact of Recent Hurricane

On August 26, 2017, Hurricane Harvey (the "Hurricane") struck the region. The Hurricane, with its high winds, historic rain fall and flooding, resulted in significant property damage throughout southeast Texas, however, the District received minimal damage. On August 25, 2017, the President of the United States issued a major disaster declaration, which was amended on August 27, 2017 to include Brazoria County, where the District is located. The major disaster declaration made federal assistance available for debris removal and emergency protective measures, including direct federal assistance, under the Public Assistance program. The District had minor roof leaks at some District facilities which are being fixed by their maintenance staff and $10,000 of damage to their scoreboard. The District does not expect the Hurricane to impact its ability to pay debt service on the Bonds.

INVESTMENTS

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

Legal Investments

Available District funds are invested as authorized by Texas law and in accordance with investment policies approved by the Board of Trustees. Both state law and the District's investment policies are subject to change. Under Texas 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 by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the investing entity selects from a list the governing body or designated investment committee of the entity adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in this State that the investing entity selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the investing entity's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the investing entity appoints as the entity's custodian of the banking deposits issued for the entity's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the Securities and Exchange Commission and operating under 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 a depository institution that 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 its successor or the National Credit Union Insurance Fund or its successor, or are secured as to principal by obligations described in the clauses (1) through (8) or in any other manner and amount provided by law for District deposits, or (ii) where (a) the funds are invested by the District through (I) a broker that has its main office or a branch office in the State 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 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, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit; (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) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (12) 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, (13) a no-load money market mutual fund registered with and regulated by the Securities and Exchange Commission that provides the District with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and complies with federal Securities and Exchange Commission Rule 2a-7, and (14) 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 that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

In addition to authorized investments described above, the Texas law provides that the District may invest in corporate bonds that, at the time of purchase, are rated by a nationally recognized investment rating firm "AA-" or the equivalent and have a stated final maturity that is not later than the third anniversary of the date the corporate bonds were purchased. As used herein, corporate bond means a senior secured debt obligation issued by a domestic business entity and rated not lower than "AA-" or the equivalent by a nationally recognized investment rating firm, and does not include unsecured debt obligations or debt obligations that, on conversion, would result in the holder becoming a stockholder or shareholder in the entity that issued the debt obligation. The District may not (1) invest in the aggregate more than 15% of its monthly average fund balance, excluding funds held for the payment of debt service, in corporate bonds or (2) invest more than 25% of the funds invested in corporate bonds in any one domestic business entity, including subsidiaries and affiliates of the entity. The investment officer of the District must sell any corporate bonds not later than seven days after a nationally recognized investment rating firm (1) issues a release that places the corporate bonds or the entity that issued the corporate bonds on negative credit watch or the equivalent, if the corporate bonds are rated "AA-" or the equivalent at the time the release is issued; or (2) changes the rating on the corporate bonds to a rating lower than "AA-" or the equivalent. The District may invest its funds in corporate bonds only if the Board of Trustees of the District (1) amends its investment policy to authorize corporate bonds as an eligible investment, (2) adopts procedures to provide for the monitoring of rating changes in corporate bonds and liquidating the investment in corporate bonds and (3) identifies the funds eligible to be invested in corporate bonds.

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

obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Investment Policies

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for District funds, maximum allowable stated maturity of any individual investment owned by the District, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Public Funds Investment Act. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas law, District investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived". At least quarterly the investment officers of the District shall submit an investment report detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment 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 entity 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 July 31, 2018, the District has approximately $42,503,901 invested with First Public, $94,056,806 with TD Ameritrade and $2,066,441 with Texas Term. The market value of such investments is approximately 100% of their 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.

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. 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.

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 Cut 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.

In rendering its opinions, Bond Counsel has assumed continuing compliance by the District with certain covenants contained in the 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 Order or if its representations relating to the Bonds that are contained in the Order should be determined to be inaccurate or incomplete, interest on the Bonds could become taxable from the date of delivery of the Bonds, regardless of the date on which the event causing such taxability occurs.

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

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

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

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

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

Proposed Tax Legislation

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

Tax Accounting Treatment of Original Issue Discount Bonds

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

The 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 a Premium Bond. 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 an amount representing 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.

CONTINUING DISCLOSURE OF INFORMATION

In the Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the "MSRB"). Information will be available free of charge via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org.

Annual Reports

The District will provide updated financial information and operating data to the MSRB annually via EMMA. The information to be updated includes all quantitative financial information and operating data of the general type included in this Official Statement in APPENDIX A, Tables 1 through 5 and Tables 7 through 10, and APPENDIX B. The District will update and provide this information within six months after the end of each fiscal year; however, if audited financial statements are not available when the information is provided, the District will provide audited financial statements when and if they become available and unaudited financial statements within 12 months after each fiscal year end, unless audited financial statements are sooner provided. Financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation. The District may provide updated information in full text or may incorporate by reference documents available on EMMA or filed with the U.S. Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule").

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

Event Notices

The District shall notify the MSRB, in a timely manner not in excess of ten business days after the occurrence of the event, of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District; (13) the consummation of a merger, consolidation, or acquisition involving the District or the System or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of trustee, if material. The District shall notify the MSRB in an electronic format prescribed by the MSRB, in a timely manner, of any failure by the District to provide financial information or operating data in accordance with the Rule.

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

Limitations and Amendments

The District has agreed to update information and to provide notices of material events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that has been provided except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the District to comply with its agreement. Nothing in this paragraph is intended or shall act to disclaim, waive or limit the District's duties under federal or state securities laws.

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if, but only if, (1) the agreement, as so amended, would have permitted underwriters to purchase or sell Bonds in the initial primary offering in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent or (b) any qualified person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. If the District amends its agreement, it has agreed to include with the financial information and operating data next provided, in accordance with its agreement described above under "Annual Reports," an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and operating data so provided.

Compliance with Prior Undertakings

On November 14, 2014, the District filed a material event notice for rating changes which were not previously filed in a timely manner. The rating changes were in connection with Moody's change in scale and the recalibration resulting in the underlying bond rating upgrade from Aa3 to Aa2 on April 23, 2010. Other than previously stated, during the past five years, the District has complied in all material respects with its previous continuing disclosure agreements in accordance with the Rule.

OTHER INFORMATION

Rating

Moody's Investors Service, Inc. ("Moody's") has assigned its municipal rating of "Aaa" to the Bonds by virtue of the guarantee of the Texas Permanent School Fund on the Bonds. An explanation of the rating may be obtained from Moody's. Moody's generally rates all bonds that are guaranteed by the Permanent School Fund Guarantee Program as "Aaa." The rating reflects only the view of Moody's and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by Moody's if in the judgment of the company circumstances so warrant. Any such downward revision or withdrawal by such rating may have an adverse effect on the market price of the Bonds. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.

No Litigation Certificate

The District will furnish to the Initial Purchaser a certificate, dated as of the date of delivery of the Bonds, executed by an authorized officer of the Board of Trustees, to the effect that, except as disclosed in this Official Statement, no litigation of any nature has been filed or is then pending or threatened, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the issuance, execution or delivery of the Bonds; affecting the provisions made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the issuance, execution, or delivery of the Bonds; or affecting the validity of the Bonds.

Registration and Qualification of Bonds for Sale

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

The Bonds as Legal Investments in Texas

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

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

Legal Matters

The delivery of the Bonds is subject to the approving opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of a continuing, direct, annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property in the District, and the approving legal opinion of Hunton Andrews Kurth LLP, Bond Counsel to the District ("Bond Counsel"), in substantially the form attached as APPENDIX C. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds.

In its capacity as Bond Counsel, Hunton Andrews Kurth LLP, has not independently verified any of the factual information contained in this Official Statement nor have they conducted an investigation into the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. Bond Counsel's role in connection with this Official Statement was limited to reviewing the information describing the Bonds in the Official Statement to verify that such descriptions conform to the provisions of the Order. No person is entitled to rely upon such firm's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the information contained herein.

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

Financial Advisor

USCA Municipal Advisors, LLC ("USCA" or the "Financial Advisor"), a subsidiary of U.S. Capital Advisors, LLC, is employed as Financial Advisor to the District in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. USCA, in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

USCA has reviewed the information in this Official Statement in accordance with its responsibilities to the District and, as applicable, to investors under federal securities laws as applied to the facts and circumstances of this transaction, but USCA does not guarantee the accuracy or completeness of such information.

Sale of Bonds

After requesting competitive bids for the Bonds, the District has accepted a bid tendered by SAMCO Capital Markets, Inc. (the "Initial Purchaser") to purchase the Bonds at the rate shown on the cover page of this Official Statement at a price of $45,187,324.29. No assurance can be given that any trading market will be developed for the Bonds after their initial sale by the District. The District has no control over the prices at which the Bonds will initially be re-offered to the public.

MISCELLANEOUS

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 such 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 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.

Certification of the Official Statement

At the time of payment for and delivery of the Bonds, the Initial Purchaser will be furnished a certificate, executed by a proper officer acting in his or her official capacity, to the effect that to the best of his or her knowledge and belief: (a) the descriptions and statements of or pertaining to the District contained in its Official Statement, and any addenda, supplement or amendment thereto, on the date of such Official Statement, on the date of sale of said Bonds and the acceptance of the best bid therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the District and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements, including financial data, of or pertaining to entities, other than the District, and their activities contained in such Official Statement are concerned, such statements, and data have been obtained from sources which the District believes to be reliable and the District has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the District since the date of the last audited financial statements of the District.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

/s/ Mason Howard
President, Board of Trustees

ATTEST:

/s/ Jerry Adkins
Secretary, Board of Trustees

APPENDIX A

INFORMATION REGARDING THE DISTRICT

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TABLE 1 - VALUATION, EXEMPTIONS AND TAX SUPPORTED DEBT

2018 Certified Net Taxable Valuation	$ 15,214,735,987	(a)
(100% of Estimated Market Value)		
Outstanding Debt (September 1, 2018)	$ 203,445,802	(b)
Plus: The Bonds	42,320,000	
Total Direct Debt	$ 245,765,802	(c)
As a % of Assessed Valuation	1.615%	

(a) Source: Brazoria County Appraisal District.

(b) Includes Unlimited and Limited Tax Debt (see Table 7 - Tax Supported Debt Service Requirements) and includes the outstanding Sinking Fund deposits on the Series 2005 QZAB and the Series 2010 Maintenance Tax QSCB.

(c) Includes the Bonds.

TABLE 2 - ASSESSED VALUATION BY CATEGORY (a)

	Tax Year 2018	Tax Year 2017	Tax Year 2016	Tax Year 2015	Tax Year 2014
Real Property	$ 16,244,211,585	$ 12,615,431,298	$ 10,182,252,181	$ 8,602,229,707	$ 7,450,060,762
Personal Property	1,837,933,380	1,510,878,880	1,452,249,720	1,579,218,160	1,578,812,270
Gross Value	$ 18,082,144,965	$ 14,126,310,178	$ 11,634,501,901	$ 10,181,447,867	$ 9,028,873,032
Less Adjustments (b)(c)	2,867,408,978	2,280,272,866	2,231,894,795	2,149,930,249	2,078,800,921
Net Taxable Value	$ 15,214,735,987	$ 11,846,037,312	$ 9,402,607,106	$ 8,031,517,618	$ 6,950,072,111

(a) Values may differ from those shown elsewhere in the documents due to subsequent additions, deletions, and adjustments to the tax rolls.

(b) Includes exemptions and productivity loss.

(c) Excludes Frozen Values of $392,688,352 for 2018, $380,935,438 for 2017, $347,498,632 for 2016, $277,960,349 for 2015 and $280,318,562 for 2014.

TABLE 3 - TAX RATE, LEVY AND COLLECTION HISTORY; TAX RATE DISTRIBUTION

Fiscal Year End	Tax Year	Taxable Assessed Valuation (a)	Tax Rate	Tax Levy	Percent Collected Current	Percent Collected Total (b)
2015	2014	$ 6,933,187,931	$ 1.2553	$ 82,329,382	101.56%	102.07%
2016	2015	8,001,042,265	1.2553	94,633,701	101.85%	102.69%
2017	2016	8,457,052,204	1.2553	101,856,720	101.76%	102.14%
2018	2017	11,846,037,312	1.2553	140,601,200 (c)	99.43% (c)	101.09% (c)
2019	2018	15,214,735,987	1.2553	168,042,973	(in the process of collection)	

(a) Source: The District's Annual Financial Reports and the Brazoria County Appraisal District.

(b) Excludes penalties and interest.

(c) Source: The District. Collections through 8/14/2018.

Tax Rate Distribution

	2018	2017	2016	2015	2014
Maintenance	$ 1.0400	$ 1.0400	$ 1.0400	$ 1.0400	$ 1.0400
Debt Service	0.2153	0.2153	0.2153	0.2153	0.2153
Total	$ 1.2553	$ 1.2553	$ 1.2553	$ 1.2553	$ 1.2553

TABLE 4 - TEN LARGEST TAX PAYERS

Name	2018 Net Taxable Assessed Valuation	% of Total 2018 Assessed Valuation [(a)]
Dow Chemical	$ 3,580,322,933	23.53%
Freeport LNG Development	2,550,886,480	16.77%
Phillips 66	960,352,310	6.31%
Blue Cube Operations	612,985,919	4.03%
BASF Corporation	391,066,947	2.57%
Freeport LNG	156,304,490	1.03%
Lex Lake Jackson LP	128,736,140	0.85%
Air Liquide Large Industries	110,735,000	0.73%
Shintech Inc	105,806,522	0.70%
Freeport Energy Center	70,022,270	0.46%
	$ 8,667,219,011	56.97%

[(a)] The top ten taxpayers in the District currently account for 57% of the District's tax base, and those top ten tax payers are all entities whose revenues, and assessed valuations, are largely dependent on the energy and oil and gas industries. Adverse developments in economic conditions in those industries could adversely impact the businesses and the tax values in the District, resulting in less local tax revenue. 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 "THE BONDS – Bondholders' Remedies."

TABLE 5 - TAX ADEQUACY

UNLIMITED TAX BONDS [(a)]

Average Annual Debt Service Requirements	$ 12,949,065
$ 0.0896 per $100 AV against the 2018 Net Taxable AV, at 95% collection, produces	$ 12,950,783
Maximum Annual Debt Service Requirements (2019)	$ 31,920,789
$ 0.2209 per $100 AV against the 2018 Net Taxable AV, at 95% collection, produces	$ 31,928,884

[(a)] Includes the Bonds.

LIMITED TAX BONDS [(a)]

Average Annual Debt Service Requirements	$ 532,663
$ 0.0037 per $100 AV against the 2018 Net Taxable AV, at 95% collection, produces	$ 534,798
Maximum Annual Debt Service Requirements (2019-2020)	$ 543,617
$ 0.0038 per $100 AV against the 2018 Net Taxable AV, at 95% collection, produces	$ 549,252

[(a)] Represents debt service on the District's Maintenance Tax Qualified School Construction Notes, Series 2010Q, payable from the District's separate M&O tax levy, inclusive of federal subsidy.

TABLE 6 - ESTIMATED OVERLAPPING DEBT [(a)]

The following summary of estimated ad valorem tax bonds of taxing entities in the District was compiled from a variety of sources listed below. No representation is made with respect to the accuracy or completion of the information obtain from sources other than the District. Furthermore, certain entities listed below may have issued substantial amounts of bonds since the dates shown in this table and may have capital improvement programs requiring the issuance of a substantial amounts of additional bonds. Sources include: The Texas Municipal Reports compiled and published by the Municipal Advisory Council of Texas and the Brazoria County Appraisal District.

Taxing Jurisdiction	Total Debt [(b)]	Estimated % Overlapping	Overlapping Debt
Brazoria County	$ 68,505,000	33.60%	$ 23,017,680
Brazoria Co Toll Road Authority	83,538,313		-
Brazosport College District	53,760,000	99.92%	53,716,992
Clute, City of	13,295,000	99.19%	13,187,311
Freeport, City of	1,797,000	98.91%	1,777,413
Lake Jackson, City of	32,295,000	98.86%	31,926,837
Port Freeport	2,250,000	61.98%	1,394,550
Richwood, City of	2,170,000	98.88%	2,145,696
Surfside Beach, Village	1,958,000		-
Velasco Drainage District	5,420,000	98.26%	5,325,692
Estimated Overlapping Debt			$ 132,492,170
The District	$ 245,765,802 [(c)]	100.00%	245,765,802 [(c)]
Total Estimated & Overlapping Debt			$ 378,257,972

[(a)] Source: The Municipal Advisory Council of Texas, as of 7/31/2018.

[(b)] Gross Debt.

[(c)] Includes the Bonds.

TABLE 7 - TAX SUPPORTED DEBT SERVICE REQUIREMENTS

UNLIMITED TAX BONDS

	Outstanding	The Bonds			Total
FYE	Debt Service	Principal	Interest	Total	Debt Service
2019	$ 26,630,639	$ 3,865,000	$ 1,425,150	$ 5,290,150	$ 31,920,789
2020	26,832,239	2,700,000	1,628,350	4,328,350	31,160,589
2021	21,935,489	2,440,000	1,499,850	3,939,850	25,875,339
2022	21,869,600	1,860,000	1,392,350	3,252,350	25,121,950
2023	21,256,531	1,875,000	1,298,975	3,173,975	24,430,506
2024	16,708,738	1,160,000	1,223,100	2,383,100	19,091,838
2025	13,255,378	1,640,000	1,153,100	2,793,100	16,048,478
2026	8,460,244	3,100,000	1,034,600	4,134,600	12,594,844
2027	8,439,244	3,235,000	876,225	4,111,225	12,550,469
2028	8,418,194	3,100,000	717,850	3,817,850	12,236,044
2029	8,403,894	2,630,000	600,900	3,230,900	11,634,794
2030	8,406,106	2,715,000	520,725	3,235,725	11,641,831
2031	8,413,763	3,000,000	420,000	3,420,000	11,833,763
2032	8,421,338	3,000,000	300,000	3,300,000	11,721,338
2033	8,431,309	3,000,000	180,000	3,180,000	11,611,309
2034	8,431,381	3,000,000	60,000	3,060,000	11,491,381
2035	8,425,925	-	-	-	8,425,925
2036	5,303,056	-	-	-	5,303,056
2037	5,303,253	-	-	-	5,303,253
2038	2,155,497	-	-	-	2,155,497
2039	2,157,131	-	-	-	2,157,131
2040	2,155,338	-	-	-	2,155,338
2041	2,154,988	-	-	-	2,154,988
2042	2,157,100	-	-	-	2,157,100
	$ 254,126,373	$ 42,320,000	$ 14,331,175	$56,651,175	$310,777,548

Average Annual Debt Service Requirements	$ 12,949,065
Maximum Annual Debt Service Requirements (2019)	$ 31,920,789

LIMITED TAX BONDS

	Outstanding Debt Service [a]
2019	$ 543,617
2020	543,617
2021	532,145
2022	532,145
2023	532,145
2024	532,145
2025	516,696
2026	531,696
2027	531,696
2028	531,696
2029	531,696
	$ 5,859,293

Average Annual Debt Service Requirements	$ 532,663
Maximum Annual Debt Service Requirements (2019-2020)	$ 543,617

---

[a] Represents debt service on the District's Maintenance Tax Qualified School Construction Notes, Series 2010Q, payable from the District's separate M&O tax levy, inclusive of federal subsidy.

TABLE 8 - AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS

Date Authorized	Purpose	Amount Authorized	Heretofore Issued	The Bonds [a]	Authorized but Unissued
November 4, 2014	School Buildings, Sites and Buses	$ 175,000,000	$ 130,000,000	$ 45,000,000	$ -

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[a] Includes $2,680,000 of premium charged against voted authorization.

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION

Estimated Tax Supported Unlimited Tax Debt Service Requirements, FYE 2019		$ 31,920,789 [a]
Estimated Debt Service Fund, FYE 2018	$ 10,826,218 [b]	
Estimated Additional State Aid for Homestead Exemption (ASAHE) for Facilities	151,455 [c]	
Estimated Interest and Sinking Fund Tax Levy @ 95% collection	31,119,460	42,097,133
Estimated Debt Service Fund Balance, FYE 2019		$ 10,176,344

---

[a] Includes the Bonds.

[b] Source: The District.

[c] Source: Texas Education Agency, as of 8/20/2018.

TABLE 10 - GENERAL FUND REVENUES AND EXPENDITURE HISTORY [a]

FOR FISCAL YEAR END	**2017**	**2016**	**2015**	**2014**	**2013**
REVENUES					
Local and Intermediate Sources	$ 96,265,161	$ 83,133,886	$ 71,079,977	$ 70,899,744	$ 66,793,843
State Program Revenues	12,266,049	20,984,931	18,178,145	19,347,813	17,470,666
Federal Program Revenues	1,595,073	1,611,957	1,692,337	1,966,675	1,969,415
Total Revenues	$ 110,126,283	$ 105,730,774	$ 90,950,459	$ 92,214,232	$ 86,233,924
EXPENDITURES					
Instruction	$ 59,037,003	$ 57,420,162	$ 53,917,735	$ 50,638,973	$ 47,627,862
Instructional Resources and Media	1,509,082	1,822,092	1,504,459	1,355,871	1,333,220
Curriculum & Staff Dev.	2,613,501	1,732,437	906,136	902,951	773,968
Instructional Leadership	2,655,273	2,424,906	2,138,590	1,617,500	1,442,334
School Leadership	7,454,167	7,320,321	6,554,061	6,025,999	5,866,125
Guidance, Counsel & Evaluation. Serv.	4,668,641	4,257,753	3,336,890	2,947,981	3,043,295
Social Work Services	208,672	190,887	105,821	98,590	65,920
Health Services	1,331,263	1,314,922	1,249,184	1,152,507	1,001,854
Student (Pupil) Transportation	2,186,124	2,077,689	2,009,615	1,869,004	1,926,382
Extracurricular Activities	3,509,878	3,279,446	3,116,478	2,664,666	2,521,564
General Administration	2,567,076	2,417,483	2,395,393	2,024,654	1,884,881
Plant Maintenance and Operations	12,365,099	12,569,088	10,244,691	9,965,692	9,558,499
Security and Monitoring Services	971,928	859,271	714,665	574,193	631,458
Data Processing Services	2,016,667	1,833,857	1,593,506	1,631,099	1,392,443
Community Service	17,281	13,929	11,833	11,350	1,645
Debt Services					
Principal on Long-Term Debt	54,979	54,851	54,852	47,015	97,890
Interest on Long-Term Debt	448,524	448,421	448,396	442,778	416,626
Bond Issuance Costs and Fees	-	-	-	-	-
Capital Outlay	-	-	-	-	-
Contracted Instr. Serv. Between Sch.	2,006,986	113	1,320,033	1,124,014	1,186,550
Pmts related to Shared Serv. Arrang.	147,600	99,398	2,222,493	2,239,293	2,596,435
Other Intergovernmental	762,230	671,962	595,893	589,041	579,322
Pmts to Juvenile Justice Alt. Ed. Prog.	26,500	13,300	-	-	-
Total Expenditures	$ 106,558,474	$ 100,822,288	$ 94,440,724	$ 87,923,171	$ 83,948,273
Excess (Deficiency) Rev. Over Exp.	3,567,809	4,908,486	(3,490,265)	4,291,061	2,285,651
Sale of real or Personal Property	14,394	14,109	4,140	-	-
Other Resources	59,759	79,059	203,598	219,675	30,710
Other (Uses)	(36,103)	(72,821)	(98,359)	(300,647)	(79,897)
Excess (Deficiency) of Rev. and Other Resources Over Exp. and Other Uses	$ 3,605,859	$ 4,928,833	$ (3,380,886)	$ 4,210,089	$ 2,236,464
Fund Balance - (Beginning)	$ 35,216,559	$ 30,287,726	$ 33,668,612	$ 29,458,523	$ 27,222,059
Increase (Decrease) in Fund Balance					
Fund Balance - (Ending)	$ 38,822,418	$ 35,216,559	$ 30,287,726	$ 33,668,612	$ 29,458,523

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

Note: The District estimates a General Fund balance as of August 31, 2018 of approximately $42,595,010.

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APPENDIX B

EXCERPTS FROM THE DISTRICT'S
AUDITED FINANCIAL REPORT
FOR YEAR ENDED
AUGUST 31, 2017

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BRAZOSPORT
INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
AUGUST 31, 2017

KENNEMER, MASTERS & LUNSFORD, LLC
CERTIFIED PUBLIC ACCOUNTANTS
8 WEST WAY COURT
LAKE JACKSON, TEXAS   77566

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BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

Annual Financial Report
For the Year Ended August 31, 2017

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BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

Annual Financial Report
For the Year Ended August 31, 2017

Table of Contents - Continued

The Following Exhibits Were Not Applicable to the Brazosport Independent School District:

Combining Statement for Major Component Units:

F-1	Combining Statement of Net Position	
F-2	Combining Statement of Activities	

INTRODUCTORY SECTION

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CERTIFICATE OF BOARD

Brazosport Independent School District	Brazoria	020-905
Name of School District	County	Co.–Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) ✓ approved ____ disapproved for the year ended August 31, 2017, at a meeting of the board of trustees of such school district on the 22nd day of January, 2018.

George Sullivan
Signature of Board Secretary

Mason Howard
Signature of Board President

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

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FINANCIAL SECTION

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Kennemer, Masters & Lunsford
CERTIFIED PUBLIC ACCOUNTANTS
Limited Liability Company

Lake Jackson Office:	Angleton Office:	El Campo Office:	Houston Office:
8 West Way Court	2801 N. Velasco Suite C	201 W. Webb	10850 Richmond Ave., Ste 135
Lake Jackson, Texas 77566	Angleton, Texas 77515	El Campo, Texas 77437	Houston, Texas 77042
979-297-4075	979-849-8297	979-543-6836	281-974-3416

Independent Auditor's Report

To the Board of Trustees
Brazosport Independent School District
Freeport, Texas 77542

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Brazosport Independent School District (the "District") as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Brazosport Independent School District, as of August 31, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 15-27, budgetary comparison information on page 84, and the pension schedules on pages 85-86 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and the required Texas Education Agency schedules, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, the required Texas Education Agency schedule, 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, except for that portion marked “unaudited” on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, the required Texas Education Agency schedules, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2017, on our consideration of the 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 solely 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 the effectiveness of the District’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District’s internal control over financial reporting and compliance.

Kennemer, Masters & Lunsford, LLC

Lake Jackson, Texas
December 21, 2017

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BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2017

As management of the Brazosport Independent School District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended August 31, 2017. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which follow this section.

Financial Highlights

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent period by $ 68,567,607 (*net position).* Of this amount, $ 8,706,777 (*unrestricted net position*) may be used to meet the District's ongoing obligations.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of $ 96,858,188. Approximately 30 percent of this total amount, $ 28,656,019, is *available for spending* at the government's discretion (*unassigned fund balance).*
- At the end of the current fiscal year, unassigned fund balance for the general fund was $ 28,656,019, or 27 percent of the total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis are 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 financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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 business.

The *statement of net position* presents information on all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between these reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information for all of the current year's revenues and expenses regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the District's government-wide financial statements distinguish the functions of the District as being principally supported by taxes and intergovernmental revenues (*governmental activities)* as opposed to *business-type activities* that are intended to recover all or a significant portion of their costs through user fees and charges. The District has no *business-type activities* for which it is financially accountable. The government-wide financial statements can be found on pages 28 through 31 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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related requirements. The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole.

- Some funds are required by State law and/or bond covenants.
- Other funds may be established by the Board to control and manage money for particular purposes or to show that it is properly using certain taxes or grants.

All of the funds of the District can be divided into three categories: governmental funds, proprietary 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, government fund financial statements focus on *near-term inflows and outflows of spendable resources,* as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds 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 impact of the government's near-term financing decisions. Both the government 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 maintains twenty-eight (28) governmental funds. 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, all of which are considered to be major funds. Data from the other twenty-five (25) governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report. The District adopts an annual appropriated budget for its general fund, food service special revenue fund, and debt service fund. A budgetary comparison schedule has been provided to demonstrate compliance with these budgets. The basic governmental fund financial statements can be found on pages 32 through 36 of this report.

- ***Proprietary funds.*** *Proprietary funds* provide the same type of information as the government-wide financial statements, only in more detail. There are two proprietary fund types. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. As mentioned above in the government-wide definition, the District has no *business-type activities* or *enterprise funds.* The second type of proprietary fund is the *internal service fund*. Internal service funds are an accounting device used to accumulate and allocate costs internally among the various functions. The District uses the *internal service fund* to report activities for its self-funded dental and workers' compensation insurance programs. The basic proprietary fund financial statements can be found on pages 37 through 39 of this report.

- ***Fiduciary funds.*** *Fiduciary funds* are used to account for resources held for the benefit of parties outside the government. 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. The District is the trustee, or *fiduciary*, for these funds and is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position that can be found on pages 40 through 41. These activities are excluded from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

Notes to the financial statements. The notes provide additional information that is essential to a complete understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 44 through 81 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* that further explains and supports the information in the financial statements. Required supplementary information can be found on pages 84 through 86 of this report.

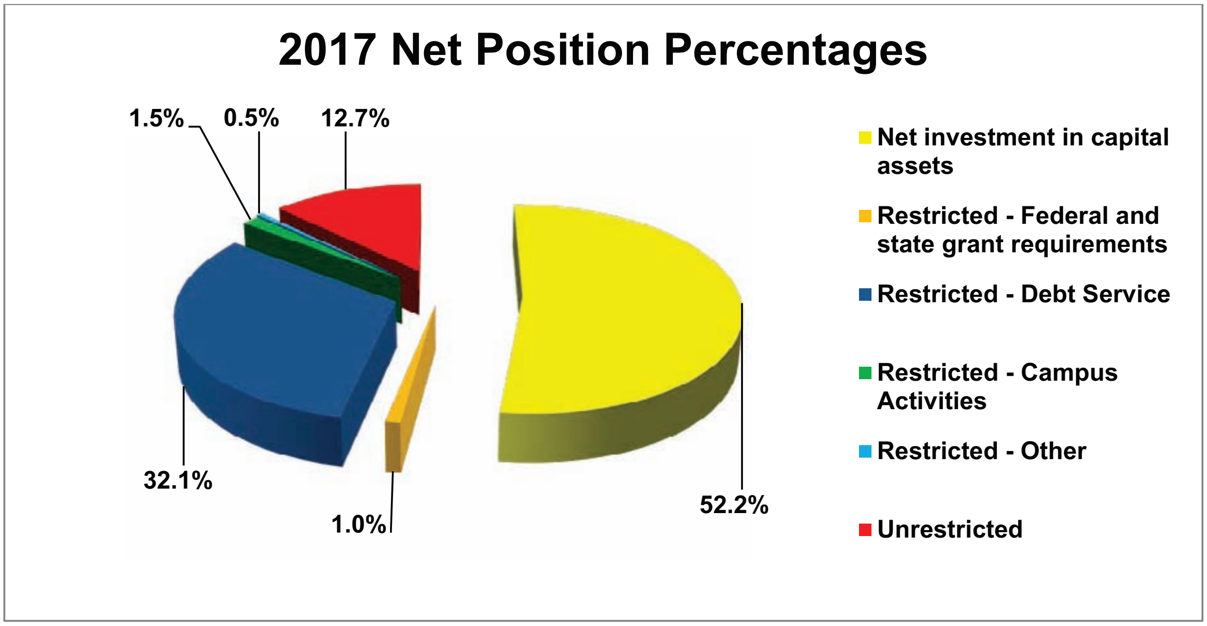
The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining statements can be found on pages 88 through 98 of this report.

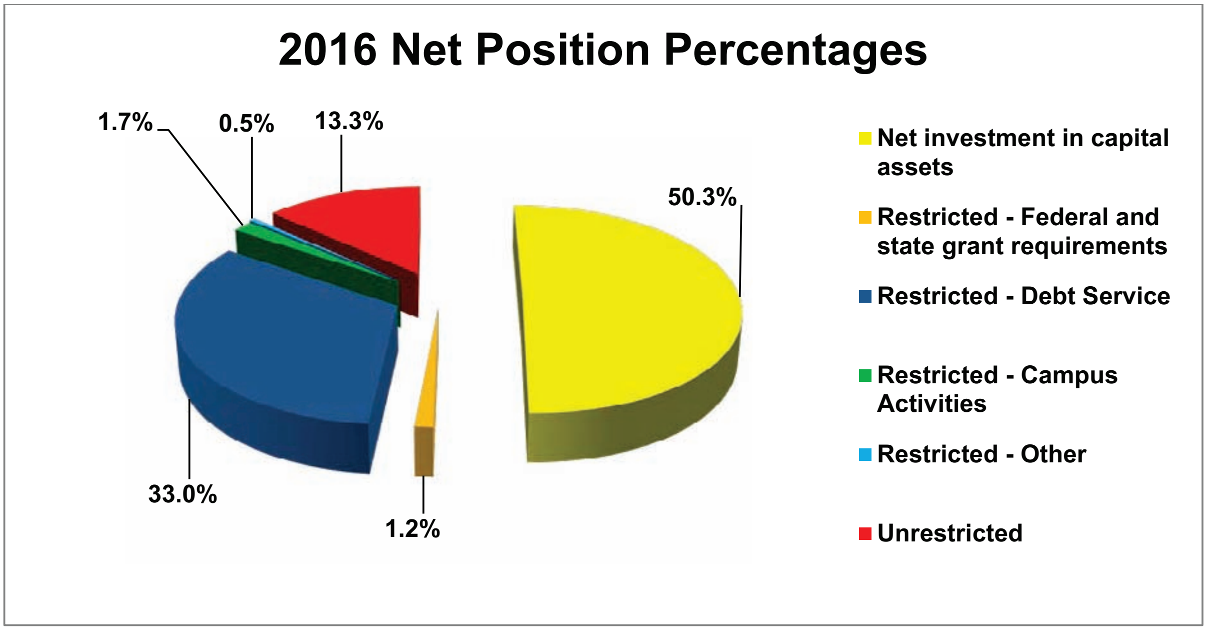
Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $ 68,567,607 as of August 31, 2017. Net position of the District's governmental activities increased by $ 7,088,487, from $ 61,479,120 to $ 68,567,607.

The District's Net Position

	2017	2016
Current and other assets	$ 116,525,819	$ 102,236,493
Capital assets	190,781,908	171,801,997
Total assets	307,307,727	274,038,490
Deferred outflows of resources	15,363,835	15,917,990
Total deferred outflows of resources	15,363,835	15,917,990
Long-term liabilities outstanding	232,368,889	210,070,713
Other liabilities	16,994,547	13,444,559
Total liabilities	249,363,436	223,515,272
Deferred inflows of resources	4,740,519	4,962,088
Total deferred inflows of resources	4,740,519	4,962,088
Net Position:		
Net investment in capital assets	35,779,741	30,914,448
Restricted	24,081,089	22,373,741
Unrestricted	8,706,777	8,190,931
Total net position	$ 68,567,607	$ 61,479,120



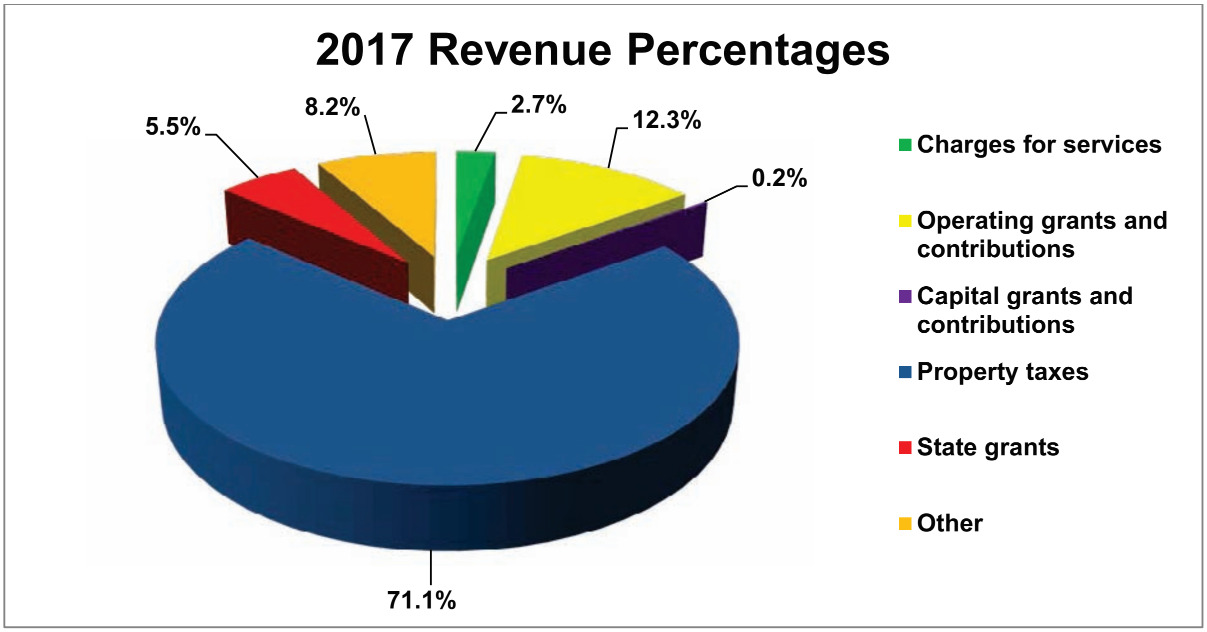


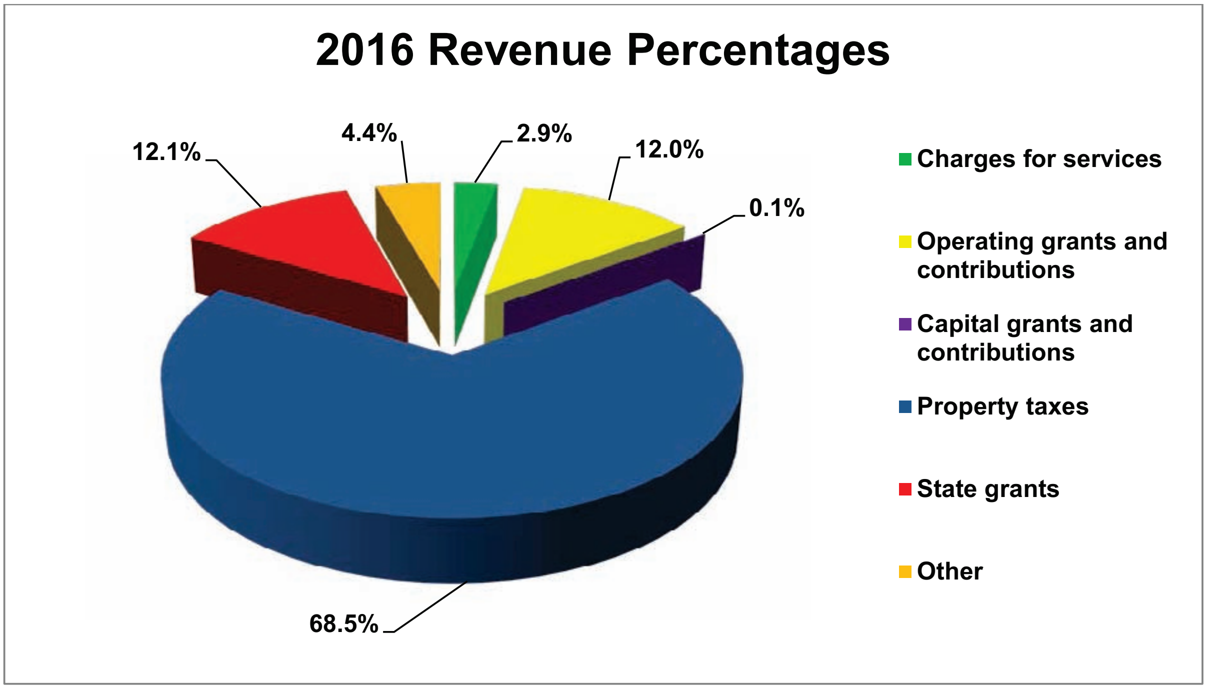
Investment in capital assets (e.g., land and land improvements, buildings and improvements, furniture, equipment and vehicles, and construction in progress) less any related debt used to acquire those assets that is still outstanding is $ 35,779,741. The District uses these capital assets to provide 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. An additional portion of the District's net position, $ 24,081,089 approximately 35 percent, represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* $ 8,706,777 may be used to meet the District's ongoing obligations. This surplus is not an indication that the District has significant resources available to meet financial obligations next year, but rather the result of having *long-term* commitments that are less than currently available resources.

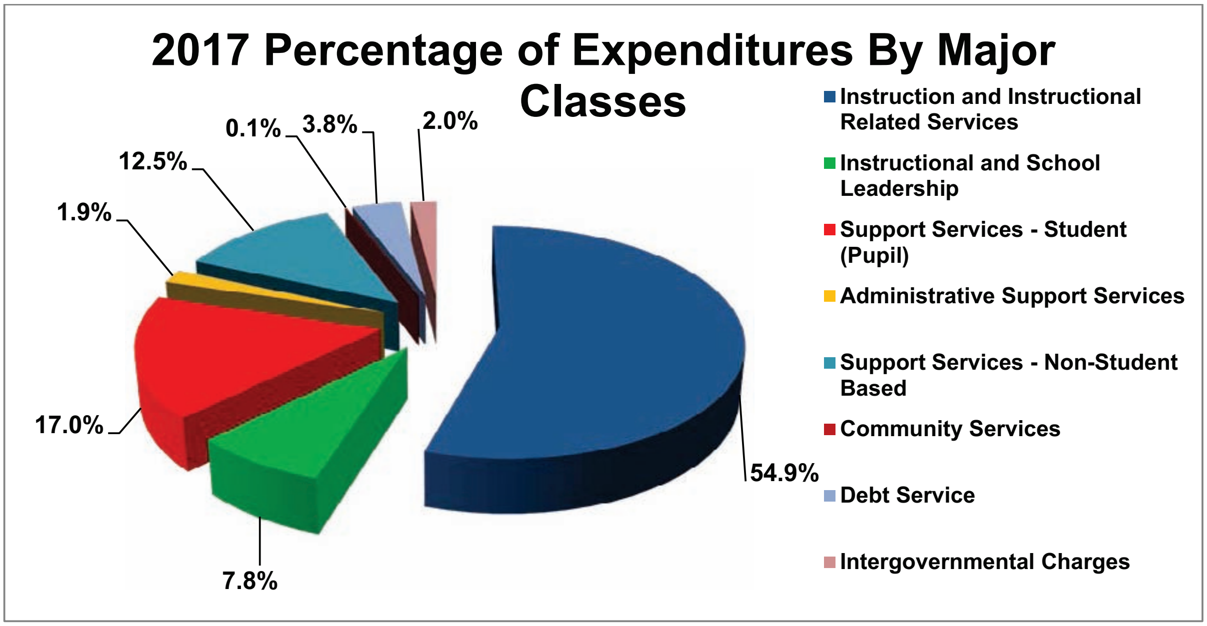
Governmental activities. The District's total net position increased $ 7,088,487. The total cost of all *governmental activities* this year was $ 142,797,908. The amount that our taxpayers paid for these activities through property taxes was $ 106,471,785 or 75 percent.

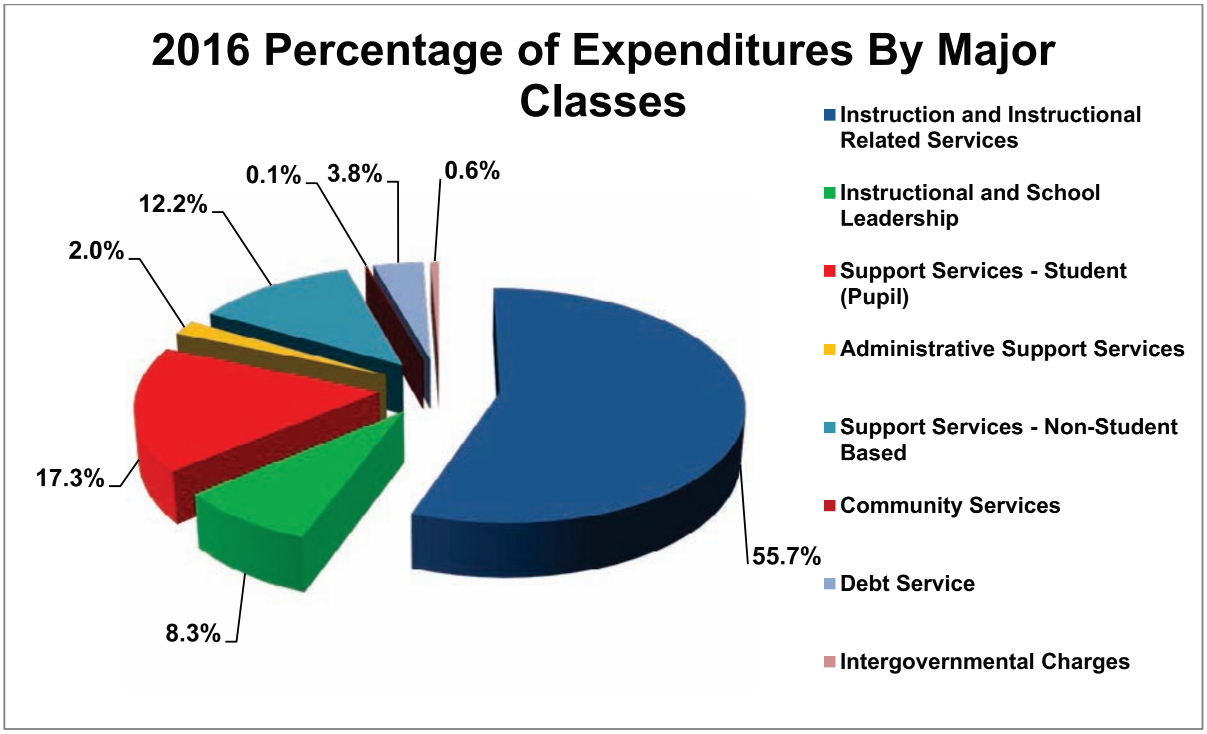
Changes in the District's Net Position

	2017	2016
Revenues:		
Program Revenues:		
Charges for services	$ 4,018,078	$ 4,102,938
Operating grants & contributions	18,506,948	17,049,703
Capital grants & contributions	271,903	67,112
General Revenues:		
Property taxes	106,471,785	97,844,040
State grants	8,301,553	17,255,198
Other	12,316,128	6,351,028
Total revenues	149,886,395	142,670,019
Expenses:		
Instruction	72,776,029	67,898,047
Instructional resources & media services	2,049,159	2,184,590
Curriculum & staff development	3,603,731	2,837,411
Instructional leadership	2,976,680	2,951,886
School leadership	8,107,797	7,877,141
Guidance, counseling & evaluation services	5,194,538	5,028,506
Social work services	569,228	404,703
Health services	1,407,945	1,388,429
Student transportation	3,447,111	2,874,154
Food service	7,141,640	7,743,741
Cocurricular/extracurricular activities	6,463,817	5,303,679
General administration	2,738,637	2,552,100
Plant maintenance and operations	13,200,449	13,140,868
Security and monitoring services	996,853	887,750
Data processing services	3,625,960	1,894,204
Community services	63,987	48,873
Debt service-interest and fees long-term debt	5,491,031	4,937,329
Contracted instructional services between public schools	2,006,986	113
Payments related to shared services arrangements	147,600	99,398
Payments to juvenile justice alternative education	26,500	13,300
Other governmental	762,230	671,962
Total expenses	142,797,908	130,739,184
Increase in net position	7,088,487	11,930,835
Beginning net position	61,479,120	49,548,285
Ending net position	$ 68,567,607	$ 61,479,120


2017 Revenue Percentages
5.5%
8.2%
2.7%
12.3%
0.2%
71.1%
🟩 Charges for services
🟨 Operating grants and contributions
🟪 Capital grants and contributions
🟦 Property taxes
🟥 State grants
🟧 Other


2016 Revenue Percentages
12.1%
4.4%
2.9%
12.0%
0.1%
68.5%
🟩 Charges for services
🟨 Operating grants and contributions
🟪 Capital grants and contributions
🟦 Property taxes
🟥 State grants
🟧 Other


2017 Percentage of Expenditures By Major Classes
0.1%
3.8%
2.0%
12.5%
1.9%
17.0%
7.8%
54.9%
■ Instruction and Instructional Related Services
■ Instructional and School Leadership
■ Support Services - Student (Pupil)
■ Administrative Support Services
■ Support Services - Non-Student Based
■ Community Services
■ Debt Service
■ Intergovernmental Charges


2016 Percentage of Expenditures By Major Classes
0.1%
3.8%
0.6%
12.2%
2.0%
17.3%
8.3%
55.7%
■ Instruction and Instructional Related Services
■ Instructional and School Leadership
■ Support Services - Student (Pupil)
■ Administrative Support Services
■ Support Services - Non-Student Based
■ Community Services
■ Debt Service
■ Intergovernmental Charges

Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, bond covenants, and segregation for particular purposes.

Governmental funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of the District's net resources available for spending at the end of a fiscal year.

At the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of $ 96,858,188, an increase of $ 10,624,704. Approximately 30 percent of this total amount, $ 28,656,019, constitutes *unassigned fund balance*. The remainder of fund balance is *non-spendable, restricted, committed* or *assigned* to indicate that it is not available for new spending because it has already been classified 1) for inventory $ 371,377, 2) for prepaid items $ 1,034,484, 3) for federal and state grant restrictions $ 577,494, 4) for capital acquisitions and contractual obligations $ 36,996,904, 5) to pay debt service $ 22,072,044, 6) other restricted $ 1,399,866, 7) claims and judgments $ 250,000, 8) capital expenditures for equipment $ 500,000, and 9) other assigned $ 5,000,000.

The general fund is the primary operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was $ 28,656,019, while the total fund balance was $ 38,822,418. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to the total fund expenditures. Unassigned fund balance represents 27 percent of the total general fund expenditures, while total fund balance represents 36 percent of that same amount.

The fund balance of the District's general fund increased $ 3,605,859 during the current fiscal year. Key factors related to this change are as follows:

- Numerous functional expenditures were less than amounts originally budgeted, primarily due to
  - Reduced payroll costs due to budgeting at midpoint and unfilled vacancies, along with turnover of employees resulting in a lower experienced workforce occurring throughout the year.
  - Debt service reserve that was budgeted as an expenditure.

The debt service fund has a total fund balance of $ 18,982,044, all of which is restricted for the payment of debt service. The net increase in fund balance during the period in the debt service fund was $ 1,249,047. Following are factors contributing to this change:

- The District currently has two QZAB bonds outstanding, which require annual payments totaling $ 779,580 to be made into a sinking fund. Funding necessary to make the payments is received from property tax collections. Tax collections are recorded as revenues, which increase fund balance, however, payments into the sinking fund are not considered expenditures until the bonds mature.

The capital projects fund has a total fund balance of $ 36,996,904, all of which is restricted for the acquisition of capital contractual obligations. The net increase in fund balance during the period in the capital projects fund was $ 5,780,225. Following are factors contributing to this change:

- Planned expenditures associated with the 2012 and 2014 Bond programs.

Proprietary funds. As mentioned earlier, the District's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position at August 31, 2017 amounted to $ 2,316,331. The total increase in net position was $ 19,837.

General Fund Budgetary Highlights

The District made the following amendments to budgeted revenue.

- $ 180,000 increase to reflect stronger than anticipated tax collections

Following is a summary of amendments made to appropriations:

- $ 672,000 increase for the accrued cost of recapture for August 2017
- $ 180,000 increase for various maintenance related projects
- $ 100,000 increase for technology related projects
- $ 150,000 increase for Special Education diagnostic an d assessment services
- $ 150,000 increase for instructional staffing additions made during the year
- $ 93,747 increase for appraisal district fees
- $ 73,395 increase for prior year carryover purchase orders

This positive variance in expenditures is the result of lower than expected payroll and related costs, overestimates of TRS On-Behalf Payments and lower than anticipated fuel, utilities, insurance costs

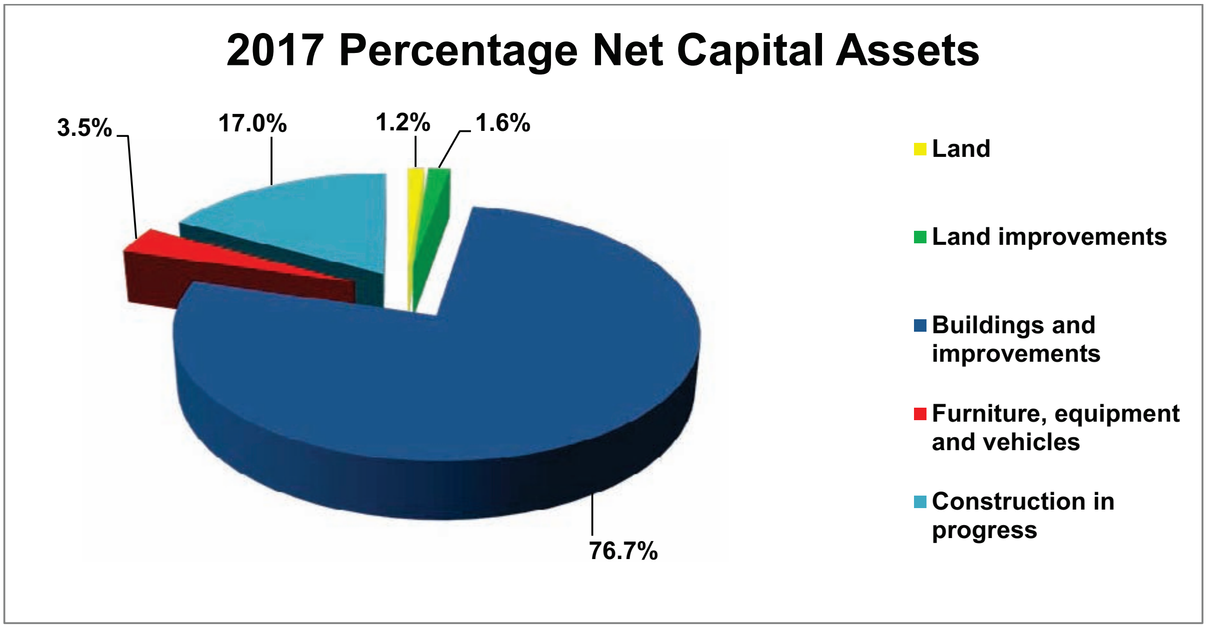
Capital Asset and Debt Administration

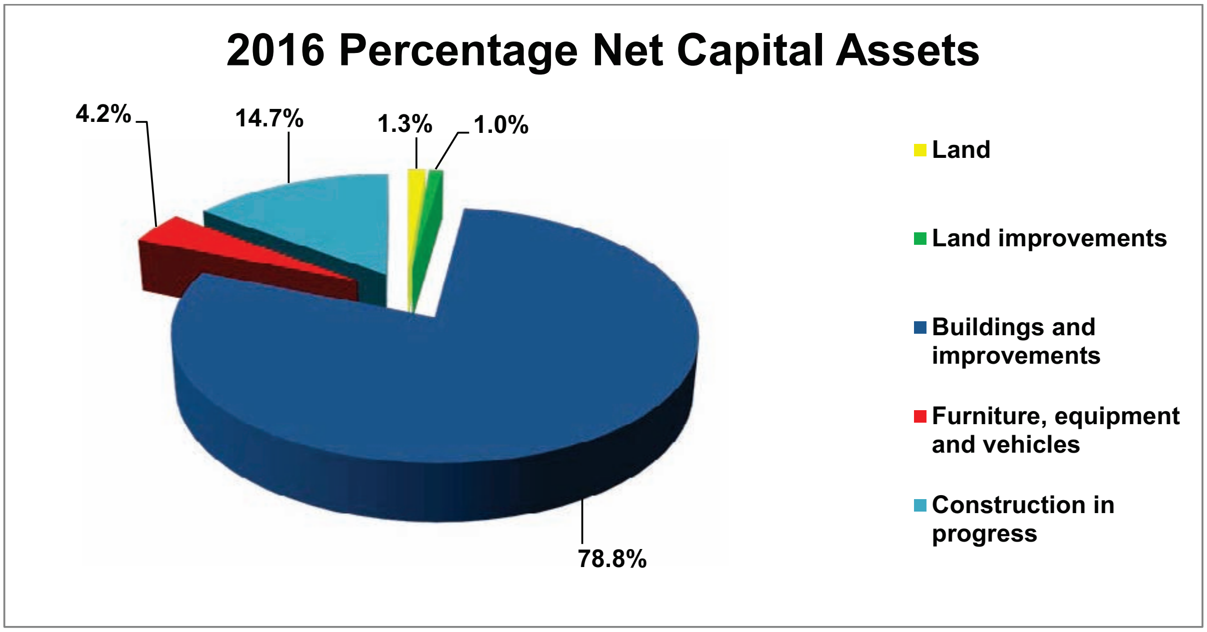
Capital assets. The District's investments in capital assets for its governmental activities as of August 31, 2017 amounts to $ 190,781,908 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings and building improvements, furniture, equipment and vehicles, and construction in progress.

District's Capital Assets
(net of depreciation)

	2017	2016
Land	$ 2,260,973	$ 2,260,973
Land improvements	3,116,658	1,655,629
Buildings and improvements	146,184,506	135,446,786
Furniture, equipment and vehicles	6,746,777	7,173,555
Construction in progress	32,472,994	25,265,054
Total at historical cost	$ 190,781,908	$ 171,801,997

Additional information on the District's capital assets can be found in Note 5 on pages 64 through 66 of this report.

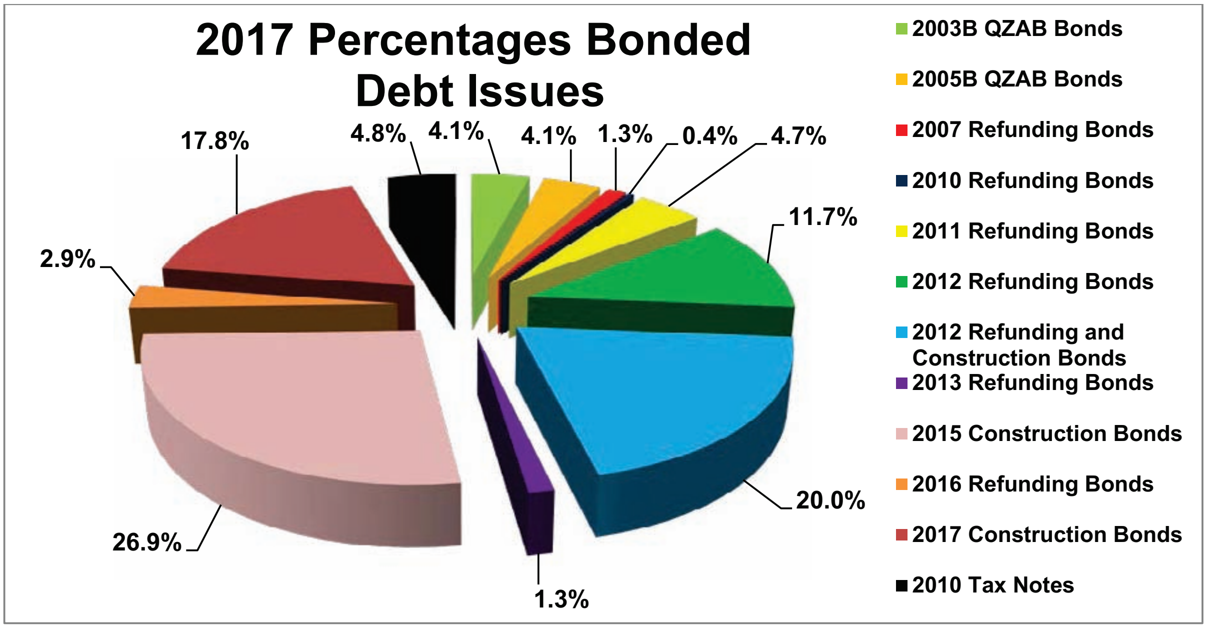


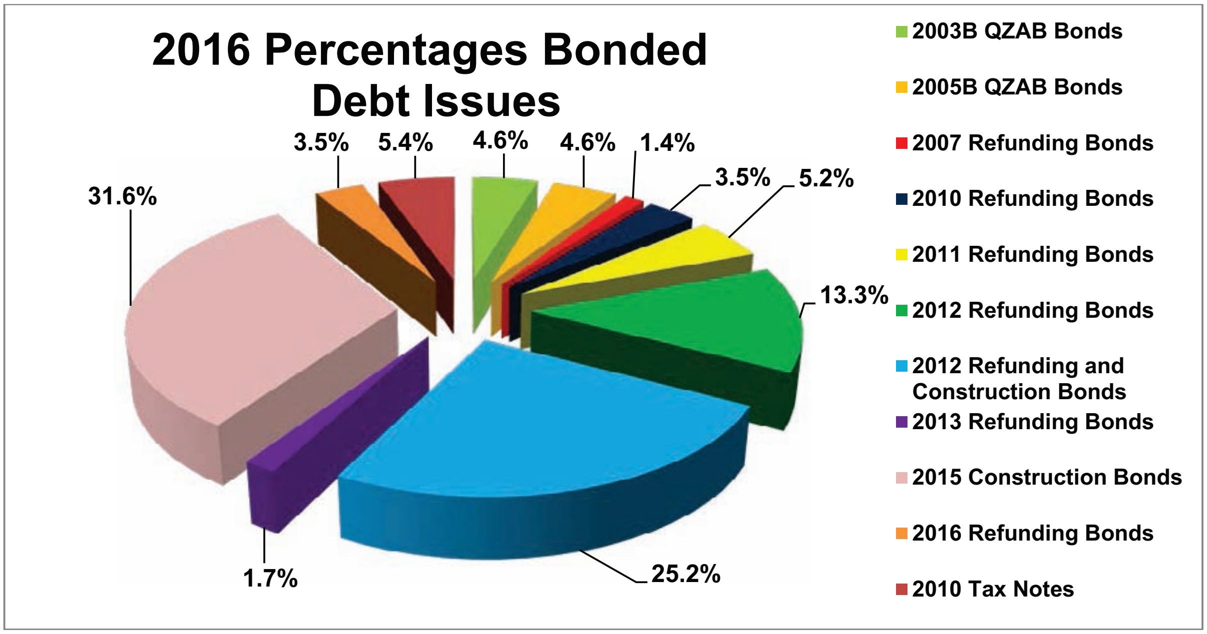


Long-term debt. At August 31, 2017, the District had total long-term debt outstanding of $ 232,368,889. Long-term debt is made of general obligation bonds of $ 184,400,537, tax notes of $ 9,330,000, net pension obligation of $ 28,611,962, capital leases of $ 16,600, premium received on general obligation bonds of $ 9,757,368, and accrued interest of $ 252,422.

District's Long-Term Debt:

	2017	2016
General obligations bonds	$ 184,400,537	$ 164,284,394
Tax notes	9,330,000	9,330,000
Capital leases	16,600	71,579
Net pension obligation	28,611,962	26,937,029
Components of Long-Term Debt:		
Premium on general obligation bonds	9,757,368	9,228,835
Accrued interest payable	252,422	218,876
Total long-term debt	$ 232,368,889	$ 210,070,713





Moody's Aaa rating on the District's bonded indebtedness is provided by a guarantee of the Texas Permanent School Fund for timely payment of principal and interest in the event the District is unable to meet debt service requirements. Moody's Aaa underlying rating is representative of the District's sizable but highly concentrated tax base, low debt levels, and modest financial reserves.

Additional information on the District's long-term debt and capital leases can be found in Notes 6 and 7 on pages 66 through 70 of this report.

Economic Factors and Next Year's Budgets and Rates

- Certified tax values for fiscal year 2018 increased by approximately 26.06% from fiscal tax year 2017. This increase will generate an additional $24.4 million of revenue in the general fund and approximately $5.1 million for the debt service fund.
- A slight decrease in weighted average daily attendance of 108 is budgeted to reflect actual increases for 2017-18. The attendance percentage rates are expected to remain stable at 95%.
- Local property taxes will provide for 95% of the Districts operating fund revenue (net of recapture payments).
- No change in the tax rate of $ 1.2553.
- For 2017-18 the District increased general fund expenditures by roughly $ 13.8 million compared to prior year. Approximately $8 million of this increase is related recapture payments ("Robin Hood") and the remaining increases are reflective of compensation increases to ensure we maintain a competitive salary structure to recruit and retain quality personnel, additional positions in alignment with staffing formulas, additional campus staffing supports, program offerings.

These indicators were taken into account when adopting the General Fund budget for 2017-18 The District has appropriated revenues and expenditures in the 2017-2018 budget of $ 127,530,572 and $ 123,757,980 respectively. Total budgeted revenues increased 17% from the 2015-2016 budget primarily due to changes in property tax values and collection percentage. Total expenditures increased by 12.5% due to the increased cost of recapture ("Robin Hood"), staffing formula changes, additional campus staffing supports, additional program offerings and compensation increases.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances as well as demonstrate accountability for funds the District receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Chief Finance and Governmental Affairs Officer, Brazosport Independent School District, P.O. Drawer Z, Freeport, Texas, 77542.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION

AUGUST 31, 2017

Exhibit A-1

Data Control Codes		Governmental Activities
	ASSETS:	
1110	Cash and cash equivalents	$ 67,395,448
1120	Current investments	42,072,053
1220	Property taxes receivables	1,288,062
1230	Allowance for uncollectible taxes	(833,978)
1240	Due from other governments	3,905,630
1260	Internal balances	1,032,771
1290	Other receivables (net)	259,972
1300	Inventories	371,377
1410	Prepaid items	1,034,484
	Capital Assets:	
1510	Land and improvements (net)	5,377,631
1520	Building and improvements (net)	146,184,506
1530	Furniture, equipment and vehicles (net)	6,746,777
1580	Construction in progress	32,472,994
1000	Total assets	307,307,727
	DEFERRED OUTFLOWS OF RESOURCES	
1700	Deferred outflows of resources	15,363,835
	Total deferred outflows of resources	15,363,835
	LIABILITIES:	
2110	Accounts payable	8,105,519
2150	Payroll deductions and withholdings	981,215
2160	Accrued wages payable	6,683,454
2165	Accrued liabilities	214,929
2180	Due to other governments	913,390
2300	Unearned revenue	96,040
	Noncurrent Liabilities:	
2501	Due within one year	26,027,110
2502	Due in more than one year	177,729,817
2540	Net pension liability	28,611,962
2000	Total liabilities	249,363,436
	DEFERRED INFLOWS OF RESOURCES	
2600	Deferred inflows of resources	4,740,519
	Total deferred inflows of resources	4,740,519

(continued)

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION - Continued
AUGUST 31, 2017

Exhibit A-1
Page 2 of 2

Data Control Codes		Governmental Activities
	NET POSITION:	
3200	Net investment in capital assets	$ 35,779,741
	Restricted For:	
3820	Federal and state programs	656,956
3850	Debt service	22,024,267
3870	Campus activities	1,031,848
3890	Other	368,018
3900	Unrestricted	8,706,777
3000	Total net position	$ 68,567,607

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

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BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES Exhibit B-1

YEAR ENDED AUGUST 31, 2017 Page 1 of 1

			Program Revenues			
Data Control Codes	Functions/Programs	1 Expenses	3 Charges for Services	4 Operating Grants and Contributions	5 Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
	GOVERNMENTAL ACTIVITES:					
11	Instruction	$ 72,776,029	$ 378,215	$ 9,495,676	$	$(62,902,138)
12	Instructional resources and media services	2,049,159	6,617	87,663		(1,954,879)
13	Curriculum and staff development	3,603,731	11,601	1,048,008		(2,544,122)
21	Instructional leadership	2,976,680	10,330	304,281		(2,662,069)
23	School leadership	8,107,797	44,210	356,282		(7,707,305)
31	Guidance, counseling, and evaluation services	5,194,538	23,521	526,588		(4,644,429)
32	Social work services	569,228	1,734	368,259		(199,235)
33	Health services	1,407,945	7,628	56,763		(1,343,554)
34	Student transportation	3,447,111	16,759	86,229	271,903	(3,072,220)
35	Food service	7,141,640	1,922,622	4,727,916		(491,102)
36	Extracurricular activities	6,463,817	1,516,997	96,411		(4,850,409)
41	General administration	2,738,637	8,640	328,737		(2,401,260)
51	Plant maintenance and operations	13,200,449	52,445	243,585		(12,904,419)
52	Security and monitoring services	996,853	7,137	36,518		(953,198)
53	Data processing services	3,625,960	9,622	72,295		(3,544,043)
61	Community services	63,987		47,122		(16,865)
72	Interest on long-term debt	4,916,964		624,615		(4,292,349)
73	Bond issuance costs and fees	574,067				(574,067)
91	Contracted instructional services between public schools	2,006,986				(2,006,986)
93	Payments related to shared services arrangements	147,600				(147,600)
95	Payments to juvenile justice alternative education Programs	26,500				(26,500)
99	Other intergovernmental	762,230				(762,230)
TG	Total governmental activities	$ 142,797,908	$ 4,018,078	$ 18,506,948	$ 271,903	$(120,000,979)
	General Revenues:					
	Taxes:					
MT	Property taxes, levied for general purposes					$ 86,638,146
DT	Property taxes, levied for debt service					19,833,639
SF	State aid-formula grants					8,301,553
GC	Grants and contributions not restricted to specific programs					548,058
IE	Investment earnings					1,468,785
MI	Miscellaneous					9,063,890
E1	Extraordinary items - insurance recoveries					1,235,395
TR	Total general revenues, special items, and transfers					127,089,466
CN	Change in net position					7,088,487
NB	Net position – beginning					61,479,120
NE	Net position – ending					$ 68,567,607

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS

AUGUST 31, 2017

Exhibit C-1
Page 1 of 2

Data Control Codes	Functions/Programs	10 General Fund	50 Debt Service Fund	60 Capital Projects Fund	98 Other Governmental Funds	Total Governmental Funds
	ASSETS:					
1110	Cash and cash equivalents	$ 30,538,747	$ 18,939,833	$ 13,877,788	$ 3,547,241	$ 66,903,609
1120	Investments	10,097,280		29,935,352		40,032,632
1220	Taxes receivable	1,079,974	208,088			1,288,062
1230	Allowance for uncollectible taxes	(703,771)	(130,207)			(833,978)
1240	Receivables from other governments	751,171			3,154,459	3,905,630
1260	Due from other funds	7,166,796	25,654	271,903	4,821,217	12,285,570
1290	Other receivables	93,436			166,536	259,972
1300	Inventories	291,915			79,462	371,377
1410	Deferred expenditures	1,034,484				1,034,484
1000	Total assets	50,350,032	19,043,368	44,085,043	11,768,915	125,247,358
	DEFERRED OUTFLOWS OF RESOURCES					
1700	Deferred outflows of resources					-0-
	Total deferred outflows of resources	-0-	-0-	-0-	-0-	-0-
1000A	Total assets and deferred outflows of resources	$ 50,350,032	$ 19,043,368	$ 44,085,043	$ 11,768,915	$ 125,247,358
	LIABILITIES AND FUND BALANCES:					
	Liabilities:					
2110	Accounts payable	$ 669,578	$	$ 7,085,599	$ 350,432	$ 8,105,519
2150	Payroll deductions and withholdings	981,215				981,215
2160	Accrued wages payable	6,164,752		2,162	516,540	6,683,454
2170	Due to other funds	2,486,730		378	8,765,691	11,252,799
2180	Payable to other governments	913,390				913,390
2300	Unearned revenue	16,520			79,520	96,040
2000	Total liabilities	11,232,185	-0-	7,088,139	9,712,093	28,032,417

(continued)

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS

AUGUST 31, 2017

Exhibit C-1
Page 2 of 2

Data Control Codes	Functions/Programs	10 General Fund	50 Debt Service Fund	60 Capital Projects Fund	98 Other Governmental Funds	Total Governmental Funds
	DEFERRED INFLOWS OF RESOURCES					
2600	Deferred inflows of resources – property taxes	$ 295,429	$ 61,324	$	$	$ 356,753
	Total deferred inflows of resources	295,429	61,324	-0-	-0-	356,753
	Fund Balances:					
	Non-Spendable:					
3410	Inventories	291,915			79,462	371,377
3430	Prepaid items	1,034,484				1,034,484
	Restricted:					
3450	Grant funds				577,494	577,494
3470	Capital acquisitions and contractual obligations			36,996,904		36,996,904
3480	Debt service	3,090,000	18,982,044			22,072,044
3490	Other				1,399,866	1,399,866
	Committed:					
3520	Claims and judgments	250,000				250,000
3530	Capital expenditures for equipment	500,000				500,000
	Assigned:					
3590	Other assigned fund balance	5,000,000				5,000,000
	Unassigned:					
3600	Unassigned fund balance	28,656,019				28,656,019
3000	Total fund balances	38,822,418	18,982,044	36,996,904	2,056,822	96,858,188
4000	Total liabilities, deferred inflows of resources and fund balances	$ 50,350,032	$ 19,043,368	$ 44,085,043	$ 11,768,915	$ 125,247,358

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENTAL ACTIVITIES STATEMENT OF NET POSITION

AUGUST 31, 2017

Exhibit C-1R
Page 1 of 1

Total fund balances – governmental funds balance sheet (C-1)	$ 96,858,188
Amounts reported for *governmental activities* in the statement of net position (A-1) are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Capital assets include $ 282,989,407 in assets less $ 92,207,499 in accumulated depreciation.	190,781,908
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds. Deferred property tax revenues for the general fund and the debt service fund amounted to $ 295,429 and $ 61,324, respectively.	356,753
Other long-term assets are not available to pay for current year expenditures and, therefore, are not reported in the funds. This is the bond refunding costs, which is amortized over the life of the refunding bonds, or the refunded bonds, whichever is shorter. Net bond refunding costs were $ 143,321 (bond refunding costs of $ 222,211 less accumulated amortization of $ 78,890).	143,321
Pension deferred outflows of resources of $ 15,220,514 less pension deferred inflows of resources of $ 4,740,519.	10,479,995
Premium on the issuance of bonds provide current financial resources to governmental funds but the proceeds decrease long-term assets in the statement of net position. This amount is amortized over the life of the bonds. Net premium on the issuance of bonds were $ 9,757,368 (premium on sale of bonds of $ 13,697,970 less amortization of $ 3,940,602).	(9,757,368)
The assets and liabilities of internal service funds are included in governmental activities in the statement of net position.	2,316,331
Payables for net pension obligation are not reported in the funds.	(28,611,962)
Payables for bond principal are not reported in the funds.	(184,400,537)
Payable for tax note principal are not reported in the funds.	(9,330,000)
Payables for capital lease principal are not reported in the funds.	(16,600)
Payables for bond interest are not reported in the funds	(231,228)
Payable for tax note interest are not reported in the funds.	(17,954)
Payables for capital lease interest are not reported in the funds.	(3,240)
Net position of governmental activities – statement of net position (A-1)	$ 68,567,607

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED AUGUST 31, 2017

Exhibit C-2
Page 1 of 1

Data Control Codes	Functions/Programs	10 General Fund	50 Debt Service Fund	60 Capital Projects Fund	Other Governmental Funds	98 Total Governmental Funds
	REVENUES:					
5700	Local and intermediate sources	$ 96,265,161	$ 20,341,683	$ 447,391	$ 4,365,481	$ 121,419,716
5800	State program revenues	12,266,049	243,293		2,340,476	14,849,818
5900	Federal program revenues	1,595,073			10,078,074	11,673,147
5020	Total revenues	110,126,283	20,584,976	447,391	16,784,031	147,942,681
	EXPENDITURES:					
	Current:					
0011	Instruction	59,037,003		127,434	6,657,596	65,822,033
0012	Instructional resources and media services	1,509,082			8,306	1,517,388
0013	Curriculum and staff development	2,613,501			909,423	3,522,924
0021	Instructional leadership	2,655,273			190,798	2,846,071
0023	School leadership	7,454,167			39,570	7,493,737
0031	Guidance, counseling, and evaluation services	4,668,641			332,550	5,001,191
0032	Social work services	208,672			355,201	563,873
0033	Health services	1,331,263				1,331,263
0034	Student transportation	2,186,124		266,657	271,903	2,724,684
0035	Food Service				6,305,054	6,305,054
0036	Extracurricular activities	3,509,878		192,848	1,331,193	5,033,919
0041	General administration	2,567,076			60,086	2,627,162
0051	Plant maintenance and operations	12,365,099		977,484		13,342,583
0052	Security and monitoring services	971,928				971,928
0053	Data processing services	2,016,667		1,569,042		3,585,709
0061	Community services	17,281			46,706	63,987
0071	Principal on long-term debt	54,979	14,520,000			14,574,979
0072	Interest on long-term debt	448,524	5,199,613			5,648,137
0073	Bond issuance costs and fees		574,067			574,067
0081	Capital outlay			28,034,096		28,034,096
0091	Contracted instructional services between public schools	2,006,986				2,006,986
0093	Payments related to shared services arrangements	147,600				147,600
0095	Payments to juvenile justice alternative education programs	26,500				26,500
0099	Other intergovernmental	762,230				762,230
6030	Total expenditures	106,558,474	20,293,680	31,167,561	16,508,386	174,528,101
1100	Excess (deficiency) of revenues over expenditures	3,567,809	291,296	(30,720,170)	275,645	(26,585,420)
	OTHER FINANCING SOURCES (USES):					
7911	Issuance of bonds			34,465,000		34,465,000
7912	Sale of real and personal property	14,394			2,584	16,978
7916	Premium on issuance of bonds		957,751	535,000		1,492,751
7915	Operating transfers in	59,759		265,000	37,725	362,484
8911	Operating transfers out	(36,103)			(326,381)	(362,484)
	Total other financing sources and (uses)	38,050	957,751	35,265,000	(286,072)	35,974,729
	EXTRAORDINARY ITEMS					
7919	Insurance recoveries			1,235,395		1,235,395
1200	Net change in fund balances	3,605,859	1,249,047	5,780,225	(10,427)	10,624,704
0100	Fund balances – beginning	35,216,559	17,732,997	31,216,679	2,067,249	86,233,484
3000	Fund balances – ending	$ 38,822,418	$ 18,982,044	$ 36,996,904	$ 2,056,822	$ 96,858,188

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT,

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES

YEAR ENDED AUGUST 31, 2017

Exhibit C-2R
Page 1 of 1

Net change in fund balances – total governmental funds (from C-2)	$	10,624,704
Amounts reported for *governmental activities* in the statement of activities (B-1) are different because:		
Governmental funds report capital outlays as expenditures. However, in the governmental activities statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay of $ 29,590,910 exceeded depreciation of $ 6,976,059 in the current period.		22,614,851
Government funds report pension payments as expenditures. However, in the governmental activities statement of activities, the pension cost is calculated by an actuary and involves multiple factors. The amount of pension expense reported was $ 1,674,933 more than the amount reported in the funds.	(	1,674,933)
Property tax revenues in the governmental activities statement of activities do not provide current financial resources and are not reported as revenues in the funds. Deferred property tax revenues for the general fund increased by $ 79,168 and the debt service fund increased by $ 15,629.		94,797
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the governmental activities statement of net assets. These amounts were for general obligation bonded debt $ 14,520,000; and capital lease of $ 54,979.		14,574,979
Premium on the issuance of bonds provides current financial resources to governmental funds but the proceeds decrease long-term assets in the statement of net position. This amount is amortized over the life of the bonds. Net premium on the issuance of bonds was $ 528,533). (Premium on bonds issued of $ 1,492,751 less current amortization of $ 964,218).	(	528,533)
Change in pension deferred outflows of resources of $ (525,799), and pension deferred inflows of resources of $ 221,569.	(	304,230)
Long-term debt proceeds provide current financial resources to government funds, but issuing debt increases long-term liabilities in the governmental activities statement of net position. Long-term debt proceeds from bonds were $ 6,180,000.	(	34,465,000)
Deferred outflows on gains and losses on debt refundings are amortized over the term of the bonds In the statement of activities but are expensed in the year incurred in governmental funds.	(	28,356)
Governmental funds report proceeds from the sale of assets as revenue. However, in the governmental activities statement of activities, the cost of the assets disposed is offset against the proceeds to report gain or loss on the disposition of assets. The cost of the assets disposed was $ 3,634,9640 (cost of $ 7,574,348 less accumulated depreciation of $ 3,939,408).	(	3,634,940)
Some expenses reported in the governmental activities statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the change in accrued interest on long-term debt.	(	33,546)
Internal service funds are used by management to charge the costs of insurance and health and worker's compensation to individual funds. The net revenue (expense) of the internal service funds is reported in the governmental activities statement of activities (see D-2)		19,837
Accretion of capital appreciation bonds increases debt service interest expense in the governmental activities statement of activity but is not reported in governmental funds.	(	171,143)
Change in net position of governmental activities (see B-1)	$	7,088,487

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AUGUST 31, 2017

Exhibit D-1
Page 1 of 1

Data Control Codes		Governmental Activities Internal Service Funds (See H-3)
	ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:	
	Current Assets:	
1110	Cash and cash equivalents	$ 2,531,260
1000	Total assets	2,531,260
	DEFERRED OUTFLOWS OF RESOURCES:	
1700	Deferred outflows of resources	
	Total deferred outflows of resources	-0-
	Total assets and deferred outflows of resources	$ 2,531,260
	LIABILITIES, DEFERRED OUTFLOWS OF RESOURCES AND NET POSITION:	
	Liabilities:	
2165	Accrued liabilities	$ 214.929
2000	Total liabilities	214,929
	DEFERRED INFLOWS OF RESOURCES:	
2600	Deferred inflows of resources	
	Total deferred inflows of resources	-0-
	NET POSITION:	
3900	Unrestricted net position	2,316,331
3000	Total net position	2,316,331
	Total liabilities, deferred inflows of resources, and net position	$ 2,531,260

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

PROPRIETARY FUNDS

YEAR ENDED AUGUST 31, 2017

Exhibit D-2
Page 1 of 1

	Governmental Activities Internal Service Funds (See H-4)
Operating Revenues:	
Charges for services	$ 889,993
Total operating revenues	889,993
Operating Expenses:	
Insurance claims and expenses	886,386
Total operating expenses	886,386
Operating income (loss)	3,607
Nonoperating Revenues:	
Interest and investment revenue	16,230
Total nonoperating revenues	16,230
Changes in net position (expenses)	19,837
Net position – beginning	2,296,494
Net position – ending	$ 2,316,331

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED AUGUST 31, 2017

Exhibit D-3
Page 1 of 1

	Governmental Activities Internal Service Funds (See H-5)
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	$ 889,993
Claims paid	(915,782)
Net cash provided by operating activities	(25,789)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Net cash provided (used) by noncapital financing activities	-0-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Net cash provided (used) by capital and related financing activities	-0-
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and investment revenue	16,230
Net cash provided by investing activities	16,230
Net increase (decrease) in cash and cash equivalents	(9,559)
Balances – beginning of year	2,540,819
Balances – end of year	$ 2,531,260
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income (loss)	$ 3,607
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Changes in Assets and Liabilities:	
Accrued expenses payable	(77,733)
Prepaid items	48,337
Net cash provided by operating activities	$(25,789)

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2017

Exhibit E-1
Page 1 of 1

	Private-Purpose Trusts	Agency Funds
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:		
Assets:		
Cash and cash equivalents	$ 15,837	$ 1,261,385
Receivables:		
Due from other funds		1,334,095
Prepaid expenditures		3,094
Total receivables	-0-	1,337,189
Total assets	15,837	$ 2,598,574
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred outflows		
Total deferred outflows of resources	-0-	
Total assets and deferred outflows of resources	$ 15,837	
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION:		
Liabilities:		
Accounts payable	$	$ 69,671
Amounts due to student and employee groups		162,037
Due to other funds		2,366,866
Total liabilities	-0-	$ 2,598,574
DEFERRED INFLOWS OF RESOURCES:		
Deferred inflows		
Total deferred inflows of resources	-0-	
NET POSITION:		
Held in trust for other purposes	15,837	
Total net position	15,837	
Total liabilities, deferred inflows of resources, and net position	$ 15,837	

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
YEAR ENDED AUGUST 31, 2017

Exhibit E-2
Page 1 of 1

	Private-Purpose Trusts
ADDITIONS:	
Contributions:	
Private donations	$ -0-
Investment Earning:	
Interest	69
Total investment earnings	69
Less investment expense	
Net investment earnings	69
Total additions	69
DEDUCTIONS:	
Instruction	4,661
Total deductions	4,661
Change in net position	(4,592)
NET POSITION	
Net position – beginning of the year	20,429
Net position – end of the year	$ 15,837

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

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INDEX

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Brazosport Independent School District (District) is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven-member Board of Trustees that are elected by registered voters of the District. The District prepares its basic financial statements in conformity with Generally Accepted Accounting Principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB). Additionally, the District complies with the requirements of the appropriate version of the Texas Education Agency (TEA) *Financial Accountability System Resource Guide* (FASRG) and the requirements of contracts and grants of agencies from which it receives funds.

Reporting Entity

The Board of the District is elected by the public; has the authority to make decisions, appoint administrators and managers; significantly influence operations; and has the primary accountability for fiscal matters. Therefore, the District is not included in any other governmental "reporting entity" as defined by GASB in its Statement No. 61, *"The Financial Reporting Entity: Omnibus – and amendment of GASB Statement No. 14 and No. 34".* A blended component unit, although a legally separate entity is, in substance, part of the District's operations.

- Blended Component Unit: The Brazosport Independent School District Educational Foundation (the "Foundation") was established under Internal Revenue Service regulations as a conduit for tax-deductible donations to the District. The Superintendent serves as a Board Member. The Foundation is a supporting organization of the District and is presented as a special revenue fund of the District.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report financial information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. The *governmental activities* are supported by tax revenues and intergovernmental revenues. The District has no *business-type activities* that rely, to a significant extent, on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *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 and 2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported in separate columns in the fund financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis Of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. 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 revenues as soon as all eligibility requirements imposed by the provider have been met.

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 government 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 under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State of Texas are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Revenue from investments, including governmental external investment pools, is based upon fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Most investments are reported at amortized cost when the investments have remaining maturities of one year or less at time of purchase. External investment pools are permitted to report short-term debt investments at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer, or other factors. For that purpose, a pool's short-term investments are those with remaining maturities of up to ninety days.

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

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first and the unrestricted resources as needed.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis Of Accounting, and Financial Statement Presentation (Continued)

The District reports the following major governmental funds:

> The *general fund* is the government's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund. Major revenue sources include local property taxes, state funding under the Foundation School Program and interest earnings. Expenditures include all costs associated with the daily operations of the District except for specific programs funded by the federal and state government, food service, debt service, and capital projects.
>
> The *debt service* fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds for which a tax has been dedicated. This is a budgeted fund and a separate bank account is maintained for this fund. Any unused sinking fund balances are transferred to the general fund after all of the related debt obligations have been met. Major revenue sources include local property taxes, and interest earnings. Expenditures include all costs associated with related debt service.
>
> The *capital projects* fund accounts for the resources accumulated and made for Board authorized acquisition, construction, or renovation, as well as, furnishing and equipping of major capital facilities. The major revenue source includes investment earnings and other resources from proceeds from sale of general obligation bonded debt.

The District reports the following proprietary funds:

> The *internal service funds* account for the District's self-funded dental insurance plan provided for the benefit of eligible employees and its self-funded worker's compensation program. The revenues of these funds are received from both the general and special revenue funds, and District employees and the expenses are comprised of claims paid on behalf of the District and its employees. The general fund is contingently liable for liabilities of these funds. Sub-fund accounting is employed to maintain the integrity of the self-insurance activities of the District. See Note 12 for additional discussion of the District's self-funded insurance plans.
>
> The dental insurance plan is intended to be self-supporting and contributions for premiums are increased periodically to cover the cost of claims, insurance premiums and administrative fees. As of August 31, 2017, liabilities totaled $ 35,148 and net position of the dental insurance plan was $ 425,163.
>
> The worker's compensation program provides for incurred but not reported costs for worker's compensation claims through the establishment of undiscounted liability accounts and net position. As of August 31, 2017, undiscounted liabilities totaled $ 179,781 and net position of the worker's compensation program was $ 1,891,168.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis Of Accounting, and Financial Statement Presentation (Continued)

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

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting", all proprietary funds will continue to follow Financial Accounting Standards Board (FASB) standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements (unless they conflict with GASB guidance). The District has chosen not to apply future FASB standards.

Additionally, the District reports the following fiduciary funds:

The *private-purpose trust funds* are used to account for donations for endowments received from individuals and/or organizations for specified donor purposes for which the principal and earned interest or revenue may be used.

The *agency fund* accounts for resources held in a custodial capacity by the District, and consists of funds that are the property of students or others.

Cash and Investments

The District considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reported at fair value. Fair values are based on published market rates. Current investments have an original maturity greater than three months but less than one year at the time of purchase. Non-current investments have an original maturity of greater than one year at the time of purchase.

Interfund Receivables, Payables and Transfers

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All outstanding balances between funds are reported as "due to/from other funds". The District had no advances between funds. See Note 4 for additional discussion of interfund receivables, payables and transfers.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of January 1 for all real and business property located in the district in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed.

The appraisal and recording of all property within the District is the responsibility of the Brazoria County Appraisal District (BCAD), an independent governmental unit with a board of directors appointed by the taxing jurisdictions within the county and funded from assessments against those taxing jurisdictions. BCAD is required by law to assess property at 100% of its appraised value. Real property must be reappraised at least every two years.

Under certain circumstances taxpayers and taxing units, including the District, may challenge orders of the BCAD Review Board through various appeals and, if necessary, legal action.

The assessed value (adjusted) of the property tax roll on August 1, 2016, upon which the levy for the 2016-17 fiscal year was based, was $ 8,457,052,204. Taxes are delinquent if not paid by June 30. Delinquent taxes are subject to penalty and interest charges plus 20% delinquent collection fees for attorney costs.

The tax rates assessed for the year ended August 31, 2017, to finance general fund operations and the payment of principal and interest on general obligation long-term debt were $ 1.0400 and $ 0.2153 per $ 100 valuation, respectively, for a total of $ 1.2553 per $ 100 valuation.

Current tax collections for the year ended August 31, 2017 were 99.47% of the year-end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the general and debt service funds are based on historical experience in collecting taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. As of August 31, 2017, property taxes receivable, net of estimated uncollectible taxes, totaled $ 376,203 and $ 77,881 for the general and debt service funds, respectively.

Inventories

The consumption method is used to account for inventories (food products, school supplies and athletic equipment) of governmental funds. Under this method, these items are carried in an inventory account of the respective fund at cost, using the first-in, first-out method of accounting and are subsequently charged to expenditures when consumed. Governmental fund inventories are offset by a fund balance reserve indicating that they are unavailable as current expendable financial resources. Inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Although commodities are received at no cost, their market value is recorded as inventory and deferred revenue when received in the governmental funds. When requisitioned, inventory and deferred revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets and Depreciation

Capital assets, which include land and land improvements, buildings and improvements, and furniture, equipment and vehicles, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $ 5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. When assets are retired or otherwise disposed of, the related costs or other recorded amounts are removed.

Land improvements, buildings and building improvements, furniture, equipment and vehicles of the District are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Land improvements	20
Buildings and improvements	40-50
Furniture, equipment and vehicles	5-15

Deferred Outflows and Inflows of Resources

Guidance for deferred outflows of resources and deferred inflows of resources is provided by GASB No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position”. Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net position by the government that is applicable to a future reporting period, and an acquisition of net position by the government that is applicable to a future period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Further, GASB No. 65, “Items Previously Reported as Assets and Liabilities”, had an objective to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues).

Compensated Absences

Vacations are to be taken within the same year they are earned, and any unused days at the end of the year are forfeited. Therefore, no liability has been accrued in the accompanying financial statements. Employees of the District are entitled to sick leave based on category/class of employment. Sick leave is allowed to be accumulated but does not vest. Therefore, a liability for unused sick leave has not been recorded in the accompanying financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net position. Bond premiums and discounts are unearned and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expenditures or expenses in the current period.

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

Pensions

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

Budgetary Data

Formal budgetary accounting is employed for all required governmental funds, as outlined in TEA's FASRG, and is presented on the modified accrual basis of accounting consistent with generally accepted accounting principles. The budget is prepared and controlled at the function level within each organization to which responsibility for controlling operations is assigned.

The official school budget is prepared for adoption for required governmental funds prior to August 20 of the preceding fiscal year for the subsequent fiscal year beginning September 1. The budget is formally adopted by the Board of Trustees at a public meeting held at least ten days after public notice has been given.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund, debt service fund and the food service (special revenue fund). The remaining special revenue funds and the capital projects fund (if utilized) adopt project-length budgets, which do not correspond to the District's fiscal year. Each annual budget is presented on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles. The budget was properly amended throughout the year by the Board of Trustees. Such amendments are before the fact and are reflected in the official minutes of the Board.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Data (Continued)

The Official Budget was prepared for adoption for the general fund, food service (special revenue fund) and debt service fund prior to August 31, 2016. The budget is prepared by fund, function, object, and organization. The budget is controlled at the organizational level by the appropriate department head or campus principal within Board allocations. Therefore, organizations may transfer appropriations as necessary without the approval of the board unless the intent is to cross fund, function or increase the overall budget allocations. Control of appropriations by the Board of Trustees is maintained within fund groups at the function code level and revenue object code level.

The Budget is formally adopted by the Board of Trustees at a duly advertised public meeting in accordance with law prior to the expenditure of funds. The approved budget is filed with the Texas Education Agency (TEA) through the Public Education Information Management System. Should any change in the approved budget be required, budget amendment requests are presented to the Board of Trustees for consideration. Amendments are made before the fact and once approved are reflected in the official minutes. During the year the budget was properly amended in accordance with the above procedures. The Board of Trustees approved the final budget amendment on August 15, 2017.

Encumbrance Accounting

The District employs encumbrance accounting, whereby encumbrances for goods or purchased services are documented by purchase orders and contracts. An encumbrance represents a commitment of Board appropriation related to unperformed contracts for goods and services. The issuance of a purchase order or the signing of a contract creates an encumbrance but does not represent an expenditure for the period, only a commitment to expend resources. Appropriations lapse at August 31 and encumbrances outstanding at that time are either canceled or appropriately provided for in the subsequent year's budget.

Outstanding encumbrances at August 31, 2017, which were subsequently provided for in the 2017-18 budgets, totaled $ 69,420. This is reflected as unassigned fund balance in the general fund.

Fund Equity

The District’s Board of Trustees meets on a regular basis to manage and review cash financial activities and to ensure compliance with established policies. The District’s Unassigned General Fund Balance is maintained to provide the District with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The unassigned General Fund Balance may only be appropriated by resolution of the Board of Trustees. Fund Balance of the District may be committed for a specific source by formal action of the District’s Board of Trustees. Amendments or modifications of the committed fund balance must also be approved by formal action by the District’s Board of Trustees. When it is appropriate for fund balance to be assigned, the Board of Trustees has delegated authority to the Superintendent and the Chief Financial and Governmental Affairs Officer. In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Equity (Continued)

The District implemented GASB 54, "Fund Balance, Reporting and Governmental Fund Type Definitions", for its governmental funds. Under GASB 54, fund balances are required to be reported according to the following classifications:

Non-spendable Fund Balance - Includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes inventories, prepaid amounts, assets held for sale, and long-term receivables.

Restricted Fund Balance - Constraints placed on the use of these resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or other governments; or are imposed by law (through constitutional provisions of enabling legislation).

Committed Fund Balance - Amounts that can only be used for specific purposes because of a formal action (resolution or ordinance) by the government's highest level of decision-making authority.

Assigned Fund Balance - Amounts that are constrained by the District's intent to be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body, another body (such as a Finance Committee), or by an official to whom that authority has been given. With the exception of the General Fund, this is the residual fund balance classification for all governmental funds with positive balances.

Unassigned Fund Balance - This is the residual classification of the General Fund. Only the General Fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification, as the result of overspending for specific purposes for which amount had been restricted, committed or assigned.

As of August 31, 2017, non-spendable fund balances include $ 291,915 for inventories and $ 1,034,484 for prepaid items in the General Fund, $ 79,462 for inventories in the Child Nutrition Program (special revenue fund). Restricted fund balances include $ 3,090,000 for debt service in the General Fund, $ 18,982,044 for the debt service fund, $ 36,996,904 for the capital projects fund, $ 577,494 for the Child Nutrition Program (special revenue fund), and $ 1,399,866 for Read to Succeed, Campus Activity Funds, BISD Education Foundation, Lowe's Grants PPCD Program, Fluor Industries Grant, National FFA Foundation and Dow Education Grants (special revenue funds). Committed fund balances include $ 250,000 for claims and judgments and $ 500,000 for capital expenditures for equipment in General Fund. Assigned fund balances include $ 5,000,000 for other purposes in the General Fund. Unassigned fund balance includes $ 28,656,019 in the General Fund.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Data Control Codes

The data control codes refer to the account code structure prescribed by TEA in the FASRG. The TEA requires school districts to display these codes in the financial statements filed with the Agency in order to ensure accuracy in building a statewide database for policy development and funding plans.

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 reporting amounts of assets and deferred outflows of resources, and, liabilities and deferred inflows of resources at the date of the financial statements, and the reported amounts of revenues and expenditures during the period. Actual results could differ from these estimates.

New Pronouncements

GASB issues statements on a routine basis with the intent to provide authoritative guidance on the preparation of financial statements and to improve governmental accounting and financial reporting of governmental entities. Management reviews these statements to ensure that preparation of its financial statements are in conformity with generally accepted accounting principles and to anticipate changes in those requirements. The following recent GASB Statements reflect the action and consideration of management regarding these requirements:

GASB No. 72, “Fair Value Measurement and Application” was issued February 2015. This standard was implemented and did not have a material effect on the financial statements. This statement is effective for periods beginning after June 15, 2015.

GASB No. 73, “Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of Statements 67 and 68” was issued June 2015. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. This statement is effective for periods beginning after June 15, 2016.

GASB No. 74, “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans” was issued June 2015. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. This statement is effective for periods beginning after June 15, 2016.

GASB No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions” was issued June 2015. The management of the District expects the implementation of this standard to have a material effect on the financial statements of the District. This statement is effective for periods beginning after June 15, 2017.

GASB No. 76, “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments” was issued June 2015. This statement was implemented and did not have a material effect on the financial statements. This statement is effective for periods beginning after June 15, 2015.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Pronouncements (Continued)

GASB No. 77 “Tax Abatement Disclosures” was issued in August 2015. This standard was implemented and did not have a material effect on the financial statements. This statement is effective for periods beginning after December 15, 2015.

GASB No. 78 “Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans” was issued in December 2015. This standard was implemented and did not have a material effect on the financial statements. This statement is effective for periods beginning after December 15, 2015.

GASB No. 79 “Certain External Investment Pools and Pool Participants” was issued in December 2015. This standard was implemented and did not have a material effect on the financial statements. This statement is effective for periods beginning after December 15, 2015.

GASB No. 80 “Blending Requirements for Certain Component Units and amendment of GASB No. 14” was issued in January 2016. This standard was implemented and did not have a material effect on the financial statements. This statement is effective for periods beginning after June 15, 2016.

GASB No. 81 “Irrevocable Split-Interest Agreements” was issued in March 2016. This standard was implemented and did not have a material effect on the financial statements. The requirements of this Statement are effective for periods beginning after December 15, 2016.

GASB No. 82 “Pension Issues – an amendment of GASB No. 67, No. 68, and No. 73” was issued in March 2016. This standard was implemented and did not have a material effect on the financial statements. The requirements of this Statement are effective for periods beginning after June 15, 2016.

GASB No. 83 “Certain Asset Retirement Obligations” was issued in November 2016. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. The requirements of this Statement are effective for periods beginning after June 15, 2018.

GASB No. 84 “Fiduciary Activities” was issued in January 2017. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. The requirements of this Statement are effective for periods beginning after December 15, 2018.

GASB No. 85 “Omnibus 2017” was issued in March 2017. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. The requirements of this Statement are effective for periods beginning after June 15, 2017.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Pronouncements (Continued)

GASB No. 86 “Certain Debt Extinguishment Issues” was issued in May 2017. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. The requirements of this Statement are effective for periods beginning after June 15, 2017.

GASB No. 87 “Leases” was issued in June 2017. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. The requirements of this Statement are effective for periods beginning after December 15, 2019.

NOTE 2. DEPOSITS, INVESTMENTS AND DERIVATIVES

The District classifies deposits and investments for financial statement purposes as cash and cash equivalents, current investments, and non-current investments based upon both liquidity (demand deposits) and maturity date (deposits and investments) of the asset at the date of purchase. For this purpose an investment is considered a cash equivalent if when purchased it has maturity of three months or less. Investments are classified as either current investments or non-current investments. Current investments have maturity of one year or less and non-current investments are those that have a maturity of one year or more. See Note 1 for additional Governmental Accounting Standards Board Statement No. 31 disclosures.

Cash and cash equivalents are reported on the statement of net position at August 31, 2017 are as follows:

	Governmental Funds	Proprietary (Internal Service) Funds	Fiduciary Funds	Total
Cash and Cash Equivalents:				
Cash (petty cash accounts)	$ 8,981	$	$ 1,000	$ 9,981
Financial Institution Deposits:				
Demand deposits	8,310,205	2,531,260	1,265,054	12,106,519
Repurchase agreement	13,122,225			13,122,225
Public Funds Investment Pool:				
Lone Star	43,422,777		11,168	43,433,945
Texas Term	2,039,421			2,039,421
	$ 66,903,609	$ 2,531,260	$ 1,277,222	$ 70,712,091

Deposits

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a financial institution failure, the District’s deposits may not be returned to them. The District requires that all deposits with financial institutions be collateralized in an amount equal to 100 percent of uninsured balances.

NOTE 2. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)

Deposits (Continued)

Under Texas state law, a bank serving as the school depository must have a bond or in lieu thereof, deposited or pledged securities with the District or an independent third party agent, an amount equal to the highest daily balance of all deposits the District may have during the term of the depository contract, less any applicable FDIC insurance.

At August 31, 2017, in addition to petty cash of $ 9,981, the carrying amount of the District's cash, savings, and time deposits was $ 12,106,519. The financial institutions balances were $ 12,167,750 at August 31, 2017. Financial institution balances of $ 500,943 were covered by federal depository insurance, $ 11,611,530 were covered by collateral pledged in the District’s name and $ 55,277 was uninsured. The collateral was held in safekeeping departments of unrelated financial institutions, which act as the pledging bank’s agent.

In addition the following is disclosed regarding coverage of combined balances on the date of highest deposit:

Depository:

a. Name of bank: Texas Gulf Bank, Freeport, Texas.
b. Amount of bond and/or security pledged as of the date of the highest combined balance on deposit was $ 25,932,153.
c. Largest cash, savings and time deposit combined account balance amounted to $ 26,182,153 and occurred on February 13, 2017.
d. Total amount of FDIC coverage at the time of the largest combined balance was $ 250,000.

Investments

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the District to invest its funds under written investment policy (the “investment policy”) that primarily emphasizes safety of principal and liquidity, addresses investment diversification, yield, and maturity and addresses the quality and capability of investment personnel. This investment policy defines what constitutes the legal list of investments allowed under the policies, which excludes certain instruments allowed under chapter 2256 of the Texas Government Code.

The District’s deposits and investments are invested pursuant to the investment policy, which is approved by the Board of Trustees. The investment policy includes lists of authorized investment instruments and allowable stated maturity of individual investments. In addition it includes an “Investment Strategy Statement” that specifically addresses each investment option and describes the priorities of suitability of investment type, preservation and safety of principal, liquidity, marketability, diversification and yield. Additionally, the soundness of financial institutions (including broker/dealers) in which the District will deposit funds is addressed. The District’s investment policy and types of investments are governed by the Public Funds Investment Act (PFIA). The District’s management believes it complied with the requirements of the PFIA and the District’s investment policy.

The District’s Investment Officer submits an investment report each quarter to the Board of Trustees. The report details the investment positions of the District and the compliance of the investment portfolio’s as they relate to both the adopted investment strategy statements and Texas State law.

NOTE 2. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)

Investments (Continued)

The District is authorized to invest in the following investment instruments provided that they meet the guidelines of the investment policy:

1. Obligations of the U.S. or its agencies and instrumentalities;
2. Obligations of the State of Texas or its agencies;
3. Other obligations guaranteed by the U.S. or the State of Texas or their agencies and instrumentalities;
4. Obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than “A” or its equivalent;
5. Guaranteed or secured certificates of deposit issued by state or national banks domiciled in Texas;
6. Fully collateralized repurchase agreements; and,
7. Public funds investment pool meeting the requirements of Government Code 2256.016-2256.019.

The District participates in two investment services repurchase agreement of U.S. Government securities agreement with the Bank of New York Mellon for the purpose of investing funds to pay future matured bonds. This agreement governs the sale and purchase of U.S. Government-backed securities by and between the District and the depository on scheduled dates.

These agreements are not considered deposits and are not insured by federal deposit insurance or any other insurance. These investments have a custodial risk as uninsured and unregistered, with securities held by the financial institution’s trust department or agent in the District’s name.

The District entered into these agreements for the purpose of repaying bonds. These agreements shall not be terminable upon demand. The District will participate in these agreements until completion of terms with interest rates guaranteed to provide sufficient funds to repay the 2003 and 2005 QZAB bonds. The District will repay these bonds with these investments.

The District participates in one Local Government Investment Pool (LGIP): Lone Star Investment Pool. The Lone Star Investment Pool (the Pool) was established on July 25, 1991, as a public funds investment pool in accordance with the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended. Lone Star is a 2(a)7 like fund, meaning that they are structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of $ 1.00, although this cannot be fully guaranteed. Standard and Poor’s has assigned its “AAAm” fund risk ratings to the Pool’s Government Overnight Fund, Corporate Overnight Fund, Corporate Overnight Plus Fund, and Texas Term.

NOTE 2. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)

Investments (Continued)

The "AAAm" rating is the highest possible ranking and demonstrates extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit risk. Standard and Poor's reviews investments of the Government Overnight Fund, the Corporate Overnight Fund, the Corporate Overnight Plus Fund, and Texas Term, periodically.

At August 31, 2017, the Government Overnight Fund had a weighted average maturity of 22 days, the Corporate Overnight Fund had a weighted average maturity of 40 days, the Corporate Overnight Plus Fund had a weighted average maturity of 43 days, and Texas Term had a weighted average maturity of 50 days. Although these four funds had weighted average maturities of 22, 40, 43 and 50 days, respectively, the District considers holdings of these funds to have a one day weighted average maturity. This is due to the fact that the share position can normally be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

The District's investment in LGIP are insured, registered, or the District's agent holds the securities in the District's name; therefore, the District is not exposed to custodial credit risk.

The following table includes the portfolio balances of all investment types of the District at August 31, 2017:

	Cost	Market Value	Weighted Average Maturity (In Days)
Local Government Investment Pool:			
Lone Star Investment Pool:			
Government Overnight Fund	$ 2,077,191	$ 539,357	22
Corporate Overnight Fund	5,268	5,221	40
Corporate Overnight Plus Fund	41,351,486	42,064,907	43
Texas Term	2,039,421	3,000,000	50
Total local government investment pool	45,473,366	45,609,485	42
Commercial Paper	40,230,000	40,032,632	134
	85,703,366	85,642,117	85
Repurchase agreement	13,122,225	13,122,225	
Total investments	$ 98,825,591	$ 98,764,342	

Credit Risk – As of August 31, 2017, 53% of the investment portfolio was invested in AAAm rated funds in the LGIP (2(a)7 likepools) and 47% invested in commercial paper with Standard and Poor's rated A-1 or better. The Repurchase Agreement is invested in direct obligations of the United States of America backed by the full faith and credit of the United States of America.

Interest rate Risk – As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that investment maturities will not exceed the lesser of a dollar weighted average maturity of 365 days or the anticipated cash flow requirements of the funds. Quality short-to-medium term securities should be purchased, which complement each other in a structured manner that minimizes risk and meets the District's cash flow requirements.

NOTE 2. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)

Fair Value Measures

Financial Accounting Standards Board Accounting Standards Codification 820-10, *Fair Value Measurements* (FASB Codification 820-10), establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB Codification 820-10 are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table sets forth by level, within the fair value hierarchy, the District's assets at fair value as of August 31, 2017:

	Level 1	Level 2	Level 3	Total
Commercial paper	$ 40,032,632	$	$	$ 40,032,632
Total assets at fair value	$ 40,032,632	$ -0-	$ -0-	$ 40,032,632

Derivatives

Interest in derivative products has increased in recent years. Derivatives are investment products, which may be a security or contract, which derives its value from another security, currency, commodity, or index, regardless of the source of funds used. The District made no direct investments in derivatives during the year ended August 31, 2017, and holds no direct investments in derivatives at August 31, 2017.

NOTE 3. RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES, AND UNEARNED REVENUES

Receivables and Allowances

Receivables as of August 31, 2017, for the government's individual major funds and nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Debt Service Fund	Other Funds	Total
Receivables:				
Property taxes	$ 1,079,974	$ 208,088	$	$ 1,288,062
Receivables from other governments	751,171		3,154,459	3,905,630
Other receivables	93,436		166,536	259,972
Gross receivables	1,924,581	208,088	3,320,995	5,453,664
Less: allowance for uncollectibles	703,771	130,207		833,978
Net receivables	$ 1,220,810	$ 77,881	$ 3,320,995	$ 4,619,686

Receivables/Payables from/to Other Governments

The District participates in a variety of federal and state programs from which it receives grants to, partially or fully, finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. All federal grants shown below are passed through the TEA or other state agency and are reported on the combined financial statements as either Receivable from or to Other Governments, as applicable.

Amounts due from federal, state, and local governments as of August 31, 2017 are summarized below.

Fund	State Entitlements	Federal Grants	State Grants and Other	Total
Major Governmental Funds:				
General fund	$ 711,721	$ 6,770	$ 32,680	$ 751,171
Other funds	1,076,528	1,710,546	367,385	3,154,459
Total	$ 1,788,249	$ 1,717,316	$ 400,065	$ 3,905,630

For the year ended August 31, 2017, the District was determined to be subject to Chapter 41 under the Texas Education Code (TEC). During the year ended August 31, 2017, the District was required to pay $ 1,429,519 to the state and at August 31, 2017, the District had paid the state $ 1,093,596. The underpayment amount of $ 335,923 and the amount accrued from the 2017-2018 planning estimate of $ 577,467 is recorded as a payable to other governments. The amount incurred as Chapter 41 costs of $ 2,006,986 (after settle-ups) is reported as expenditures under Function 91 - Contracted Instructional Services Between Public Schools. The District will continue to be classified as a Chapter 41 District for the 2017-2018 year.

NOTE 3. RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES, AND UNEARNED REVENUES (Continued)

Deferred Outflows and Inflows of Resources and Unearned Revenues

Governmental Funds

Governmental funds defer the recognition of revenue in connection with receivables that are considered to be unavailable to liquidate liabilities of the current period and report these amounts as deferred inflows of resources. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned and report these amounts as a liability (unearned revenue).

As of August 31, 2017, the various components of deferred inflows of resources and unearned revenue reported in the governmental funds were as follows:

	Deferred Inflows of Resources (Unavailable)	Unearned Revenue
Delinquent property taxes receivable (general fund)	$ 295,429	$
Delinquent property taxes receivable (debt service fund)	61,324	
Federal food commodities		68,398
Local grants		11,122
Advance Funding:		
Other		16,520
Totals:	$ 356,753	$ 96,040

Governmental Activities

Governmental activities defer the recognition of pension expense for contributions made from the measurement date (August 31, 2016) to the current year-end of August 31, 2017 and report these as deferred outflows of resources. Governmental activities also defer revenue recognition in connection with resources that have been received, but not yet earned and report these amounts as a deferred inflow of resources. Further, for governmental activities, like governmental funds, defer revenue recognition in connection with resources that have been received, but not yet earned and report these amounts as a liability (unearned revenue).

As of August 31, 2017, the various components of deferred inflows and outflows of resources and unearned revenue reported in the governmental activities were as follows:

NOTE 3. RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES, AND UNEARNED REVENUES (Continued)

Deferred Outflows and Inflows of Resources and Unearned Revenues (Continued)

Governmental Activities (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources	Unearned Revenue
TRS deferred inflows and outflows of resources less current amortization	$ 12,593,108	$ 4,740,519	$
Pension contributions subsequent to the measurement date	2,627,406		
Bond refunding costs	143,321		
Federal food commodities			68,398
Other			27,642
Totals	$ 15,363,835	$ 4,740,519	$ 96,040

NOTE 4. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund Receivables and Payables

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

Fund	Receivable	Payable
General Fund:		
Special Revenue Funds	$ 7,162,468	$ 2,458,049
Debt Service Fund		25,654
Capital Projects	378	
Fiduciary Funds	3,950	3,027
Total general fund	7,166,796	2,486,730
Special Revenue Funds:		
General Fund:		
ESEA, Title I, Part A	1,911	701,976
IDEA - Part B, Formula	6,625	367,862
IDEA - Part B, Preschool		10,747
Child Nutrition Program	2,367,252	4,686,379

(continued)

NOTE 4. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (Continued)

Interfund Receivables and Payables (Continued)

Fund	Receivable	Payable
Special Revenue Funds:		
General Fund:		
ESEA, Title II, Part A	$	$ 74,173
ESEA, Title III, Part A		13,214
Orientation & Mobility Program	400	480
Instruction Materials Allotment		1,053,476
Prekindergarten Grant Program		61,704
Criminal Justice Planning Grant		20,750
Read to Succeed	5,250	
Brazosport Education Foundation	4,901	
Lowe's Grants	4,481	
PPCD Program	39,074	42
Fluor Industries Grant	8,495	
National FFA Foundation	2,730	
City of Lake Jackson PEG		171,665
Dow Education Grants	16,930	
Child Nutrition Program:		
PPCD Program	252	
PPCD Program:		
Child Nutrition Program		252
Capital Projects Fund:		
Houston Galveston Area Council		271,903
Agency Fund:		
Campus Activity Funds	2,362,916	1,331,068
	4,821,217	8,765,691
Debt Service Fund:		
General Fund	25,654	
Capital Project Fund:		
General Fund	271,903	378
Fiduciary Funds:		
Agency Funds:		
General Fund	3,027	3,950
Special Revenue Fund	1,331,068	2,362,916
	1,334,095	2,366,866
Total	$ 13,619,665	$ 13,619,665

NOTE 4. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (Continued)

Interfund Transfers

Interfund transfers for the year ended August 31, 2017 were as follows:

Fund	Transfer In	Transfer Out
General Fund:		
Special Revenue Funds	$ 59,759	$ 36,103
Special Revenue Funds:		
General Fund:		
Child Nutrition Program	36,103	
BISD Education Foundation		59,759
Dow Education Grants:		
BISD Education Foundation	1,622	
BISD Education Foundation:		
Dow Education Grants		1,622
Capital Projects Funds:		
BISD Education Foundation		265,000
	37,725	326,381
Capital Projects Funds:		
Special Revenue Funds	265,000	-0-
	$ 362,484	$ 362,484

The transfer from General Fund to Child Nutrition was made to cover the negative student and adult balances as of August 31, 2017. The transfer from the BISD Education Foundation to the Dow Education Grants is for a grant received from Dow for the Rocketry program. The transfer from the BISD Education Foundation to the General Fund provided a general purpose donation to the District to seek alternative funds to enhance the educational opportunities.

NOTE 5. CAPITAL ASSETS

Changes in Capital Assets and Accumulated Depreciation

The following provides a summary of changes in capital assets and accumulated depreciation for the year ended August 31, 2017:

	September 1, 2016	Additions	Retirements & Adjustments	August 31, 2017
Non-Depreciated Capital Assets:				
Land	$ 2,260,973	$	$	$ 2,260,973
Construction in progress	25,265,054	28,615,486	21,407,546	32,472,994
Total non-depreciated	27,526,027	28,615,486	21,407,546	34,733,967
Depreciated Capital Assets:				
Land improvements	7,135,895	1,648,013	304,600	8,479,308
Buildings and improvements	206,028,556	19,926,469	6,969,046	218,985,979
Furniture, equipment & vehicles	20,282,367	808,488	300,702	20,790,153
Total depreciated	233,446,818	22,382,970	7,574,348	248,255,440
Total additions/retirements		$ 50,998,456	$ 28,981,894	

NOTE 5. CAPITAL ASSETS (Continued)

Changes in Capital Assets and Accumulated Depreciation (Continued)

	September 1, 2016	Additions	Retirements & Adjustments	August 31, 2017
Accumulated Depreciated:				
Land and land improvements	$ 5,480,266	$ 186,984	$ 304,600	$ 5,362,650
Buildings and improvements	70,581,770	5,553,809	3,334,106	72,801,473
Furniture, equipment & vehicles	13,108,812	1,235,266	300,702	14,043,376
Total accumulated depreciation	89,170,848	$ 6,976,059	$ 3,939,408	92,207,499
Net depreciated capital assets	144,275,970			156,047,941
Net capital assets	$ 171,801,997			$ 190,781,908

See Note 1 for additional information regarding capital assets.

Depreciation Expense

In accordance with requirements of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments,* depreciation expense of the governmental activities was charged to functions as follows:

Data Control Codes	Function	Amount
0011	Instruction	$ 3,614,296
0012	Instructional resources and media services	327,875
0013	Curriculum and staff development	16,743
0021	Instructional leadership	43,949
0023	School leadership	273,461
0031	Guidance, counseling, and evaluation services	52,320
0033	Health services	27,207
0034	Student transportation	790,387
0035	Food service	481,348
0036	Extracurricular activities	916,654
0041	General administration	39,764
0051	Plant maintenance and operations	375,312
0053	Data processing services	16,743
	Total depreciation expense	$ 6,976,059

See Note 1 for additional information regarding capital assets.

NOTE 5. CAPITAL ASSETS (Continued)

Governmental Fund Construction Commitments

At August 31, 2017, the District had the following construction commitments:

Project	Project Authorization	Expended To Date	Commitment
Package B: Various Renovation Projects at Brazoswood, Brazosport, Rasco, Clute and Admin	$ 6,020,233	$ 4,726,023	$ 1,294,210
New Campus: Beutel Elementary	19,133,178	17,897,254	1,235,924
New Campus: Freeport Elementary	19,243,208	3,937,655	15,305,553
Roof at Hopper Field	80,300	76,285	4,015
Roof at Freeport Intermediate	94,300	72,079	22,221
Roof at SFA Elementary	300,850	263,976	36,874
Roof at Brazosport	111,200	105,640	5,560
Parking Lot Improvements	915,000	802,624	112,376
	$ 45,898,269	$ 27,881,536	$ 18,016,733

NOTE 6. LONG-TERM DEBT

Loans

Short-term debts are accounted for through the appropriate fund, and consist of notes made in accordance with the provisions of the Texas Education Code. The District did not borrow any funds through loan transactions during the year ended August 31, 2017.

General Obligation Bonds

Long-term debt includes par bonds, capital appreciation (deep discount) serial bonds, contractual obligations and loans. Contractual obligations are issued at parity with general obligation bonds, but carry a secondary revenue stream pledge; however, all certificates of obligation are tax, not revenue, supported. This debt, unlike other tax-supported debt, can be issued without a vote of the citizens. Bond premiums and discounts are amortized using the effective interest method.

The following is a summary of the District's general obligation bonded debt as of August 31, 2017:

Date of Issue	Original Issue	Final Maturity	% Rates	Outstanding Balance
2003	$ 8,000,000	2018	0.00	$ 8,000,000
2005	8,000,000	2021	0.00	8,000,000
2007	1,682,270	2018	4.00	2,494,482
2010	6,985,000	2019	2.00-5.00	610,000
2011	7,365,000	2023	2.00-4.00	6,560,000
2011	2,036,256	2021	3.00	2,451,055
2012	30,385,000	2023	2.00-4.00	22,750,000
2012	56,870,000	2025	2.00-3.00	38,725,000
2013	9,415,000	2023	3.00	2,605,000
2015	54,785,000	2035	2.00-5.00	52,155,000
2016	6,180,000	2022	2.00-4.00	5,585,000
2017	34,465,000	2042	3.00-5.00	34,465,000
Total	$ 226,168,526			$ 184,400,537

NOTE 6. LONG-TERM DEBT (Continued)

General Obligation Bonds (Continued)

Presented below is a summary of general obligation bond requirements to maturity:

Year Ended August 31	Principal	Interest	Total Requirement
2018	$ 24,755,000	$ 5,618,450	$ 30,373,450
2019	17,940,000	5,085,500	23,025,500
2020	18,205,000	4,442,225	22,647,225
2021	21,825,000	3,924,850	25,749,850
2022	14,645,000	3,445,525	18,090,525
2023-2027	40,130,000	11,038,634	51,168,634
2028-2032	20,060,000	6,269,544	26,329,544
2033-2037	17,270,000	2,887,550	20,157,550
2038-2042	9,895,000	885,053	10,780,053
Totals	$ 184,725,000	$ 43,597,331	$ 228,322,331

Difference in bond payable and future principal payments is due to $ 324,463 of accretion, which will occur in future years prior to payment.

The District entered into two repurchase agreements for 2003B Unlimited Tax School Building QZAB Bonds and the 2005 Unlimited Tax School Building QZAB Bonds. The 2003B Unlimited Tax School Building QZAB Bonds repurchase agreement calls for annual payments of $ 377,642 and will yield an interest rate of 4.21% with maturity date of August 15, 2018. The 2005 Unlimited Tax School Building QZAB Bonds repurchase agreement calls for annual payments of $ 401,939 and will yield an interest rate of 2.83% with maturity date of June 30, 2021. The total requirement deposited for the year ended August 31, 2017 was $ 779,580. The sinking fund balance as of August 31, 2017 was $ 12,975,525 ($ 5,679,738 Series 2005 and $ 7,295,787 Series 2003).

Presented below is a summary of the sinking fund requirements:

Year Ended August 31	Series 2005	Series 2003	Total Requirements
2018	$ 401,939	$ 377,642	$ 779,581
2019	401,939		401,939
2020	401,939		401,939
2021	401,939		401,939
Total minimum requirements	$ 1,607,756	$ 377,642	$ 1,985,398

Bond indebtedness of the District is recorded in the governmental activities statement of net position, and current requirements for principal and interest expenditures are accounted for in the Debt Service Fund. Proceeds of long-term issues are reflected as “Other Resources” in the operating statement of the recipient fund.

The District has entered into continuing disclosure undertaking to provide annual reports and material event notices to the State Information Depository of Texas (SID), which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of Brazosport Independent School District.

There are limitations and restrictions contained in the general obligation bond indentures. The District is in compliance with all significant limitations and restrictions at August 31, 2017.

NOTE 6. LONG-TERM DEBT (Continued)

Maintenance Tax Note

On November 30, 2010 the District issued $ 9,330,000 of Taxable Series 2010Q Maintenance Tax Qualified School Construction Notes, maturing in 2029. The notes have stated interest rates ranging from 3.75% to 5.20%. The bonds are to be paid from annual ad valorem maintenance taxes levied. The District has irrevocably designated the Series 2010Q Notes as “specified tax credit notes” within the meaning of Section 6431(F)(3)(b) of the Internal Revenue Code. Therefore, the District will be eligible to receive a cash subsidy from the United States Treasury in connection with the election. The Federal subsidy received by the District will not be pledged to payment of the Series 2010Q Notes and may be used for any lawful purpose of the District, including but not limited to, payment of debt service on the Series 2010Q Notes.

The following is a summary of the District's maintenance tax school construction note debt as of August 31, 2017:

Date of Issue	Original Issue	Final Maturity	% Rates	Outstanding Balance
2010	$ 9,330,000	2029	3.75-5.20	$ 9,330,000
Total	$ 9,330,000			$ 9,330,000

Presented below is a summary of maintenance tax note requirements to maturity:

Year Ended August 31	Principal	Interest	Total Requirement
2018	$	$ 409,584	$ 409,584
2019		409,583	409,583
2020	4,635,000	409,584	5,044,584
2021		235,771	235,771
2022		235,771	235,771
2023-2027	2,575,000	927,794	3,502,794
2028-2029	2,120,000	220,480	2,340,480
	$ 9,330,000	$ 2,848,567	$ 12,178,567

Current requirements for interest expenditures accounted for in the General Fund were $ 409,584.

The 2010Q Maintenance Tax Qualified School Construction Notes call for annual payments of $ 515,000 from August 15, 2012 through August 15, 2025 and $ 530,000 from August 15, 2026 through August 15, 2029, and will yield $ 9,330,000 for the payment of principal on the notes.

Presented below is a summary of sinking fund requirements and estimated Federal subsidy for the 2010Q Maintenance Tax Qualified School Construction Notes. Listed is the original subsidy follows by the adjusted and reduced subsidy as a result of the federal sequestration. Beginning March of 2013 the subsidy was reduced by 8.7% from the original subsidy and in October of 2014 from it was reduced by 7.2% the original subsidy amount.

NOTE 6. LONG-TERM DEBT (Continued)

Maintenance Tax Note (Continued)

Year Ended August 31	Original Federal Subsidy	Reduced Federal Subsidy	Annual Sinking Fund Requirement
2018	$ 409,584	$ 344,460	$ 515,000
2019	409,584	344,460	515,000
2020	409,584	344,460	515,000
2021	235,771	198,284	515,000
2022	235,771	198,284	515,000
2023-2027	927,794	780,275	2,605,000
2028-2029	220,480	185,424	1,060,000
Totals	$ 2,848,568	$ 2,395,647	$ 6,240,000

Changes in Long-Term Liabilities

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

	Balance 09-01-16	Additions	Reductions	Balance 08-31-17	Due Within One Year
Long-Term Debt:					
General obligation bonds	$ 164,284,394	$ 34,636,143	$ 14,520,000	$ 184,400,537	$ 24,755,000
Tax Notes	9,330,000			9,330,000	
Capital leases	71,579		54,979	16,600	16,600
Net pension obligations	26,937,029	4,216,524	2,541,591	28,611,962	
Components of Long-Term Debt:					
Premium (discount) on general obligation bond	9,228,835	1,492,751	964,218	9,757,368	1,003,089
Accrued interest	218,876	252,422	218,876	252,422	252,422
Totals	$ 210,070,713	$ 40,597,840	$ 18,299,664	$ 232,368,889	$ 26,027,111

NOTE 7. LEASES

Capital Leases

The District leases various office machines under capital leases. During the year ended August 31, 2014, the District had $ 219,675 of net additions of new office equipment through capital leases. The effective interest rate of the capital lease is 17.69%, expiring in 2018. The leased assets and related obligations are accounted for in the government activities column of the government-wide financial statements as capital assets and noncurrent liabilities. Current requirements for principal and interest expenditures accounted for in the General Fund, were $ 54,979 and $ 38,940, respectively.

NOTE 7. LEASES (Continued)

Capital Leases (Continued)

The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments, as of August 31, 2017:

Year Ended August 31	Amount
2018	$ 22,207
	22,207
Less amount representing interest	5,607
Net present value of minimum lease payments	$ 16,600

Operating Leases

As of August 31, 2017, the District is not involved in any non-cancelable lease agreements. All leases are on a “month-to-month” basis. The District did not incur any rental expenditures for the fiscal year ending August 31, 2017.

NOTE 8. 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 is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension’s Board of Trustees does not have the authority to establish or amend benefit terms.

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

Pension Plan Fiduciary Net Position – Detailed information about the Teacher Retirement System’s fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the internet at *http://www.trs.state.tx.us/about/documents/cafr.pd#CAFR*; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

NOTE 8. DEFINED BENEFIT PENSION PLAN (Continued)

Benefits Provided – TRS provides services and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) pf public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description in "*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 established 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 improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

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

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

Employer # 1398 – 2017 Employer Contributions	$ 2,405,690
Employer # 1398 – 2017 Member Contributions	$ 2,228,830
Employer # 1398 – 2017 NECE On-behalf Contributions	$ 3,805,129
Employer # 1398 – 2017 Medicare Part D Contributions	$ 248,997

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).

NOTE 8. DEFINED BENEFIT PENSION PLAN (Continued)

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 employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

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

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

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

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

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

NOTE 8. DEFINED BENEFIT PENSION PLAN (Continued)

Discount Rate – The discount rate used to measure the total pension liability was 8.00%. 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 statutory 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 the 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	Long-Term Expected Portfolio Real Rate of Return*
Global Equity:			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value:			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Hedge Funds (Stable Value)	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return:			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity:			
Risk Parity	5%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			1.0%
Total	100%		8.7%

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

NOTE 8. DEFINED BENEFIT PENSION PLAN (Continued)

Discount Rate Sensitivity Analysis – The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2016 Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
District's proportionate share of the Net pension liability	$ 44,281,679	$ 28,611,962	$ 15,320,875

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At August 31, 2017, the District reported a liability of $ 28,611,962 for its proportionate share of TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's Proportionate share of the collective net pension liability	$ 28,611,962
State's proportionate share that is associated with the District	15,089,480
Total	$ 43,701,442

The net pension liability was measured as of August 31, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contribution 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 portion of the collective net pension liability was 0.0762038% which was an increase of 0.0004878% from its proportion measured as of August 31, 2015.

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

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

For the year ended August 31, 2017, the District recognized pension expense of $ 3,405,455 and revenue of $ 3,805,129 for support provided by the State.

NOTE 8. DEFINED BENEFIT PENSION PLAN (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 448,630	$ 854,337
Changes in actuarial assumptions	872,041	793,086
Difference between projected and actual investment earnings	5,513,564	3,090,762
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	5,758,873	2,334
Contribution paid to TRS subsequent to the measurement date	2,627,406	
Total	$ 15,220,514	$ 4,740,519

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

Year Ended August 31,	Pension Expense Amount
2017	$ 1,373,021
2018	1,373,021
2019	2,918,403
2020	1,254,282
2021	789,806
Thereafter	144,056

NOTE 9. GENERAL FUND FEDERAL SOURCE REVENUES

Following is a schedule of federal source revenue recorded in the General Fund.

Program or Source	CFDA Number	Total
Direct Costs:		
School Health and Related Services (SHARS)	---	$ 534,883
Build America Bonds	---	381,322
ROTC Program	12.000	67,154
Medicaid Administrative Claiming Program (MAC)	93.778	13,176
Indirect Costs:		
School Breakfast Program	10.553	109,034
National School Lunch Program	10.555	364,711
ESEA, Title I, Part A	84.010A	51,819
IDEA Part B – Formula	84.027A	61,482
ESEA, Title II, Part A	84.367A	11,492
		$ 1,595,073

NOTE 9. GENERAL FUND FEDERAL SOURCE REVENUES (Continued)

The School Health and Related Services (SHARS) funds and Build America Bond subsidy are not considered federal financial assistance for inclusion in the Schedule of Federal Financial Awards.

NOTE 10. LOCAL AND INTERMEDIATE REVENUES

During the current year, local and intermediate revenues for governmental funds consisted of the following:

Fund	General Fund	Debt Service Fund	Capital Projects Funds	Other Funds	Total
Property Taxes	$ 86,171,249	$ 19,751,037	$	$	$105,922,286
Food sales				1,828,254	1,828,254
Investment income	470,920	523,673	447,391	10,571	1,452,555
Penalties, interest and other tax related income	387,729	66,973			454,702
Co-curricular income	171,374				171,374
Other tuition and fees from patrons				30,029	30,029
Enterprise activities	8,438			1,391,130	1,399,568
Grants and contributions	1,821			1,104,350	1,106,171
Other	9,053,630			1,147	9,054,777
Total	$ 96,265,161	$ 20,341,683	$ 447,391	$ 4,365,481	$121,419,716

NOTE 11. RISK MANAGEMENT

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

NOTE 12. SELF-INSURANCE

Dental Plan

Beginning September 1, 2001, the District established its self-funding Dental (Health) Plan program. The accrued liability for the Dental Plan self-insurance program is projected to be $ 35,148 as of August 31, 2017.

The dental plan is funded through the employee flex spending program. During the year ended August 31, 2017, the Plan received $ 597,292 in employee contributions, of which $ -0- were forfeitures.

NOTE 12. SELF-INSURANCE (Continued)

Dental Plan (Continued)

The accrued liability for the Dental Plan self-insurance of $ 35,148 includes estimated incurred but not reported claims. This liability reported in the fund at August 31, 2017, is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred as of the date of the financial statements, and the amount of loss can be reasonably estimated. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing the liability does not result necessarily in an exact amount.

Changes in the dental plan claims liability amounts in fiscal 2015-2016 and 2016-2017 are presented below:

	Beginning of Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2015-2016 Dental Plan	$ 52,563	$ 646,437	$ 618,708	$ 80,292
2016-2017 Dental Plan	$ 80,292	$ 674,664	$ 719,808	$ 35,148

Workers' Compensation

Beginning September 1, 2001, the District established its self-funding Workers' Compensation program. The District met its statutory worker's compensation obligations by participating as a self-funded member of the TASB Risk Management Fund. The accrued liability for the Workers' Compensation self-insurance program is projected to be $ 179,781 as of August 31, 2017.

The District has maintained a self-insured retention of $ 325,000 per occurrence during the year ended August 31, 2017. The District currently purchases specific excess coverage of $ 325,000 per occurrence from Midwest Employers Casualty Company and $ 1,000,000 in the aggregate. Claims administration is also provided by Texas Association of School Boards.

The accrued liability for Workers' Compensation self insurance of $ 179,781 includes estimated incurred but not reported claims. This liability reported in the fund at August 31, 2017, is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred as of the date of the financial statements, and the amount of loss can be reasonably estimated. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing the liability does not result necessarily in an exact amount.

NOTE 12. SELF-INSURANCE (Continued)

Workers' Compensation (Continued)

The following year-by-year exposure details the number of annual claims.

Fiscal Year	Claims
2008-09	148
2009-10	112
2010-11	84
2011-12	77
2012-13	77
2013-14	85
2014-15	92
2015-16	93
2016-17	75
9 Yr. Average	94

Changes in the workers' compensation claims liability amounts in fiscal 2015-2016 and 2016-2017 are presented below:

	Beginning of Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2015-2016 Workers' Compensation	$ 189,597	$ 280,667	$ 257,894	$ 212,370
2016-2017 Workers' Compensation	$ 212,370	$ 211,722	$ 244,311	$ 179,781

NOTE 13. UNEMPLOYMENT COMPENSATION POOL

During the year ended August 31, 2017, Brazosport Independent School District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund meets its obligations to the Texas Workforce Commission. Expenses are accrued each month until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop loss coverage for Unemployment Compensation pool members.

The Fund engages the services of an independent auditor 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, 2016 are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

NOTE 14. LITIGATION AND CONTINGENCIES

The District participates in numerous state and Federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at August 31, 2017 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

NOTE 15. JOINT VENTURED-SHARED SERVICE ARRANGEMENTS

The District participates in a Shared Services Arrangement ("SSA") for teaching and services for the Juvenile Justice Alternative Education Program with seven other school districts. The District does not account for revenues or expenditures of this program and does not disclose them in these financial statements. Brazoria County is the fiscal agent manager and is responsible for all financial activities of the shared services arrangement. The District does not have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Brazosport Independent School District. The District reimburses Brazoria County for expenditures attributable to their participation. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. Presented below are the expenditures attributable to the District's participation.

Expenditures:			
6200	Professional and Contracted Services	$	26,500

The District participates in a Shared Services Arrangement for the hearing impaired through the Brazoria-Fort Bend Cooperative with eleven other school districts. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Fort Bend Independent School District, nor does the district have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Brazosport Independent School District. The fiscal manager is responsible for all financial activities of the shared services arrangement. The amount of state revenues and expenditures attributable to the District's participation is not available.

The District reimburses Fort Bend Independent School District for their share of expenditures incurred which exceed the state funded portion. Local revenues are utilized to cover these expenditures. The District included the following expenditures in these financial statements.

Expenditures:			
6400	Other Operating Costs	$	147,600

NOTE 16. TAX ABATEMENTS

The District enters into appraised value limitations with local businesses under the Texas Economic Development Act (Tax Code Chapter 313). Under the Act, an appraised value limitation is an agreement in which a taxpayer agrees to build or install property and create jobs in exchange for a 10-year limitation on the taxable property value for the District's maintenance and operations tax (M&O) purposes. The minimum limitation value varies by District. The application for a limitation on the appraised value for M&O purposes is submitted directly to the District and requires an application fee that is established by the District. Tax credits are applicable only to applications determined to be complete prior to January 1, 2014. To qualify for a tax credit, a separate application must be submitted to the District after property taxes for the last complete year of the qualifying time period are paid. The credit is for M&O taxes paid in excess of the limitation amount in each complete year of the qualifying time period. The District's tax collector must credit the overage in equal parts over the last seven years of the agreement, but the credit in each year may not exceed 50 percent of the total taxes paid on the qualified property during that year. Any eligible amount not credited during the seven-year period are to be credited over the following three years, cut the amount credited in each year may not exceed the total taxes paid on the qualified property in that year. The following are brief descriptions of each agreement followed by a summary of the agreements as of August 31, 2017:

The District entered in an agreement with Oyster Creek ASU #3 on December 18, 2007. In addition to the tax abatement, Oyster Creek ASU #3 has committed to the payment in lieu of taxes program. The agreement and all supporting documentation was assigned Texas Comptroller Application No. 62.

The District entered in an agreement with Olin Chlorine 7, LLC on January 4, 2011. In addition to the tax abatement, Olin Chlorine 7, LLC has committed to the payment in lieu of taxes program. The agreement and all supporting documentation was assigned Texas Comptroller Application No. 172.

The District entered in an agreement with High Purity Water Oasis on May 1, 2012. In addition to the tax abatement, High Purity Water Oasis has committed to the payment in lieu of taxes program. The agreement and all supporting documentation was assigned Texas Comptroller Application No. 213.

The District entered in an agreement with Dispersions Facility on November 5, 2012. In addition to the tax abatement, Dispersions Facility has committed to the payment in lieu of taxes program. The agreement and all supporting documentation was assigned Texas Comptroller Application No. 237.

Application Number	Project Value	Project's Value Limitation Amount	Amount of Applicant's M&O Taxes Paid	Amount of Applicant's M&O Taxes Reduced	Company Revenue Loss Payments to the District	Company PILOT Payment to District	Net Benefit (Loss) to the District
62	$ 45,676,870	$ 30,000,000	$ 312,000	$ 163,039	$	$ 50,000	$ 362,000
172	786,013,640	30,000,000	312,000	7,862,542	8,009,170		8,321,170
213	68,897,760	30,000,000	312,000	404,537		41,568	353,568
237	81,294,210	30,000,000	312,000	533,460		53,346	365,346
	$981,882,480	$120,000,000	$ 1,248,000	$ 8,963,578	$ 8,009,170	$ 144,914	$ 9,402,084

NOTE 17. SUBSEQUENT EVENT

The District has evaluated subsequent events through December 21, 2017, the date which the financial statements were available to be issued.

On October 16, 2017, the District issued $ 45,915,000 of Series 2017A Unlimited Tax School Building Bonds for the construction, renovation, and equipment of school facilities, maturing in 2037. The bonds have stated interest rates of 3.00% - 5.00%. The bonds are to be paid from annual ad valorem interest and bonded indebtedness.

The following is a schedule of principal maturity for the Series 2017A Unlimited Tax School Building Bonds:

Maturing February 15	Principal
2018	$ 265,000
2019	1,370,000
2020	2,035,000
2021	2,140,000
2022	2,245,000
2023-2027	10,970,000
2028-2032	12,275,000
2033-2037	14,615,000
Total	$ 45,915,000

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REQUIRED SUPPLEMENTARY INFORMATION

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND

FOR THE YEAR ENDED AUGUST 31, 2017

Exhibit G-1
Page 1 of 1

Data Control Codes		General Fund			
		Budgeted Amounts			Variance with Final Budget Positive (Negative)
		Original	Final	Actual	
	REVENUES:				
5700	Local and intermediate sources	$ 95,658,966	$ 95,838,966	$ 96,265,161	$ 426,195
5800	State program revenues	11,726,711	11,726,711	12,266,049	539,338
5900	Federal program revenues	1,588,800	1,588,800	1,595,073	6,273
5020	Total revenues	108,974,477	109,154,477	110,126,283	971,806
	EXPENDITURES:				
	Current:				
0011	Instruction	60,439,003	60,610,109	59,037,003	1,573,106
0012	Instructional resources and media services	1,628,367	1,624,546	1,509,082	115,464
0013	Curriculum and staff development	2,699,416	2,622,858	2,613,501	9,357
0021	Instructional leadership	2,701,900	2,656,971	2,655,273	1,698
0023	School leadership	7,533,650	7,748,120	7,454,167	293,953
0031	Guidance, counseling, and evaluation services	4,694,304	4,840,400	4,668,641	171,759
0032	Social work services	201,619	251,619	208,672	42,947
0033	Health services	1,360,638	1,460,638	1,331,263	129,375
0034	Student transportation	2,507,675	2,276,640	2,186,124	90,516
0036	Extracurricular activities	3,691,179	3,696,133	3,509,878	186,255
0041	General administration	2,679,729	2,688,580	2,567,076	121,504
0051	Plant maintenance and operations	12,654,569	12,864,129	12,365,099	499,030
0052	Security and monitoring services	1,142,365	1,154,566	971,928	182,638
0053	Data processing services	2,102,931	2,202,931	2,016,667	186,264
0061	Community services	27,200	19,700	17,281	2,419
0071	Principal on long-term debt	571,000	571,000	54,979	516,021
0072	Interest on long-term debt	450,000	450,000	448,524	1,476
0091	Contracted instructional services between public schools	2,023,166	2,695,166	2,006,986	688,180
0093	Payments related to shared services arrangements	147,600	147,600	147,600	-0-
0095	Payments to Juvenile Justice Alternative Education Programs	30,000	30,000	26,500	3,500
0099	Other intergovernmental	675,000	768,747	762,230	6,517
6030	Total expenditures	109,961,311	111,380,453	106,558,474	4,821,979
1100	Excess of revenues over expenditures	(986,834)	(2,225,976)	3,567,809	5,793,785
	OTHER FINANCING SOURCES:				
7912	Sale of real or personal property			14,394	14,394
7915	Operating transfers in			59,759	59,759
8911	Operating transfers out			(36,103)	(36,103)
	Total other financing sources	-0-	-0-	38,050	38,050
1200	Net change in fund balances	(986,834)	(2,225,976)	3,605,859	5,831,835
0100	Fund balances – beginning	35,216,559	35,216,559	35,216,559	-0-
3000	Fund balances – ending	$ 34,229,725	$ 32,990,583	$ 38,822,418	$ 5,831,835

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND RELATED RATIOS – COST SHARING EMPLOYER PLAN
FOR THE LAST TEN YEARS (1)
AUGUST 31, 2017 WITH MEASUREMENT DATE OF AUGUST 31, 2016

EXHIBIT G-2
Page 1 of 1

	2015	2016	2017
District's proportion of the net pension liability (assets)	0.0502446%	0.0762038%	0.0757160%
District's proportionate share of the net pension liability (asset)	$ 13,421,028	$ 26,937,029	$ 28,611,962
State's proportionate share of the net pension liability (asset) associated with the District	8,105,161	14,477,947	15,089,480
Total	$ 21,526,189	$ 41,414,976	$ 43,701,442
District's covered-employee payroll	$ 70,210,198	$ 77,047,832	$ 82,198,510
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	19.12%	34.96%	34.81%
Plan fiduciary net position as a percentage of total pension liability	83.25%	78.43%	78.00%

(1) The first TRS actuarial report was completed for the year ended August 31, 2014 (measurement date), therefore, only three years of required supplemental information is available.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REQUIRED CONTRIBUTIONS -
COST SHARING EMPLOYER PLAN
FOR THE LAST TEN YEARS (1)
AUGUST 31, 2017 WITH MEASUREMENT DATE OF AUGUST 31, 2016

EXHIBIT G-3
Page 1 of 1

	2015	2016	2017
Contractually required contributions	$ 1,273,841	$ 2,256,428	$ 2,405,690
Contributions in relation to the contractually required contribution	1,273,841	2,256,428	2,405,690
Contribution deficiency (excess)	$ -0-	$ -0-	$ -0-
District's covered-employee payroll	$ 70,210,198	$ 77,047,832	$ 82,198,510
Contributions as a percentage of covered-employee payroll	1.81%	2.93%	2.93%

(1) The first TRS actuarial report was completed for the year ended August 31, 2014 (measurement date), therefore, only three years of required supplemental information is available.

OTHER SUPPLEMENTARY INFORMATION

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AUGUST 31, 2016

		Special				
		211	224	225	226	240
Data Control Codes		ESEA, Title I Part A	IDEA - Part B, Formula	IDEA - Part B, Preschool	IDEA Part B, High Cost	Child Nutrition Program
	ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:					
1110	Cash and cash equivalents	$	$	$	$	$ 3,241,131
1240	Receivables from other governments	869,487	550,299	16,239		126,701
1260	Due from other funds	1,911	6,625			2,367,504
1290	Other receivables					3,234
1310	Inventories					79,462
1000	Total assets	871,398	556,924	16,239	-0-	5,818,032
	DEFERRED OUTFLOWS OF RESOURCES					
1700	Deferred outflows of resources					
	Total deferred outflows of resources	-0-	-0-	-0-	-0-	-0-
	Total assets and deferred outflows of resources	$ 871,398	$ 556,924	$ 16,239	$ -0-	$ 5,818,032
	LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:					
	Liabilities:					
2110	Accounts payable	$ 17,074	$ 16,403	$	$	$ 234,040
2160	Accrued wages payable	152,348	172,659	5,492		172,259
2170	Due to other funds	701,976	367,862	10,747		4,686,379
2300	Unearned revenue					68,398
2000	Total liabilities	871,398	556,924	16,239	-0-	5,161,076
	DEFERRED INFLOWS OF RESOURCES					
2600	Deferred inflows of resources					
	Total deferred inflows of resources	-0-	-0-	-0-	-0-	-0-
	Fund Balances:					
	Non-Spendable:					
3410	Inventories					79,462
	Restricted:					
3450	Grant funds					577,494
3490	Other					
3000	Total fund balances	-0-	-0-	-0-	-0-	656,956
4000	Total liabilities, deferred inflows of resources, and fund balances	$ 871,398	$ 556,924	$ 16,239	$ -0-	$ 5,818,032

Exhibit H-1
Page 1 of 2

Revenue Funds							
244	255	263	288	385	410	426	427
Title I Part C Carl D Perkins	ESEA, Title II Part A	ESEA, Title III, Part A	LEP Summer Program	Orientation & Mobility Program	Instructional Materials Allotment	Pre-kindergarten Grant Program	Criminal Justice Planning Grant
$	$	$	$	$	$	$	$
	82,840	64,981			1,076,528	62,194	20,750
				400			
				80			
-0-	82,840	64,981	-0-	480	1,076,528	62,194	20,750
-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
$ -0-	$ 82,840	$ 64,981	$ -0-	$ 480	$ 1,076,528	$ 62,194	$ 20,750
$	$ 462	$ 49,989	$	$	$ 23,052	$ 490	$
	8,205	1,778					
	74,173	13,214		480	1,053,476	61,704	20,750
-0-	82,840	64,981	-0-	480	1,076,528	62,194	20,750
-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
$ -0-	$ 82,840	$ 64,981	$ -0-	$ 480	$ 1,076,528	$ 62,194	$ 20,750

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AUGUST 31, 2017

						Special
		429	461	472	480	482
Data Control Codes		Read to Succeed	Campus Activity Funds	BISD Education Foundation	Lowe's Grants	PPCD Program
	ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:					
1110	Cash and cash equivalents	$	$	$ 306,110	$	$
1240	Receivables from other governments	2,450				
1260	Due from other funds	5,250	2,362,916	4,901	4,481	39,074
1290	Other receivables			50		
1310	Inventories					
1000	Total assets	7,700	2,362,916	311,061	4,481	39,074
	DEFERRED OUTFLOWS OF RESOURCES					
1700	Deferred outflows of resources					
	Total deferred outflows of resources	-0-	-0-	-0-	-0-	-0-
	Total assets and deferred outflows of resources	$ 7,700	$ 2,362,916	$ 311,061	$ 4,481	$ 39,074
	LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:					
	Liabilities:					
2110	Accounts payable	$	$	$ 5,499	$ 1,481	$ 258
2160	Accrued wages payable					3,799
2170	Due to other funds		1,331,068			294
2300	Unearned revenue					
2000	Total liabilities	-0-	1,331,068	5,499	1,481	4,351
	DEFERRED INFLOWS OF RESOURCES					
2600	Deferred inflows of resources					
	Total deferred inflows of resources	-0-	-0-	-0-	-0-	-0-
	Fund Balances:					
	Non-Spendable:					
3410	Inventories					
	Restricted:					
3450	Grant funds					
3490	Other	7,700	1,031,848	305,562	3,000	34,723
3000	Total fund balances	7,700	1,031,848	305,562	3,000	34,723
4000	Total liabilities, deferred inflows of resources, and fund balances	$ 7,700	$ 2,362,916	$ 311,061	$ 4,481	$ 39,074

Exhibit H-1
Page 2 of 2

Revenue Funds							
483	484	485	489	490	491	496	
Region 4 School Support	Fluor Industries Grant	National FFA Foundation	City of Lake Jackson PEG	Dow Education Grants	Houston Galveston Area Council	Houston Saengerbund	Total Nonmajor Governmental (See C-2)
$	$	$	$	$	$	$	$ 3,547,241
			10,087		271,903		3,154,459
	8,495	2,730		16,930			4,821,217
			163,172				166,536
							79,462
-0-	8,495	2,730	173,259	16,930	271,903	-0-	11,768,915
							-0-
-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
$ -0-	$ 8,495	$ 2,730	$ 173,259	$ 16,930	$ 271,903	$ -0-	$ 11,768,915
$	$	$	$ 1,594	$	$	$	$ 350,342
							516,540
			171,665		271,903		8,765,691
				11,122			79,520
-0-	-0-	-0-	173,259	11,122	271,903	-0-	9,712,093
							-0-
-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
							79,462
							577,494
	8,495	2,730		5,808			1,399,866
-0-	8,495	2,730	-0-	5,808	-0-	-0-	2,056,822
$ -0-	$ 8,495	$ 2,730	$ 173,259	$ 16,930	$ 271,903	$ -0-	$ 11,768,915

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS

YEAR ENDED AUGUST 31, 2017

						Special
		211	224	225	226	240
Data Control Codes		ESEA, Title I Part A	IDEA - Part B, Formula	IDEA - Part B, Preschool	IDEA Part B, High Cost	Child Nutrition Program
	REVENUES:					
5700	Local and intermediate sources	$ 764	$ 325	$	$	$ 1,887,314
5800	State program revenues					157,828
5900	Federal program revenues	2,756,992	2,290,990	61,087	181,951	4,064,490
5020	Total revenues	2,757,756	2,291,315	61,087	181,951	6,109,632
	EXPENDITURES:					
	Current:					
0011	Instruction	1,957,950	1,822,985	61,087	181,951	
0012	Instructional resources and media services					
0013	Curriculum and staff development	436,221	10,149			
0021	Instructional leadership	117,302	64,245			
0023	School leadership	14,639				
0031	Guidance, counseling and evaluation services	152	331,082			
0032	Social work services	209,347	62,854			
0034	Student transportation					
0035	Food service					6,305,054
0036	Extracurricular activities					
0041	General administration					
0061	Community services	22,145				
6030	Total expenditures	2,757,756	2,291,315	61,087	181,951	6,305,054
1100	Excess (deficiency) of revenues over expenditures	-0-	-0-	-0-	-0-	(195,422)
	OTHER FINANCING SOURCES (USES):					
7912	Sale of real and personal property					2,584
7915	Operating transfers in					36,103
8911	Operating transfers out					
	Total other financing sources and (uses)	-0-	-0-	-0-	-0-	38,687
1200	Net changes in fund balances	-0-	-0-	-0-	-0-	(156,735)
0100	Fund balances - beginning	-0-	-0-	-0-	-0-	813,691
3000	Fund balances - ending	$ -0-	$ -0-	$ -0-	$ -0-	$ 656,956

Exhibit H-2
Page 1 of 2

Revenue Funds							
244	255	263	288	385	410	426	427
Title I Part C Carl D Perkins	ESEA, Title II Part A	ESEA, Title III, Part A	LEP Summer Program	Orientation & Mobility Program	Instructional Materials Allotment	Pre-kindergarten Grant Program	Criminal Justice Planning Grant
$ 40	$	$	$	$	$	$ 20	$
				8,040	1,795,577	272,931	83,000
131,200	411,782	174,922	4,660				
131,240	411,782	174,922	4,660	8,040	1,795,577	272,951	83,000
122,156		152,720	4,660	8,040	1,795,577	215,557	
2,200	385,535	15,465				37,203	
6,884		1,905				462	
	24,931						
	1,316						
							83,000
		4,832				19,729	
131,240	411,782	174,922	4,660	8,040	1,795,577	272,951	83,000
-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS

YEAR ENDED AUGUST 31, 2017

						Special
		429	461	472	480	482
Data Control Codes		Read to Succeed	Campus Activity Funds	BISD Education Foundation	Lowe's Grants	PPCD Program
	REVENUES:					
5700	Local and intermediate sources	$	$ 1,342,502	$ 599,800	$ 5,000	$ 30,029
5800	State program revenues	23,100				
5900	Federal program revenues					
5020	Total revenues	23,100	1,342,502	599,800	5,000	30,029
	EXPENDITURES:					
	Current:					
0011	Instruction			73,191	5,000	44,349
0012	Instructional resources and media services			8,306		
0013	Curriculum and staff development	15,400		7,250		
0021	Instructional leadership					
0023	School leadership					
0031	Guidance, counseling and evaluation services					
0032	Social work services					
0034	Student transportation					
0035	Food service					
0036	Extracurricular activities		1,331,068	125		
0041	General administration			60,086		
0061	Community services					
6030	Total expenditures	15,400	1,331,068	148,958	5,000	44,349
1100	Excess (deficiency) of revenues over expenditures	7,700	11,434	450,842	-0-	(14,320)
	OTHER FINANCING SOURCES (USES):					
7912	Sale of real and personal property					
7915	Operating transfers in					
8911	Operating transfers out			(326,381)		
	Total other financing sources and (uses)	-0-	-0-	(326,381)	-0-	-0-
1200	Net changes in fund balances	7,700	11,434	124,461	-0-	(14,320)
0100	Fund balances - beginning	-0-	1,020,414	181,101	3,000	49,043
3000	Fund balances - ending	$ 7,700	$ 1,031,848	$ 305,562	$ 3,000	$ 34,723

Exhibit H-2
Page 2 of 2

Revenue Funds							
483	484	485	489	490	491	496	
Region 4 School Support	Fluor Industries Grant	National FFA Foundation	City of Lake Jackson PEG	Dow Education Grants	Houston Galveston Area Council	Houston Saengerbund	Total Nonmajor Governmental (See C-2)
$ 14,004	$ 11,550	$ 2,730	$ 173,013	$ 26,109	$ 271,903	$ 378	$ 4,365,481
							2,340,476
							10,078,074
14,004	11,550	2,730	173,013	26,109	271,903	378	16,784,031
14,004	3,055		173,013	21,923		378	6,657,596
							8,306
							909,423
							190,798
							39,570
							332,550
							355,201
					271,903		271,903
							6,305,054
							1,331,193
							60,086
							46,706
14,004	3,055	-0-	173,013	21,923	271,903	378	16,508,386
-0-	8,495	2,730	-0-	4,186	-0-	-0-	275,645
							2,584
				1,622			37,725
							(326,381)
-0-	-0-	-0-	-0-	1,622	-0-	-0-	(286,072)
-0-	8,495	2,730	-0-	5,808	-0-	-0-	(10,427)
-0-	-0-	-0-	-0-	-0-	-0-	-0-	2,067,249
$ -0-	$ 8,495	$ 2,730	$ -0-	$ 5,808	$ -0-	$ -0-	$ 2,056,822

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
AUGUST 31, 2017

Exhibit H-3
Page 1 of 1

Data Control Codes		Dental Plan	Worker's Compensation	Total (See D-1)
	ASSETS:			
	Current Assets:			
1110	Cash and cash equivalents	$ 460,311	$ 2,070,949	$ 2,531,260
	Total current assets	460,311	2,070,949	2,531,260
	DEFERRED OUTFLOWS OF RESOURCES:			
1700	Deferred outflows of resources			-0-
	Total deferred outflows of resources	-0-	-0-	-0-
	Total assets and deferred outflows of resources	$ 460,311	$ 2,070,949	$ 2,531,260
	LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION:			
	Liabilities:			
2165	Accrued expenses payable	35,148	179,781	214,929
	Total liabilities	35,148	179,781	214,929
	DEFERRED INFLOWS OF RESOURCES:			
2600	Deferred inflows of resources			-0-
	Total deferred inflows of resources	-0-	-0-	-0-
	NET POSITION:			
3900	Unrestricted net position	425,163	1,891,168	2,316,331
	Total net position	425,163	1,891,168	2,316,331
	Total liabilities, deferred inflows of resources and net position	$ 460,311	$ 2,070,949	$ 2,531,260

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION - INTERNAL SERVICE FUNDS

YEAR ENDED AUGUST 31, 2017

Exhibit H-4
Page 1 of 1

	Dental Plan	Worker's Compensation	Total (See D-2)
Operating Revenues:			
Charges for services	$ 597,292	$ 292,701	$ 889,993
Total operating revenues	597,292	292,701	889,993
Operating Expenses:			
Insurance claims and expenses	674,664	211,722	886,386
Total operating expenses	674,664	211,722	886,386
Operating income (loss)	(77,372)	80,979	3,607
Nonoperating Revenues:			
Interest and investment revenue	3,298	12,932	16,230
Total nonoperating revenues	3,298	12,932	16,230
Change in net position	(74,074)	93,911	19,837
Net position – beginning	499,237	1,797,257	2,296,494
Net position – ending	$ 425,163	$ 1,891,168	$ 2,316,331

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
YEAR ENDED AUGUST 31, 2017

Exhibit H-5
Page 1 of 1

	Dental Plan	Worker's Compensation	Total (See D-3)
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	$ 597,292	$ 292,701	$ 889,993
Claims paid	(719,808)	(195,974)	(915,782)
Net cash provided (used) by operating activities	(122,516)	96,727	(25,789)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Net cash provided (used) by noncapital financing activities			-0-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Net cash provided (used) by capital and related financing activities			-0-
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	3,298	12,932	16,230
Net cash provided by investing activities	3,298	12,932	16,230
Net increase (decrease) in cash and cash equivalents	(119,218)	109,659	(9,559)
Balances – beginning of the year	579,529	1,961,290	2,540,819
Balances – end of the year	$ 460,311	$ 2,070,949	$ 2,531,260
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	$(77,372)	$ 80,979	$ 3,607
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Changes in Assets and Liabilities:			
Accrued expenses payable	(45,144)	(32,589)	(77,733)
Prepaid items		48,337	48,337
Net cash provided by operating activities	$(122,516)	$ 96,727	$(25,789)

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BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DELINQUENT TAXES RECEIVABLE
YEAR ENDED AUGUST 31, 2017

	1	2	3	10
	Tax Rates			
Last Ten Years Ended August 31,	Maintenance	Debt Service	Assessed/Appraised Value for School Tax Purposes	Beginning Balance September 1, 2019
2007 and Prior	$ Various	$ Various	$ Various	$ 171,900
2008	0.948400	0.185500	6,785,512,912	38,152
2009	1.010000	0.182200	7,328,104,426	44,280
2010	1.040000	0.188500	6,666,775,818	43,215
2011	1.040000	0.201500	6,238,933,790	48,629
2012	1.040000	0.201500	6,068,476,601	42,097
2013	1.040000	0.219500	6,431,912,070	68,317
2014	1.040000	0.215300	6,409,126,185	105,039
2015	1.040000	0.215300	6,933,187,931	170,443
2016	1.040000	0.215300	8,001,042,265	467,287
2017 (School Year Under Audit)	1.040000	0.215300	8,457,052,204	
1000 Totals				$ 1,199,359

Exhibit J-1
Page 1 of 1

20 Current Year's Total Levy	31 Maintenance Total Collections	32 Debt Service Total Collections	40 Entire Year's Adjustments	50 Ending Balance August 31, 2017
$	$ 5,645	$ 716	$(27,836)	$ 137,703
	1,231	241	(15,679)	21,001
	2,599	469	(184)	41,028
	3,346	607	(68)	39,194
	3,590	696	(73)	44,270
	4,288	831	(76)	36,902
	10,849	2,290	1,192	56,370
	21,964	4,547	(757)	77,771
	52,159	10,798	(9,225)	98,261
	211,959	43,879	(25,408)	186,041
101,856,720	85,875,000	17,777,776	2,345,577	549,521
$ 101,856,720	$ 86,192,630	$ 17,842,850	$ 2,267,463	$ 1,288,062

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET
GENERAL FUND
AUGUST 31, 2017
UNAUDITED

Exhibit J-3
Page 1 of 1

Data Control Code	Explanation	Amount
1	Total General Fund Balance as of 08/31/17 (Exhibit C-1 object 3000 for the General Fund only)	$ 38,822,418
2	Total Non-Spendable Fund Balance (from Exhibit C-1 - total of object 341X-344X for the General Fund only)	1,326,399
3	Total Restricted Fund Balance (from Exhibit C-1 - total of object 345X-349X for the General Fund only)	3,090,000
4	Total Committed Fund Balance (from Exhibit C-1 - total of object 351X-354X for the General Fund only)	750,000
5	Total Assigned Fund Balance (from Exhibit C-1 - total of object 355X-359X for the General Fund only)	5,000,000
6	Estimated amount needed to cover fall cash flow deficits in the General Fund (Net of borrowed funds representing deferred revenues)	14,602,162
7	Estimate of two months' average cash disbursements during the regular School session (9/1/16 – 5/31/17)	17,759,746
8	Estimate of delayed payments from state sources (58XX)	
9	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount	
10	Estimate of delayed payments from federal sources (59XX)	
11	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds	
12	Optimum fund balance and cash flow (2+3+4+5+6+7+8+9+10+11)	42,528,307
13	Excess (deficit) unassigned General Fund fund balance (1- 12)	$(3,705,889)

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL – CHILD NUTRITION PROGRAM SPECIAL REVENUE FUND
YEAR ENDED AUGUST 31, 2017

Exhibit J-4
Page 1 of 1

		Child Nutrition Program Special Revenue Fund			
Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance with Final Budget Positive (Negative)
	REVENUES:				
5700	Local and intermediate sources	$ 1,662,000	$ 1,890,000	$ 1,887,314	$(2,686)
5800	State program revenues	40,000	265,000	157,828	(107,172)
5900	Federal program revenues	4,148,000	4,523,000	4,064,490	(458,510)
5020	Total revenues	5,850,000	6,678,000	6,109,632	(568,368)
	EXPENDITURES:				
	Current:				
0035	Food service	5,850,000	6,773,000	6,305,054	467,946
6030	Total expenditures	5,850,000	6,773,000	6,305,054	467,946
1100	Excess (deficiency) of revenues over expenditures	-0-	(95,000)	(195,422)	(100,422)
	OTHER FINANCING SOURCES (USES):				
7912	Sale of real and personal property			2,584	2,584
7915	Operating transfers in			36,103	36,103
	Total other financing sources (uses)	-0-	-0-	38,687	38,687
1200	Net change in fund balances	-0-	(95,000)	(156,735)	(61,735)
0100	Fund balances – beginning	813,691	813,691	813,691	-0-
3000	Fund balances – ending	$ 813,691	$ 718,691	$ 656,956	$(61,735)

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - DEBT SERVICE FUND
YEAR ENDED AUGUST 31, 2017

Exhibit J-5
Page 1 of 1

		Debt Service Fund			
		Budgeted Amounts			Variance with Final Budget Positive
Data Control Codes		Original	Final	Actual	(Negative)
	REVENUES:				
5700	Local and intermediate sources	$ 19,803,710	$ 19,803,710	$ 20,341,683	$ 537,973
2800	State program revenues	230,000	230,000	243,293	13,293
5020	Total revenues	20,033,710	20,033,710	20,584,976	551,266
	EXPENDITURES:				
	Current:				
0071	Principal on long-term debt	15,299,581	15,299,581	14,520,000	779,581
0072	Interest on long-term debt	4,808,019	5,202,424	5,199,613	2,811
0073	Bond issuance costs and fees	177,730	741,077	574,067	167,010
6030	Total expenditures	20,285,330	21,243,082	20,293,680	949,402
1100	Excess (deficiency) of revenues over expenditures	(251,602)	(1,209,372)	291,296	1,500,668
	OTHER FINANCING SOURCES (USES):				
7916	Premium on issuance of bonds		957,752	957,751	(1)
	Total other financing sources and (uses)	-0-	957,752	957,751	(1)
1200	Net change in fund balances	(251,620)	(251,620)	1,249,047	1,500,667
0100	Fund balances – beginning	17,732,997	17,732,997	17,732,997	-0-
3000	Fund balances – ending	$ 17,481,377	$ 17,481,377	$ 18,982,044	$ 1,500,667

FEDERAL AWARDS SECTION

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Kennemer, Masters & Lunsford
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Independent Auditor's Report
On Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees
Brazosport Independent School District
Freeport, Texas 77542

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Brazosport Independent School District (the "District"), as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kennemer, Masters & Lunsford, LLC

Lake Jackson, Texas
December 21, 2017

Kennemer, Masters & Lunsford
CERTIFIED PUBLIC ACCOUNTANTS
Limited Liability Company

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Independent Auditor's Report
On Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

To the Board of Trustees
Brazosport Independent School District
Freeport, Texas 77542

Report on Compliance for Each Major Federal Program

We have audited Brazosport Independent School District's (the "District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 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 federal statutes, regulations, and the terms and conditions of its federal awards 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* 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.

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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 August 31, 2017.

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 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 to determine the 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.

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 requirement of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Kennemer, Masters & Lunsford, LLC

Lake Jackson, Texas
December 21, 2017

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS *Page 1 of 1*
YEAR ENDED AUGUST 31, 2017

I. Summary of auditor's results:

1. Type of auditor's report issued on the financial statements: Unmodified.

2. No internal control findings, required to be reported in this schedule, were disclosed in the audit of the financial statements.

3. Noncompliance, which is material to the financial statements: None

4. No internal control findings, required to be reported in this schedule, were disclosed in the audit of the major programs.

5. Type of auditor's report on compliance for major programs: Unmodified.

6. Did the audit disclose findings, which are required to be reported in accordance with 2 CFR 200.516(a): No.

7. Major programs include:
   84.010A Title I Grants to Local Education Agencies

8. Dollar threshold used to distinguish between Type A and Type B programs: $ 750,000.

9. Low risk auditee: Yes.

II. Findings related to the financial statements

The audit disclosed no findings required to be reported.

III. Findings and questioned costs related to the federal awards.

The audit disclosed no findings required to be reported.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF STATUS OF PRIOR FINDINGS *Page 1 of 1*

YEAR ENDED AUGUST 31, 2017

None.

CORRECTIVE ACTION PLAN

YEAR ENDED AUGUST 31, 2017

None.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2017

EXHIBIT K-1
PAGE 1 OF 2

(1) Federal Grantor/Pass-Through Grantor/Program Title	(2) Federal CFDA Number	(2A) Pass Through Entity Identifying Number	(3) Expenditures Indirect Costs or Award Amount
U.S. Department of Education			
Passed Through State Department of Education:			
ESEA, Title I, Part A - Improving Basic Programs*	84.010A	17610101020905	$ 2,124,509
ESEA, Title I, Part A - Improving Basic Programs*	84.010A	18610101020905	199,783
ESEA, Title I, Part A - Priority and Focus Programs*	84.010A	17610112020905000	484,520
			2,808,812
IDEA - Part B, Formula **	84.027A	176600010209056600	2,159,216
IDEA - Part B, Formula **	84.027A	186600010209056610	193,256
			2,352,472
IDEA - Part B, Preschool **	84.173A	176610010209056610	55,595
IDEA - Part B, Preschool **	84.173A	186610010209056610	5,492
			61,087
IDEA - Part B, High Cost**	84.027A	176600060209056	181,951
			181,951
Title I, Part C - Carl D. Perkins	84.048A	17420006020905	131,200
			131,200
Title III, Part A - English Language Acquisition and Language Enhancement	84.365A	17671001020905	123,156
Title III, Part A - English Language Acquisition and Language Enhancement	84.365A	18671001020905	51,766
			174,922
ESEA, Title II, Part A - Teacher/Principal Training and Recruiting	84.367A	17694501020905	376,437
ESEA, Title II, Part A - Teacher/Principal Training and Recruiting	84.367A	18694501020905	46,837
			423,274
English Second Language (ESL) - Summer School Program	84.369A	069551602	4,660
TOTAL DEPARTMENT OF EDUCATION			$ 6,138,378

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS — *EXHIBIT K-1*

YEAR ENDED AUGUST 31, 2017 — *PAGE 2 OF 2*

(1) Federal Grantor/Pass-Through Grantor/Program Title	(2) Federal CFDA Number	(2A) Pass Through Entity Identifying Number	(3) Expenditures Indirect Costs or Award Amount
U.S. Department of Agriculture			
Direct Program:			
Commodity Supplement Program ***	10.555	020905	$ 439,569
			439,569
Passed Through State Department of Education:			
School Breakfast Program ***	10.553	71601701	865,008
National School Lunch Program ***	10.555	71601701	2,916,678
			3,781,686
Passed Through State Department of Agriculture:			
Child and Adult Care Food Program	10.558	00116	316,979
			316,979
TOTAL DEPARTMENT OF AGRICULTURE			$ 4,538,234
U.S. Department of Defense			
Direct Programs:			
ROTC	12.000	-	$ 67,154
TOTAL DEPARTMENT OF DEFENSE			$ 67,154
U.S. Department of Health & Human Services			
Passed Through State Department of Human Services:			
Medicaid Administrative Claiming Program – MAC	93.778	-	$ 13,176
TOTAL DEPARTMENT OF HEALTH & HUMAN SERVICES			$ 13,176
TOTAL FEDERAL ASSISTANCE			$ 10,756,942

*, **, *** - Cluster Programs

RECONCILIATION:	
Federal Program Revenues (Exhibit C-2)	$ 11,673,147
Less: School Health and Related Services (SHARS) not considered federal revenue for the Schedule of Federal Awards	(534,883)
Build America Bonds not considered federal revenue for the Schedule of Federal Awards	(381,322)
Total federal financial assistance (Schedule of expenditures of Federal Awards)	$ 10,756,942

See notes to supplemental Schedule of Expenditures of Federal Awards

NOTE 1 – BASIS OF ACCOUNTING

The District accounts for all awards under federal programs in the General and certain special revenue funds in accordance with the Texas Education Agency's *Financial Accountability System Resource Guide*. These programs are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows of resources, and current liabilities and deferred inflows of resources generally are included on the balance sheet. Operating statements of these funds present increases (i.e. revenues and other financing sources) and decreases (i.e. expenditures and other financing uses) in net current position.

The modified accrual basis of accounting is used for these funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e. both measurable and available, and expenditures in the accounting period in which the liability is incurred, if measurable, except for certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as unearned revenues until earned. Generally unused balances are returned to the grantor at the close of specified project periods.

Commodity Supplement (CFDA 10.555) received like kind goods and no grant revenue received was reported on the schedule for the monetary value of these goods. The monetary value of goods received was $ 470,195, while the monetary value of goods used and recognized as income and expenditures was $ 439,569.

NOTE 2 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the District under programs of the federal government for the year ended August 31, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

NOTE 3 – FEDERAL INDIRECT RATE

The District has elected to use the 10 percent de minimis indirect cost rate.

SCHEDULE FOR ELECTRONIC FILING

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BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS *SCHEDULE L-1*
AUGUST 31, 2017 *Page 1 of 1*

Code	Questions	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?	No
SF10	Total accumulated accretion on CABs included in the government-wide financial statements at fiscal year-end?	$ 324,463
SF11	Net Pension Assets (1920) at fiscal year-end.	$ -0-
SF12	Net Pension Liabilities (2540) at fiscal year-end.	$ 28,611,962

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APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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October 25, 2018

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

> BRAZOSPORT INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018, dated October 1, 2018, in the aggregate principal amount of $42,320,000.
>
> The Bonds mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds and in the order (the "Order") adopted by the Board of Trustees of the District authorizing their issuance.

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

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the District or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

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

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

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

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

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

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

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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BRAZOSPORT INDEPENDENT SCHOOL DISTRICT (Brazoria County, Texas) • UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018

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Financial Advisor to the District

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