

**OFFICIAL STATEMENT**  
**Dated January 11, 2019**

NEW ISSUE - BOOK-ENTRY-ONLY

ENHANCED/UNENHANCED RATINGS: S&P - "AAA"/"AA"  
Fitch - "AAA"/"AA+"  
PSF Guaranteed

(See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and  
"OTHER PERTINENT INFORMATION - Municipal Bond Ratings" herein)

*In the opinion of Bond Counsel (defined below), assuming continuing compliance by the District (defined below) after the date of initial delivery of the Bonds (defined below) with certain covenants contained in the Order (defined below) and subject to the matters set forth under "TAX MATTERS" herein, interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income of the owners thereof pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Bonds and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. See "TAX MATTERS" herein.*

**\$74,035,000**

**NEW BRAUNFELS INDEPENDENT SCHOOL DISTRICT**  
**(A political subdivision of the State of Texas located in Comal and Guadalupe Counties, Texas)**  
**UNLIMITED TAX SCHOOL BUILDING AND REFUNDING BONDS, SERIES 2019**

**Dated Date: January 15, 2019**

**Due: February 1st as shown on page -ii- herein**

The "New Braunfels Independent School District Unlimited Tax School Building and Refunding Bonds, Series 2019" (the "Bonds"), as shown on page -ii- of this Official Statement, are direct obligations of the New Braunfels Independent School District (the "District"), and are payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District. The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, Chapter 1207, Texas Government Code, as amended ("Chapter 1207"), and Chapter 1371, Texas Government Code, as amended ("Chapter 1371"), an election held in the District on November 6, 2018, and an order authorizing the issuance of the Bonds (the "Order") adopted by the Board of Trustees (the "Board") of the District on December 17, 2018. See "THE BONDS - Authority for Issuance" herein. As permitted by the provisions of Chapter 1207 and Chapter 1371, the Board, in the Order, delegated the authority to certain District officials (each an "Authorized Official") to execute an approval certificate (the "Approval Certificate") establishing the final pricing terms for the Bonds. The Approval Certificate was executed by an Authorized Official on January 11, 2019. See "THE BONDS - Authority for Issuance" herein.

The District has received conditional approval from the Texas Education Agency for the payment of principal of and interest on the Bonds to be guaranteed under the Permanent School Fund Guarantee Program, which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.

Interest on the Bonds will accrue from January 15, 2019 (the "Dated Date"), will be payable until stated maturity or prior redemption on February 1 and August 1 of each year, commencing August 1, 2019, and will be calculated on the basis of a 360 day year of twelve 30-day months. The Bonds will be issued as fully registered obligations in principal denominations of \$5,000, or integral multiples thereof within a stated maturity. The Bonds will be issued in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository (the "Securities Depository"). Book-entry interests in the Bonds will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Bonds ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the Paying Agent/Registrar, initially Zions Bancorporation, National Association, Houston, Texas, to the Securities Depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Proceeds from the sale of the Bonds will be used (i) to refund a portion of the District's currently outstanding obligations, as identified in Schedule I attached hereto (the "Refunded Obligations"), for debt service savings, (ii) for the purpose of designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping school facilities in the District (and any necessary or related removal of existing facilities) and the purchase of the necessary sites for school facilities, and (iii) to pay for professional services associated with the costs of issuance of the Bonds. See "SOURCES AND USES OF FUNDS" herein.

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**For Maturity Schedule, Principal Amounts, Interest Rates, Initial Yields,  
CUSIP Numbers and Redemption Provisions for the Bonds, see page -ii- herein**

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*The Bonds are offered for delivery when, as and if issued and received by the initial purchasers named below (the "Underwriters") and are subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel. See "LEGAL MATTERS" herein for a discussion of Bond Counsel's opinion. Certain legal matters will be passed upon for the Underwriters by their legal counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas. It is expected that the Bonds will be available for delivery through the services of DTC, New York, New York, on or about February 12, 2019.*

**STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES,  
INITIAL YIELDS, CUSIP NUMBERS, AND REDEMPTION PROVISIONS**

**\$74,035,000**

**NEW BRAUNFELS INDEPENDENT SCHOOL DISTRICT  
(A political subdivision of the State of Texas located in Comal and Guadalupe Counties, Texas)  
UNLIMITED TAX SCHOOL BUILDING AND REFUNDING BONDS, SERIES 2019**

**CUSIP No. Prefix 642543<sup>(1)</sup>**

<b>Stated Maturity February 1</b>	<b>Principal Amount (\$)</b>	<b>Interest Rate (%)</b>	<b>Initial Yield (%)</b>	<b>CUSIP No. Suffix<sup>(1)</sup></b>
2020	2,755,000	5.000	1.730	XW7
2021	2,920,000	5.000	1.780	XX5
2022	2,790,000	5.000	1.830	XY3
2023	1,975,000	5.000	1.910	XZ0
2024	1,955,000	3.000	2.000	YA4
2025	1,980,000	3.000	2.070	YB2
2026	2,360,000	5.000	2.140	YC0
2027	2,725,000	5.000	2.240	YD8
2028	3,015,000	5.000	2.330 <sup>(2)</sup>	YE6
2029	3,695,000	4.000	2.610 <sup>(2)</sup>	YF3
2030	3,200,000	4.000	2.770 <sup>(2)</sup>	YG1
2031	3,265,000	5.000	2.580 <sup>(2)</sup>	YH9
2032	3,765,000	3.125	3.240	YJ5
2033	3,800,000	3.250	3.320	YK2
2034	3,835,000	4.000	3.120 <sup>(2)</sup>	YL0
2035	3,900,000	4.000	3.230 <sup>(2)</sup>	YM8
2036	2,480,000	4.000	3.300 <sup>(2)</sup>	YN6
2037	2,445,000	4.000	3.360 <sup>(2)</sup>	YP1
2038	2,405,000	4.000	3.430 <sup>(2)</sup>	YQ9
2039	2,415,000	4.000	3.480 <sup>(2)</sup>	YR7
2040	3,720,000	4.000	3.540 <sup>(2)</sup>	YS5
2041	6,335,000	5.000	3.150 <sup>(2)</sup>	YT3
2042	6,300,000	5.000	3.170 <sup>(2)</sup>	YU0

(Accrued Interest to be added from the Dated Date)

**Redemption Provisions**

The District reserves the right to redeem the Bonds maturing on and after February 1, 2028 in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, on February 1, 2027 or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. See "THE BONDS - Redemption Provisions of the Bonds" herein.

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

<sup>(2)</sup> Yield calculated based on the assumption that the Bonds denoted and sold at a premium will be redeemed on February 1, 2027, the first optional call date for the Bonds, at a redemption price of par, plus accrued interest to the redemption date.

**NEW BRAUNFELS INDEPENDENT SCHOOL DISTRICT  
430 W. Mill (P. O. Box 311688 - 78131-1688)  
New Braunfels, Texas 78130**

**BOARD OF TRUSTEES**

<u>Name</u>	<u>Position</u>	<u>Total Years Served</u>	<u>Term Expires May</u>	<u>Occupation</u>
Sherry Harrison	President	9	2021	Community Volunteer
Wes Clark	Vice President	4	2019	Business Executive
David Heefner	Secretary	3	2019	Retired Educator
Keith Smith	Trustee	8	2019	Contractor
Michael Calta	Trustee	2	2020	Real Estate Broker/Investor
Eric Bergquist	Trustee	1	2021	Pharmaceutical Sales
Matthew Sargent	Trustee	2	2020	Electrical Engineer

**ADMINISTRATION - FINANCE CONNECTED**

<u>Name</u>	<u>Title</u>	<u>Total Years Experience</u>	<u>Total Years With District</u>
Randy Moczygemba	Superintendent of Schools	32	10
Steve Brown	Executive Director of Business and Operations	27	8

**CONSULTANTS AND ADVISORS**

Belt Harris Pechacek, LLLP Houston, Texas	Auditors
Norton Rose Fulbright US LLP San Antonio, Texas	Bond Counsel
SAMCO Capital Markets, Inc. San Antonio, Texas	Financial Advisor

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## USE OF INFORMATION IN OFFICIAL STATEMENT

No dealer, broker, salesman, or other person has been authorized by the District to give any information or to make any representation with respect to the Bonds, other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by either of the foregoing.

This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale. The information set forth herein has been obtained from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriters.

The information and expressions of opinion 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 information or opinions set forth herein after the date of this Official Statement. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will under any circumstances create any implication that there has been no change in the information or opinions set forth herein after the date of this Official Statement.

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

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 BONDS HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION FOR THE PURCHASE THEREOF.

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

None of the District, the Financial Advisor, or the Underwriters make any representation or warranty with respect to the information contained in this Official Statement regarding (i) DTC or its book-entry-only system described under the caption "BOOK-ENTRY-ONLY SYSTEM" as such information has been provided by DTC, or (ii) the Texas Permanent School Fund Guarantee Program described in the caption "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" as such information has been provided by the Texas Education Agency.

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

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**TABLE OF CONTENTS**

<p>COVER PAGE ..... i</p> <p>MATURITY SCHEDULE ..... ii</p> <p>BOARD OF TRUSTEES ..... ii</p> <p>ADMINISTRATION - FINANCE CONNECTED ..... iii</p> <p>CONSULTANTS &amp; ADVISORS ..... iii</p> <p>USE OF INFORMATION IN OFFICIAL STATEMENT ..... iv</p> <p>TABLE OF CONTENTS ..... v</p> <p>OFFICIAL STATEMENT SUMMARY INFORMATION ..... vi</p> <p>INTRODUCTION ..... 1</p> <p>PLAN OF FINANCING</p> <p style="padding-left: 20px;">Use of Proceeds ..... 1</p> <p style="padding-left: 20px;">Refunded Obligations ..... 1</p> <p>SOURCES AND USES OF FUNDS ..... 2</p> <p>THE BONDS</p> <p style="padding-left: 20px;">General Description ..... 2</p> <p style="padding-left: 20px;">Authority for Issuance ..... 3</p> <p style="padding-left: 20px;">Security for Payment..... 3</p> <p style="padding-left: 20px;">Permanent School Fund Guarantee..... 3</p> <p style="padding-left: 20px;">Payment Record ..... 3</p> <p style="padding-left: 20px;">Legality ..... 3</p> <p style="padding-left: 20px;">Delivery ..... 3</p> <p style="padding-left: 20px;">Future Issues ..... 3</p> <p style="padding-left: 20px;">Redemption Provisions of the Bonds ..... 3</p> <p style="padding-left: 20px;">Selection of Bonds for Redemption ..... 3</p> <p style="padding-left: 20px;">Notice of Redemption ..... 4</p> <p style="padding-left: 20px;">Defeasance ..... 4</p> <p style="padding-left: 20px;">Amendments ..... 4</p> <p style="padding-left: 20px;">Defaults and Remedies ..... 5</p> <p>REGISTRATION, TRANSFER AND EXCHANGE</p> <p style="padding-left: 20px;">Paying Agent/Registrar ..... 5</p> <p style="padding-left: 20px;">Successor Paying Agent/Registrar ..... 5</p> <p style="padding-left: 20px;">Record Date ..... 6</p> <p style="padding-left: 20px;">Registration, Transferability and Exchange ..... 6</p> <p style="padding-left: 20px;">Limitation on Transfer of Bonds ..... 6</p> <p style="padding-left: 20px;">Replacement Bonds ..... 6</p> <p>BOOK-ENTRY ONLY SYSTEM..... 6</p> <p>THE PERMANENT SCHOOL FUND</p> <p style="padding-left: 20px;">GUARANTEE PROGRAM ..... 8</p> <p>AD VALOREM TAX PROCEDURES</p> <p style="padding-left: 20px;">Property Tax Code and</p> <p style="padding-left: 40px;">County Wide Appraisal District ..... 25</p> <p style="padding-left: 20px;">Ad Valorem Taxation ..... 25</p>	<p>Taxable Property, Exemptions and</p> <p style="padding-left: 20px;">Agricultural Exclusions ..... 25</p> <p style="padding-left: 20px;">Levy and Collection of Taxes ..... 27</p> <p style="padding-left: 20px;">Public Hearing and Rollback Tax Rate ..... 27</p> <p style="padding-left: 20px;">The District's Rights in the Event</p> <p style="padding-left: 40px;">of Tax Delinquencies ..... 28</p> <p style="padding-left: 20px;">The Texas Tax Code</p> <p style="padding-left: 40px;">as Applied to the District ..... 28</p> <p>STATE AND LOCAL FUNDING OF SCHOOL</p> <p style="padding-left: 20px;">DISTRICTS IN TEXAS ..... 30</p> <p>CURRENT PUBLIC SCHOOL FINANCE SYSTEM ..... 30</p> <p>THE SCHOOL FINANCE SYSTEM AS</p> <p style="padding-left: 20px;">APPLIED TO THE DISTRICT ..... 33</p> <p>TAX RATE LIMITATIONS</p> <p style="padding-left: 20px;">General ..... 33</p> <p>DEBT LIMITATIONS ..... 34</p> <p>EMPLOYEE BENEFITS, RETIREMENT PLAN AND</p> <p style="padding-left: 20px;">OTHER POST-EMPLOYMENT BENEFITS ..... 34</p> <p>INVESTMENT POLICIES ..... 35</p> <p>LEGAL MATTERS</p> <p style="padding-left: 20px;">Legal Opinions and No-Litigation Certificate ..... 37</p> <p style="padding-left: 20px;">Litigation ..... 37</p> <p>TAX MATTERS</p> <p style="padding-left: 20px;">Opinion ..... 38</p> <p style="padding-left: 20px;">Tax Changes ..... 38</p> <p style="padding-left: 20px;">Ancillary Tax Consequences ..... 38</p> <p style="padding-left: 20px;">Tax Accounting Treatment of Discount Bonds ..... 38</p> <p style="padding-left: 20px;">Tax Accounting Treatment of Premium Bonds ..... 39</p> <p>LEGAL INVESTMENT AND ELIGIBILITY TO</p> <p style="padding-left: 20px;">SECURE PUBLIC FUNDS IN TEXAS..... 39</p> <p>CONTINUING DISCLOSURE ..... 40</p> <p>OTHER PERTINENT INFORMATION</p> <p style="padding-left: 20px;">Authenticity of Financial Information ..... 41</p> <p style="padding-left: 20px;">Registration and Qualification</p> <p style="padding-left: 40px;">of Bonds for Sale ..... 41</p> <p style="padding-left: 20px;">Municipal Bond Ratings ..... 42</p> <p style="padding-left: 20px;">Financial Advisor ..... 42</p> <p style="padding-left: 20px;">Underwriting ..... 42</p> <p style="padding-left: 20px;">Forward Looking Statements ..... 42</p> <p style="padding-left: 20px;">Information from External Sources..... 43</p> <p style="padding-left: 20px;">Authorization of the Official Statement ..... 43</p>
<p>REFUNDED OBLIGATIONS ..... SCHEDULE I</p> <p>SELECTED FINANCIAL INFORMATION OF THE DISTRICT ..... APPENDIX A</p> <p>GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY ..... APPENDIX B</p> <p>AUDITED FINANCIAL STATEMENTS ..... APPENDIX C</p> <p>FORM OF OPINION OF BOND COUNSEL ..... APPENDIX D</p>	

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

**OFFICIAL STATEMENT SUMMARY INFORMATION**

The following information is qualified in its entirety by more detailed information and financial statements appearing elsewhere in this Official Statement:

<b>THE DISTRICT</b> .....	The New Braunfels Independent School District (the "District"), a political subdivision of the State of Texas, is located in Comal and Guadalupe Counties, Texas. The District is approximately 75.70 square miles in area and serves a population of approximately 53,789. The District was created under State statute and is governed by a seven-member Board of Trustees (the "Board"). Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors.
<b>THE BONDS</b> .....	The Bonds mature on February 1 in each of the years 2020 through 2042, inclusive.  Interest on the Bonds shall accrue from the Dated Date (identified below) and is payable initially on August 1, 2019 and semiannually on February 1 and August 1 thereafter until stated maturity or prior redemption.
<b>DATED DATE</b> .....	January 15, 2019.
<b>REDEMPTION</b> .....	The District reserves the right to redeem the Bonds maturing on or after February 1, 2028, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, on February 1, 2027 or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. See "THE BONDS - Redemption Provisions of the Bonds" herein.
<b>SECURITY FOR THE BONDS</b> .....	The Bonds constitute direct obligations of the District payable from the proceeds of an annual ad valorem tax levied against all taxable property located therein, without legal limitation as to rate or amount. Additionally, the payment of the principal of and interest on the Bonds is expected to be guaranteed by the Permanent School Fund of the State of Texas. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.
<b>PERMANENT SCHOOL FUND GUARANTEE</b> .....	The District has received conditional approval from the Texas Education Agency for the Bonds to be guaranteed under the Guarantee Program (hereinafter defined), which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.
<b>TAX MATTERS</b> .....	In the opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein. See "TAX MATTERS" and "APPENDIX D - Form of Opinion of Bond Counsel."
<b>PAYING AGENT/REGISTRAR</b> .....	The initial Paying Agent/Registrar is Zions Bancorporation, National Association, Houston, Texas.
<b>BOOK-ENTRY-ONLY SYSTEM</b> .....	The District intends to use the Book-Entry-Only System of The Depository Trust Company. See "BOOK-ENTRY-ONLY SYSTEM" herein.
<b>MUNICIPAL BOND RATINGS</b> .....	Fitch Ratings, Inc. ("Fitch") and S&P Global Ratings ("S&P") have assigned their municipal bond ratings of "AAA" and "AAA," respectively, to the Bonds based on the guarantee thereof by the Texas Permanent School Fund. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein. In addition, Fitch and S&P have assigned their underlying unenhanced ratings of "AA+" and "AA," respectively, to the District's ad valorem tax-supported indebtedness, including the Bonds. See "OTHER PERTINENT INFORMATION - Municipal Bond Ratings" herein.
<b>FUTURE BOND ISSUES</b> .....	The District anticipates the issuance of the next installment of bonds from the current authorization in the next 12 to 18 months along with potentially refunding bonds for debt service savings.
<b>PAYMENT RECORD</b> .....	The District has never defaulted on the payment of its bonded indebtedness.
<b>DELIVERY</b> .....	When issued, anticipated on or about February 12, 2019.
<b>LEGALITY</b> .....	The Bonds are subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel. See "APPENDIX D - Form of Opinion of Bond Counsel" herein.

**OFFICIAL STATEMENT**

relating to

**\$74,035,000**

**NEW BRAUNFELS INDEPENDENT SCHOOL DISTRICT**

**(A political subdivision of the State of Texas located in Comal and Guadalupe Counties, Texas)  
UNLIMITED TAX SCHOOL BUILDING BONDS AND REFUNDING BONDS, SERIES 2019**

**INTRODUCTION**

This Official Statement of the New Braunfels Independent School District (the "District") is provided to furnish certain information in connection with the sale of the District's \$74,035,000 Unlimited Tax School Building and Refunding Bonds, Series 2019 (the "Bonds").

This Official Statement, which includes the cover page and the appendices hereto, provides certain information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained upon request from the District and, during the offering period, from the District's Financial Advisor, SAMCO Capital Markets, Inc., 1020 N.E. Loop 410, Suite 640, San Antonio, Texas 78209, by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the Official Statement pertaining to the Bonds will be filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Markets Access ("EMMA") system. See "CONTINUING DISCLOSURE" herein for a description of the District's undertaking to provide certain information on a continuing basis. Capitalized terms used, but not defined herein, shall have the meanings ascribed thereto in the Order (defined below).

**PLAN OF FINANCING**

**Use of Proceeds**

The new money portion of the Bonds in the principal amount of \$44,090,000 and a portion of the premium on the Bonds in the amount of \$2,360,000 (totaling \$46,450,000 in voted authorization) represents the first installment of the total amount of \$118,341,000 approved at an election held within the District on November 6, 2018 (the "Election"). Following the issuance of the Bonds, the District will have \$71,891,000 voted but unissued bonds. A summary of the bonds authorized at the Election follows:

<u>Purpose</u>	<u>Amount Authorized</u>	<u>Amount Previously Issued</u>	<u>Amount This Issue</u>	<u>Amount Remaining</u>
Designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping school facilities in the District (and any necessary or related removal of existing facilities) and the purchase of the necessary sites for school facilities	\$118,341,000	\$ -0-	\$46,450,000_	\$71,891,000

The refunding portion of the Bonds in the principal amount of \$29,945,000, and a portion of the premium on the Bonds in the amount of \$2,230,978.61, will be used to refund a portion of the District's currently outstanding debt, as identified in Schedule I attached hereto (the "Refunded Obligations"). See Schedule I for a detailed listing of the Refunded Obligations, their call date and their redemption prices. The refunding is being undertaken to restructure the District's debt service in order to reduce the annual debt service requirements and will result in debt service savings to the District.

A portion of the proceeds of the Bonds will also be used to pay the costs of issuance of the Bonds.

**Refunded Obligations**

The Refunded Obligations, and interest due thereon, are to be paid on the scheduled redemption date from funds to be deposited with Zions Bancorporation, National Association, Houston, Texas (the "Escrow Agent") pursuant to an Escrow Deposit Letter, dated as of December 17, 2018 (the "Escrow Agreement"), between the District and the Escrow Agent.

The Order provides that the District will deposit certain proceeds of the sale of the Bonds, along with other lawfully available funds of the District (if any), with the Escrow Agent in the amount necessary and sufficient to accomplish the discharge and final payment of the Refunded Obligations at their respective scheduled dates of early redemption (each, a "Redemption Date"). Such funds shall be held by the Escrow Agent in an escrow fund (the "Escrow Fund") irrevocably

pledged to the payment of principal of and interest on the Refunded Obligations. SAMCO Capital Markets, Inc., in its capacity as Financial Advisor to the District, will certify as to the sufficiency of the amount initially deposited to the Escrow Fund, without regard to investment (if any), to pay the principal of and interest on the Refunded Obligations, when due, on the respective Redemption Date (the "Sufficiency Certificate"). Amounts on deposit in the Escrow Fund shall, until such time as needed for their intended purpose, be (i) held uninvested in cash and/or (ii) invested in certain direct, noncallable obligations of the United States of America (including obligations unconditionally guaranteed by the United States of America) that were, on the date the Order was adopted, rated as to investment quality by a nationally recognized rating firm of not less than "AAA". Cash and investments, if any, held in the Escrow Fund shall not be available to pay debt service requirements on the Bonds.

Simultaneously with the issuance of the Bonds, the District will give irrevocable instructions to provide notice to the owners of the Refunded Obligations that the Refunded Obligations will be redeemed prior to stated maturity, on which date money will be made available to redeem the Refunded Obligations from money held under the Escrow Agreement.

By the deposit of the cash and investments, if any, with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the legal defeasance of the Refunded Obligations, as applicable pursuant to the terms of the orders authorizing their respective issuance. It is the opinion of Bond Counsel that, as a result of such defeasance, and in reliance upon the Sufficiency Certificate, the Refunded Obligations will no longer be payable from ad valorem taxes but will be payable solely from the principal of and interest on the sources of payment on deposit in the Escrow Fund and held for such purpose by the Escrow Agent, and that the Refunded Obligations will be defeased and are not to be included in or considered to be indebtedness of the District for the purpose of a limitation of indebtedness or for any other purpose. See "APPENDIX D – Form of Opinion of Bond Counsel" herein.

The District has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund, from lawfully available funds, of any additional amounts required to pay the principal of and interest on the Refunded Obligations if for any reason the cash balance on deposit or scheduled to be on deposit in the Escrow Fund should be insufficient to make such payment.

Upon the defeasance of the Refunded Obligations, the guarantee of the Permanent School Fund with respect thereto will terminate.

### **SOURCES AND USES OF FUNDS**

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

Sources of Funds:

Par Amount of Bonds	\$74,035,000.00
Net Reoffering Premium on the Bonds	6,251,064.35
Accrued Interest	240,375.47
District's Cash Contribution	<u>546,000.00</u>
Total Sources	<u>\$81,072,439.82</u>

Uses of Funds:

Deposit to Construction Fund	\$46,450,000.00
Deposit to Escrow Fund	32,721,978.61
Costs of Issuance	296,946.27
Deposit to Bond Fund (includes accrued interest and capitalized interest)	1,141,427.14
Underwriters' Discount	<u>462,087.80</u>
Total Uses	<u>\$81,072,439.82</u>

### **THE BONDS**

#### **General Description**

The Bonds are dated January 15, 2019 (the "Dated Date") and will accrue interest from the Dated Date, and such interest shall be payable on February 1 and August 1 in each year, commencing August 1, 2019, until stated maturity or prior redemption. The Bonds will mature on the dates and in the principal amounts and will bear interest at the rates set forth on page -ii- of this Official Statement.

Interest on the Bonds is payable to the registered owner thereof appearing on the bond registration books kept by the Paying Agent/Registrar relating to the Bonds (the "Bond Register") on the Record Date (identified below) and such interest shall be paid by the Paying Agent/Registrar (i) by check sent by United States mail, first class, postage prepaid, to the address of the registered owner recorded in the Bond Register or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. The principal of the Bonds is payable



at stated maturity or prior redemption upon their presentation and surrender to the Paying Agent/Registrar. The Bonds will be issued only in fully registered form in any integral multiple of \$5,000 principal for any one maturity.

Initially the Bonds will be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Notwithstanding the foregoing, as long as the Bonds are held in the Book-Entry-Only System, 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 (defined herein) of the Bonds. See “BOOK-ENTRY-ONLY SYSTEM” herein.

### **Authority for Issuance**

The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the “State”), particularly Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, Chapter 1207, Texas Government Code, as amended (“Chapter 1207”), and Chapter 1371, Texas Government Code, as amended (“Chapter 1371”), an election held in the District on November 6, 2018, and an order authorizing the issuance of the Bonds (the “Order”) adopted by the Board of Trustees (the “Board”) of the District on December 17, 2018. As permitted by the provisions of Chapter 1207 and Chapter 1371, the Board, in the Order, delegated the authority to certain District officials (each an “Authorized Official”) to execute an approval certificate (the “Approval Certificate”) establishing the final pricing terms for the Bonds. The Approval Certificate was executed by an Authorized Official on January 11, 2019.

### **Security for Payment**

The Bonds constitute direct obligations of the District payable from the proceeds of an annual ad valorem tax levied against all taxable property located therein, without any legal limitation as to rate or amount.

### **Permanent School Fund Guarantee**

The District has received conditional approval from the Texas Education Agency for the payment of principal of and interest on the Bonds to be guaranteed under the Permanent School Fund Guarantee Program which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein.

### **Payment Record**

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

### **Legality**

The Bonds are subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas, as Bond Counsel. The legal opinion of Bond Counsel will accompany the certificates deposited with DTC or be printed on the Bonds. The form of the legal opinion of Bond Counsel appears in APPENDIX D attached hereto.

### **Delivery**

When issued; anticipated to occur on or about February 12, 2019.

### **Future Issues**

The District anticipates the issuance of the next installment of bonds from the current authorization in the next 12 to 18 months along with potentially refunding bonds for debt service savings.

### **Redemption Provisions of the Bonds**

The Bonds stated to mature on and after February 1, 2028 are subject to optional redemption, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof (and if less than all within a stated maturity by lot, selected by the Paying Agent/Registrar), on February 1, 2027 or on any date thereafter, at a price of par plus accrued interest to the date fixed for redemption.

### **Selection of Bonds for Redemption**

If less than all of the Bonds are to be redeemed, the District shall determine the amounts and maturities thereof to be redeemed and shall direct the Paying Agent/Registrar to select by lot the Bonds, or portions thereof, to be redeemed.

## **Notice of Redemption**

Not less than 30 days prior to a redemption date for the Bonds, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to each registered owner of a Bond to be redeemed, in whole or in part, at the address of the holder appearing on the Bond Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE OF REDEMPTION SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER ONE OR MORE BONDHOLDERS FAILED TO RECEIVE SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

The Paying Agent/Registrar and the District, so long as the 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 such notice or any such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Bonds from the Beneficial Owners. Any such selection of Bonds to be redeemed will not be governed by the Order and will not be conducted by the District or the Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants, or Beneficial Owners of the selection of portions of the Bonds for redemption. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

## **Defeasance**

Any Bond will be deemed paid and shall no longer be considered to be outstanding within the meaning of the Order when payment of the principal of and interest on such Bond to its stated maturity or redemption date will have been made or will have been provided by depositing with the Paying Agent/Registrar or an authorized escrow agent, (1) cash in an amount sufficient to make such payment, (2) Government Obligations (defined below) of such maturities and interest payment dates and bearing such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to make such payment, or (3) a combination of cash and Government Obligations. The foregoing deposits shall be certified as to sufficiency by an independent accounting firm, the District's Financial Advisor, the Paying Agent/Registrar, or such other qualified financial institution (as provided in the Order).

The Order provides that "Government Obligations" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, and (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District authorizes the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent. There is no assurance that the ratings for U.S. Treasury securities acquired to defease any Bonds, or those for any other Government Obligations, will be maintained at any particular rating category.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment 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, the District has the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption at an earlier date those Bonds which have been defeased to their maturity date, 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.

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

## **Amendments**

The District may amend the Order without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding, amend, add to, or rescind any of the provisions of the Order; except that, without the consent of all of the registered owners of the Bonds then outstanding, no such amendment, addition, or rescission may (1) change the date specified as the date on which the principal of or any installment of interest on any Bond is due and payable, reduce the principal amount, the redemption price therefor, or the rate of interest thereon, or in any other way modify the

terms of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the percentage of the aggregate principal amount of Bonds required to be held for consent to any amendment, addition, waiver, or rescission.

### **Default and Remedies**

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

## **REGISTRATION, TRANSFER AND EXCHANGE**

### **Paying Agent/Registrar**

The initial Paying Agent/Registrar is Zions Bancorporation, National Association, Houston, Texas. The Bonds will be issued in fully registered form in multiples of \$5,000 or integral multiple thereof for any one stated maturity, and principal and interest will be paid by the Paying Agent/Registrar. If the date for the payment of the principal of or interest on, or redemption price of, the Bonds shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the Paying Agent/ Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

### **Successor Paying Agent/Registrar**

The District covenants that until the Bonds are paid it will at all times maintain and provide a paying agent/registrar. In the Order, the District retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new Paying Agent/Registrar must accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District must be a bank, trust company, financial institution or other entity duly qualified and legally authorized to serve and perform the duties of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District will promptly cause a notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall give the address of the new Paying Agent/Registrar.

## **Record Date**

The record date ("Record Date") for determining the registered owner entitled to receive a payment of interest on a Bond is the fifteenth day of the month next preceding each 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. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be 15 days after the Special Record Date) shall be sent at least five (5) business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each registered owner of a Bond appearing on the Bond Register at the close of business on the last business day next preceding the date of mailing of such notice.

## **Registration, Transferability and Exchange**

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

## **Limitation on Transfer of Bonds**

Neither the District nor the Paying Agent/Registrar are required (1) to make any transfer or exchange during a period beginning at the opening of business 45 days before the day of the first mailing of a notice of redemption of Bonds and ending at the close of business on the day of such mailing, or (2) to transfer or exchange any Bonds so selected for redemption when such redemption is scheduled to occur within 45 calendar days; provided however, that such limitation of transfer is not applicable to an exchange by the registered owner of the uncalled balance of a Bond.

## **Replacement Bonds**

In the event the Book-Entry-Only System has been discontinued, and any Bond is mutilated, destroyed, stolen or lost, a new Bond of like kind and in the same maturity and amount as the Bond so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Bond, such new Bond will be delivered only upon surrender and cancellation of such mutilated Bond. In the case of any Bond issued in lieu of and in substitution for a Bond which has been destroyed, stolen, or lost, such new Bond will be delivered only (a) upon filing with the District and the Paying Agent/Registrar evidence satisfactory to establish to the District and the Paying Agent/Registrar that such Bond has been destroyed, stolen or lost and proof of the ownership thereof, and (b) upon furnishing the District and the Paying Agent/Registrar with bond or indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond must comply with such other reasonable regulations as the Paying Agent/Registrar may prescribe and pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

## **BOOK-ENTRY-ONLY SYSTEM**

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

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

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them. Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC’s 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).

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 payment 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. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the District or the Paying Agent/Registrar. Disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, physical bond certificates are required to 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 Underwriters takes any responsibility for the accuracy thereof.

#### **Use of Certain Terms in Other Sections of This Official Statement**

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the 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.

#### **Effect of Termination of Book-Entry-Only System**

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

### **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 2018, preliminary, unaudited distributions to the ASF amounted to an estimated \$246.92 per student and the total amount distributed to the ASF was \$1,235.8 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, as 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/](http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/) and with the MSRB at [www.emma.msrb.org](http://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](http://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, 2018, the Fund's financial assets portfolio was invested as follows: 40.54% in public market equity investments; 13.25% in fixed income investments; 10.37% in absolute return assets; 9.12% in private equity assets; 7.48% in real estate assets; 6.79% in risk parity assets; 5.96% in real return assets; 6.21% in emerging market debt; and 0.28% in unallocated cash. August 31, 2018 data is unaudited, which is subject to adjustment.

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, changes in international trade policies, 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 a portion of the multiplier increase, which became effective in late March 2018. Based upon the unaudited cost basis of the Fund at August 31, 2018, the State Law Capacity increased from \$111,568,711,072 on August 31, 2017 to \$118,867,137,998 on August 31, 2018 (but at such date the IRS Limit was lower, \$117,318,653,038, so it is the currently effective capacity limit for the Fund).

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/](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 November 5, 2018, there were 177 active open-enrollment charter schools in the State and there were 754 charter school campuses operating under such charters. 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 September 30, 2018, the amount of outstanding bond guarantees represented 68.04% of the IRS Limit (which is currently the applicable capacity limit) for the Guarantee Program (based on unaudited data). 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 5.50% in September 2018, representing a cumulative growth during that period of 55.81%. 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 September 30, 2018, the Charter District Reserve Fund represented approximately 0.50% 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 September 30, 2018, the Charter District Reserve Fund contained \$7,164,188.

### **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. For fiscal year 2018, TEA initiated programs designed to hold school districts and charter districts harmless for the loss of State funding associated with declines in average daily attendance. 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, Inc., S&P Global Ratings, and Fitch Ratings, Inc. rate bonds guaranteed by the PSF “Aaa,” “AAA” and “AAA,” respectively. Not all districts apply for multiple ratings on their bonds, however. See “OTHER PERTINENT INFORMATION - Municipal Bond Ratings” herein.



**Valuation of the PSF and Guaranteed Bonds**

**Permanent School Fund Valuations**

Fiscal Year Ended 8/31	Book Value <sup>(1)</sup>	Market Value <sup>(1)</sup>
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	31,870,581,428	41,438,672,573
2018 <sup>(2)</sup>	33,962,040,017	43,918,273,565

<sup>(1)</sup> 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.

<sup>(2)</sup> At August 31, 2018, 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, \$240.90 million, \$3,082.83 million, \$7.58 million, and \$4,247.36 million, respectively, and market values of approximately \$1,870.22 million, \$642.00 million, \$3,164.04 million, \$4.71 million, and \$4,247.36 million, respectively. At September 30, 2018, the PSF had a book value of \$33,937,270,391 and a market value of \$43,724,325,619. August 31, 2018 and September 30, 2018 values are based on unaudited data, which is subject to adjustment.

**Permanent School Fund Guaranteed Bonds**

At 8/31	Principal Amount <sup>(1)</sup>
2014	\$58,364,350,783
2015	63,955,449,047
2016	68,303,328,445
2017	74,266,090,023
2018	79,080,901,069 <sup>(2)</sup>

<sup>(1)</sup> 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.

<sup>(2)</sup> As of August 31, 2018 (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 \$123,361,625,817, of which \$44,280,724,748 represents interest to be paid. As shown in the table above, at August 31, 2018, there were \$79,080,901,069 in principal amount of bonds guaranteed under the Guarantee Program, and using the IRS Limit at that date of \$117,318,653,038 (the IRS Limit is currently the lower of the two federal and State capacity limits of Program capacity), 98.21% of Program capacity was available to the School District Bond Guarantee Program and 1.79% was available to the Charter District Bond Guarantee Program. August 31, 2018 values are based on unaudited data, which is subject to adjustment.

**Permanent School Fund Guaranteed Bonds by Category<sup>(1)</sup>**

Fiscal Year	School District Bonds		Charter District Bonds		Totals	
	No. of Issues	Principal Amount	No. of Issues	Principal Amount	No. of Issues	Principal Amount
2014 <sup>(2)</sup>	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	3,253	72,884,480,023	40	1,381,610,000	3,293	74,266,090,023
2018 <sup>(3)</sup>	3,249	77,647,966,069	44	1,432,935,000	3,293	79,080,901,069

<sup>(1)</sup> 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.

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

<sup>(3)</sup> At September 30, 2018 (based on unaudited data, which is subject to adjustment), there were \$79,828,771,069 of bonds guaranteed under the Guarantee Program, representing 3,265 school district issues, aggregating \$78,395,836,069 in principal amount and 45 charter district issues, aggregating \$1,432,935,000 in principal amount. At September 30, 2018, the capacity allocation of the Charter District Bond Guarantee Program was \$3,109,688,908 (based on unaudited data, which is subject to adjustment). 2018 data is unaudited, 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, and will be updated upon the release of the Annual Report for the year ended August 31, 2018. 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%, 3.5% and 3.7% for each of two year periods 2008-2009, 2010-2011, 2012-2013, 2014-2015, 2016-2017 and 2018-2019, respectively. In November 2018, the SBOE approved a \$2.2 billion distribution to the ASF for State fiscal biennium 2020-2021, to be made in equal monthly increments of \$92.2 million, which represents a 2.981% Distribution Rate for the biennium and a per student distribution of \$220.97, based on 2018 preliminary student average daily attendance of 5,004,998. In making the 2020-2021 biennium distribution decision, the SBOE took into account a commitment of the SLB transfer \$10 to the PSF in fiscal year 2020 and \$45 million in fiscal year 2021.

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 April 2018. 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.

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 \$30.2 million for the administration of the PSF for fiscal years 2016 and 2017, respectively, and \$30.4 million for each of the fiscal years 2018 and 2019.

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/](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 16, 2018, 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](http://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.

## **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; (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; (15) the incurrence of a financial obligation of the Guarantee Program, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Program, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Guarantee Program, any of which reflect financial difficulties. (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](http://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.

## AD VALOREM TAX PROCEDURES

### Property Tax Code and County Wide Appraisal District

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

### Ad Valorem Taxation

The Bonds are payable from an annual ad valorem tax levied on all taxable property within the District, without legal limit as to rate or amount. Reference is hereby made to the Tax Code for identification of property subject to taxation, property exempt or which may be exempted from taxation, the appraisal of property for taxation purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes. Among other features, the Tax Code contains the following provisions with respect to the assessment of property and the levy and collection of ad valorem taxes:

- (1) a single appraisal district in each county to appraise property for taxation purposes for all taxing units located wholly or partly within the county;
- (2) subject to certain exceptions, all property to be assessed at 100% of its market value and the assessment of property on the basis of a percentage of its appraised value is prohibited;
- (3) requires an "effective tax rate" and "rollback tax rate" to be annually calculated and the holding of a referendum election whenever the proposed tax rate exceeds the roll back tax rate; and
- (4) the value of property is generally assessed for purposes of taxation on January 1 of each year and taxes levied each year generally become due and payable on October 1 and become delinquent on January 31 of the year following the year in which the taxes are imposed.

### Taxable Property, Exemptions and Agricultural Exclusions

All real property located in the taxing unit and certain personal property is taxable property unless exempt by law. With certain exceptions, intangible personal property is not taxable property. Excluding open space land (ranch and farm land) and timberland that may be taxed on the basis of its productive capacity, property subject to taxation is to be taxed at 100% of its market value. 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, and the method considered most appropriate by the chief appraiser is to be used. The valuation of assessment of oil and gas reserves depends upon pricing information in either the standard edition of the Annual Energy Outlook or, if the most recently published edition of the Annual Energy Outlook was published before December 1 of the preceding calendar year, the Short-Term Energy Outlook report published in January of the current calendar year. State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the market value of the property or (2) the sum of (a) 10% of the appraised value of the property for the last year in which the property was appraised for taxation times the number of years since the property was last appraised, plus (b) the appraised value of the property for the last year in which the property was appraised plus (c) the market value of all new improvements to the property.

Property exempt from taxation includes: (1) property owned and used for public purposes by the State of Texas or its political subdivisions; (2) property exempt by federal law; (3) family supplies, household goods and personal effects not held or used in the production of income; (4) certain property owned by charitable organizations, youth development associations, and religious organizations; (5) certain properties used for school purposes; (6) solar and wind-powered energy devices; (7) farm products, livestock, and poultry in the hands of the producer, and family supplies for home and farm use; (8) implements of husbandry used in the production of farm and ranch products; (9) personally owned automobiles (unless affirmatively provided to be taxed by taxing entity); and (10) property owned by disabled veterans or by the surviving spouse and surviving minor children of disabled veterans is exempt from taxation in amounts ranging from \$5,000 to \$12,000 depending on the disability rating of the veteran.

The Texas Tax Code provides that a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's

residence homestead. Furthermore, the surviving spouse of a deceased veteran who had received a disability rating of 100% is entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries. A partially disabled veteran or the surviving spouse of a partially disabled veteran, if such spouse has not remarried since the death of the disabled veteran and the property was the residence homestead of the surviving spouse when the disabled veteran died and remains the residence homestead of the surviving spouse, is entitled to an exemption equal to the percentage of the veteran's disability, if the residence was donated to the disabled veteran by a charitable organization at no cost to the disabled veteran, or at some cost to the disabled veteran in the form of a cash payment, a mortgage, or both in an aggregate amount that is not more than 50% of the good faith estimate of the market value of the residence homestead made by the charitable organization as of the date the donation is made. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

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

The surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to a property tax exemption for all or part of the market value of such surviving spouse's residence homestead, if the surviving spouse has not remarried since the first responder's death and said property was the first responder's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

Article VIII, Section 1-j of the Constitution exempts from taxation goods, wares, merchandise, other tangible personal property and ores (other than oil, natural gas and other petroleum products) acquired or imported for assembling, storing, manufacturing, processing or fabricating purposes while such property is being detained in the State, and such property is to be forwarded outside the State within 175 days after the date of its acquisition or importation. Notwithstanding such exemption, counties, school districts, junior college districts and cities may tax such tangible personal property provided official action to tax is taken before April 1, 1990. The official action to tax such property can subsequently be rescinded and, if rescinded, such property shall thereafter be exempt from taxation.

Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit" is defined 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 first year in which goods-in-transit are proposed to be taxed, and after holding a public hearing, to take official action to tax goods-in-transit during the following tax year and to continue to tax those goods until the action authorizing such taxation is rescinded or repealed. A taxpayer may receive only one of the freeport exemptions or the goods-in-transit exemptions for items of personal property. Senate Bill 1, passed by the 82<sup>nd</sup> Texas Legislature, 1<sup>st</sup> Called Session, requires again that the governmental entities take affirmative action on or after October 1 of the previous year but prior to January 1 of the first tax year in which the governing body proposes to tax good-in-transit to continue its taxation of good-in-transit in the 2012 tax year and beyond.

With respect to school district taxation, \$25,000 of the market value of the residence homestead of an adult is exempt from taxation; and for persons 65 years of age or older and certain disabled persons, an additional exemption is granted not to exceed \$10,000 of the market value of the residence homestead of such persons. Furthermore, the total amount of taxes imposed on the residence homestead of persons 65 years of age or older (and receiving the additional \$10,000 exemption mentioned above) may not be increased while it remains the residence homestead of the person or that person's spouse who received the exemption, unless improvements (other than to comply with government requirements) are made to such homestead, and such freeze on ad valorem taxes on the homesteads of persons 65 years of age or older for general elementary and secondary public school purposes is also transferable to a different residence homestead. Also, the surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as (i) the taxpayer died in a year he or she qualified for the exemption, (ii) the surviving spouse is at least 55 years of age when the taxpayer died, and (iii) the property was the residence homestead of the surviving spouse when the taxpayer died and the property remains the residence homestead of the surviving spouse. A constitutional amendment was approved by the voters on May 12, 2007, and implementation legislation subsequently enacted to apply to the 2007 and subsequent tax years, that reduces the school property tax limitation (commonly referred to as a "freeze" on ad valorem taxes) 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.



Additionally, a percentage of the value of the residence homestead of a person may be exempt from taxation at the option of the governing body of the taxing entity, such exemption not to exceed 20% each year. Furthermore, not less than \$3,000 of the market value of the residence homestead of a person 65 years of age or older and certain disabled persons may be exempt from taxation, if such exemption is allowed by the governing body of the taxing entity or imposed by referendum election. 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.

### **Levy and Collection of Taxes**

The District is responsible for the collection of its taxes unless it elects to transfer such functions to another governmental agency. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service. 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 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. Furthermore, Section 26.05 of the Tax Code provides 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.

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.

Taxes are due October 1, or when billed, whichever is the later to occur, and such taxes 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 interest accrues on the delinquent tax amount 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%) of the delinquent tax, penalty, and interest collected may be imposed by the District. Split payment of taxes owed, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances are also allowed under existing statutory authority.

### **Public Hearing and Rollback Tax Rate**

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

applicable, subsection (i), and if such failure to comply was not in good faith. Section 44.004(e) further provides the action to enjoin the collection of taxes must be filed before the date the district delivers substantially all of its tax bills.

A district may adopt its budget after adopting a tax rate for the tax year in which the fiscal year covered by the budget begins if the district elects to adopt its tax rate before receiving the certified appraisal roll. A district that adopts a tax rate before adopting its budget must hold a public hearing on the proposed tax rate followed by another public hearing on the proposed budget rather than holding a single hearing on the two items.

### **The District's Rights in the Event of Tax Delinquencies**

The District has no lien for unpaid taxes on personal property but does have a lien granted by statute for unpaid taxes on real property that is discharged upon payment. Thereafter, no lien exists in favor of the District until it again levies taxes. In the event a taxpayer fails to make timely payment of taxes due to the District on real property, a penalty of 6% of unpaid taxes is incurred in February and 1% is added monthly until the penalty reaches 10%, after which it becomes a flat 12%.

In addition, delinquent taxes incur interest at the rate of 1% per month. The District may file suit for the collection thereof and may foreclose such lien in a foreclosure proceeding. The District may assess up to an additional 20% charge against delinquent taxes, penalty, and interest to defray the legal costs of collecting the delinquent taxes. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incurs a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the District's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due.

Taxes levied by the District are a personal obligation of the owner of the property. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each taxing unit, including the District, having the power to tax the property. The District's tax lien is on a parity with tax liens of all other such taxing units. A tax lien on real property has priority over the claim 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. 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. The ability of the District to collect delinquent taxes by foreclosure may be adversely affected by the amount of taxes owed to other taxing units, adverse market conditions, taxpayer redemption rights, or bankruptcy proceedings which restrain the collection of a taxpayer's debt. **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 the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.**

### **The Texas Tax Code as Applied to the District**

The District grants an exemption to the market value of residence homesteads of \$25,000; the District has not granted an additional exemption of 20% of the market value of residence homesteads.

The District grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$10,000; the disabled are also granted an exemption of \$10,000, an additional \$3,750 if over 65 or disabled, for a total exemption of \$13,750.

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; and the Comal County Tax Assessor-Collector collects the District's taxes.

The District does not permit split payments and discounts. Installments are allowed under provisions of the Texas Property Tax Code.

The District has not granted the freeport property tax-exemption; however, the District adopted a resolution on November 12, 2007 to continue taxation of "goods-in-transit" for the 2008 tax year and beyond. On November 21, 2011, the District took official action to continue the taxation of "goods-in-transit" in tax year 2012 and beyond.

## STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

### Litigation Relating to the Texas Public School Finance System

On seven occasions in the last thirty years, the Texas Supreme Court 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 become both a floor and a ceiling, denying school districts meaningful discretion in setting their tax rates. In response to the Texas Supreme Court decisions, the Legislature enacted multiple laws which made substantive changes in the way the Finance System is funded, in efforts to address decisions declaring the Finance System unconstitutional.

On May 13, 2016, the Texas Supreme Court issued its opinion in the most recent litigation, *Morath v. The Texas Taxpayer and Student Fairness Coalition, et al.*, No. 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 Texas Supreme Court, violated article VII, section 1 and article VIII, section 1-e of the Texas Constitution. In its opinion, the Texas Supreme 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 Litigation and Changes in Law on District Bonds

The Court's decision in *Morath* upheld the constitutionality of the Finance System but noted that the Finance 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 litigation, or how such legislation or future court orders may affect the District's financial condition, revenues or operations. While the disposition of any possible future litigation or the enactment of future legislation to address school funding in Texas could substantially adversely affect the financial condition, revenues or operations of the District, as noted herein, 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 litigation or 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 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 85<sup>th</sup> 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 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 85<sup>th</sup> 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 2018-2019 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 were repealed (eliminating revenue targets and ASATR funding).

## **2017 Legislation**

The 85<sup>th</sup> 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 85<sup>th</sup> 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.

## **2019 Legislative Session**

On January 8, 2019, the 86th Texas Legislature convened in general session and is scheduled to adjourn on May 27, 2019. Thereafter, the Texas Governor may call one or more additional special sessions. During this time, the Texas Legislature may enact laws that materially change current law as it relates to Texas school finance. The District makes no representation regarding any actions the Texas Legislature may take, but intends to monitor proposed legislation for any developments applicable to the District.

## **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 DISTRICT**

The District's wealth per student for the 2018-19 school year is more than the equalized wealth value. Accordingly, the District is required to exercise one of the permitted wealth equalization options. As a district with wealth per student in excess of the equalized wealth value, the District has notified the Texas Education Agency it intends to reduce its wealth per student by exercising Option 3, an agreement for the purchase of attendance credits (netting Chapter 42 funding) pursuant to Chapter 41, Texas Education Code, as amended. Pursuant to a letter dated August 2, 2018, TEA authorized the District to levy its ad valorem taxes for 2018-2019.

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

### **TAX RATE LIMITATIONS**

A school district is authorized to levy maintenance and operation ("M&O") taxes subject to approval of a proposition submitted to district voters under Section 45.003(d) of the Texas Education Code, as amended. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the succeeding paragraphs. The maximum voted M&O Tax rate for the District is \$1.50 per \$100 of assessed valuation as approved by the voters at an election held on December 10, 1994 under Chapter 20, Texas Education Code (now codified at Section 45.003, Texas Education Code).

The maximum tax rate per \$100 of assessed valuation that may be adopted by the District may not exceed the lesser of (A) \$1.50 and (B) the sum of (1) the rate of \$0.17, and (2) the product of the "State Compression Percentage" multiplied by \$1.50. The State Compression Percentage has been set, and will remain, at 66.67% for the 2018-2019 State fiscal biennium. The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. For a more detailed description of the State Compression Percentage, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Local Funding for School Districts." Furthermore, a school district cannot annually increase its tax rate in excess of the district's "rollback tax rate" without submitting such tax rate to a referendum election and a majority of the voters voting at such election approving the adopted rate. See "AD VALOREM TAX PROCEDURES - Public Hearing and Rollback Tax Rate."

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

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

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

### **DEBT LIMITATIONS**

Under State law, there is no explicit bonded indebtedness limitation, although the tax rate limits described above under "TAX RATE LIMITATIONS" effectively impose a limit on the incurrence of debt. Such tax rate limits require school districts to demonstrate the ability to pay "new debt" from a tax rate of \$0.50. In demonstrating compliance with the requirement, a district may take into account State equalization payments and, if compliance with such requirement is contingent on receiving state assistance, a district may not adopt a tax rate for a year for purposes of paying the principal of and interest on the bonds unless the district credits to the interest and sinking fund for the bonds the amount of State assistance received or to be received in that year. The State Attorney General reviews a district's calculations showing the compliance with such test as a condition to the legal approval of the debt. As stated above, the Bonds are issued in part as new debt and such portion is subject to this limitation.

### **EMPLOYEE RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFITS**

The District contributes to the Teacher Retirement System of Texas (the "TRS"), a public employee retirement system. Aside from the District's contribution to the TRS, the District has no pension fund expenditures or liabilities, except for portions of salaries that exceed salary limits of TRS. The District does not offer any post-employment retirement benefits and has no liabilities for "Other Post Employment Retirement Benefits" as defined in GASB Statement No. 45. See Notes to the Financial Statements, "IV. OTHER INFORMATION - C. - Defined Benefit Pension Plan," in the audited financial statements of the District for the fiscal year ended June 30, 2018 as set forth in APPENDIX C hereto.

The District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care) administered by the TRS, which provides coverage for certain persons (and their dependents) who retired under the TRS. See Notes to the Financial Statements, "IV. OTHER INFORMATION - D. - Retiree Health Care Plan," in the audited financial statements of the District for the fiscal year ended June 30, 2018 as set forth in APPENDIX C hereto.

During the fiscal year ended June 30, 2018, employees of the District were covered by a health insurance plan (the "Plan"). The District paid premiums of \$332 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a third party administrator, acting on behalf of the licensed insurer. The plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreement. See Notes to the Financial Statements, "IV. OTHER INFORMATION - E - Employee Health Care Coverage," in the audited financial statements of the District for the fiscal year ended June 30, 2018 as set forth in APPENDIX C hereto.

### **INVESTMENT POLICIES**

The District invests its investable funds in investments authorized by State law, including Chapter 2256, as amended, Texas Government Code (the "Texas Public Funds Investment Act"), and in accordance with investment policies approved by the Board of Trustees of the District. Both State law and the District's investment policies are subject to change.



## Legal Investments

Under State law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (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 the National Credit Union Share Insurance Fund or their respective successors, or otherwise meeting the requirements of the Texas Public Funds Investment Act; (8) certificates of deposit and share certificates that (i) are issued by or through an institution that has its main office or a branch in Texas and (a) are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, (b) are secured as to principal by obligations described in clauses (1) through (7) above, or (c) secured in any other manner and amount provided by law for District deposits, or (ii) certificates of deposit where (a) the funds are invested by the District through a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the District as required by law, or a depository institution that has its main office or a branch office in the State of Texas that is selected by the District; (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the United States Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 as custodian for the District with respect to the certificates of deposit issued for the account of the District; (9) fully collateralized repurchase agreements that (i) have a defined termination date, (ii) are fully secured by a combination of cash and obligations described in clause (1), (iii) require the securities being purchased by the District or cash held by the District to be pledged to the District, held in the District's name and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and (iv) are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (10) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time, and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (7) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (7) above and clauses (12) through (15) below, (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District, (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas, and (iv) the agreement to lend securities has a term of one year or less; (11) certain bankers' acceptances if the bankers' acceptance (i) has a stated maturity of 270 days or fewer from the date of issuance, (ii) will be, in accordance with its terms, liquidated in full at maturity, (iii) is eligible for collateral for borrowing from a Federal Reserve Bank, and (iv) is accepted by a State or Federal bank, if the short-term obligations of the accepting bank or its holding company (if the accepting bank is the largest subsidiary) 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 (i) a stated maturity of 270 days or less from the date of issuance, and (ii) a rating of 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) no-load money market mutual funds that are (i) registered with and regulated by the United States Securities and Exchange Commission, (ii) provide the District with a prospectus and other information required by the Securities and Exchange Act of 1934; and (iii) comply with Federal Securities and Exchange Commission Rule 2a-7; (14) no-load mutual funds that are (i) registered with the United States Securities and Exchange Commission, (ii) have an average weighted maturity of less than two years, and (iii) either (a) have a duration of one year or more and are invested exclusively in obligations described in this paragraph, or (b) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities; (15) investment pools if the District has authorized investment in the particular pool and the pool invests solely in investments permitted by the Texas Public Funds Investment Act, and is continuously rated no lower than "AAA" or "AAA-m" or at an equivalent rating by at least one nationally recognized rating service; and (16) guaranteed investment contracts that (i) have a defined termination date, (ii) are secured by obligations which meet the requirements of the Texas Public Funds Investment Act in an amount at least equal to the amount of bond proceeds invested under such contract, and (iii) are pledged to the District and deposited with the District or with a third party selected and approved by the District.

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) of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

As a school district that qualifies as an "issuer" under Chapter 1371, the District is also authorized to purchase, sell, and invest its funds in corporate bonds. State law defines "corporate bonds" as senior secured debt obligations issued by a domestic business entity and rated not lower than "AA-" or the equivalent by a nationally recognized investment rating firm. The term does not include a bond that is convertible into stocks or shares in the entity issuing the bond (or an affiliate or subsidiary thereof) or any unsecured debt. Corporate bonds must finally mature not later than 3 years from their date of purchase by the school district. A school district may not (1) invest more than 15% of its monthly average fund balance (excluding bond proceeds, reserves, and other funds held for the payment of debt service) in corporate bonds; or (2) invest more than 25% of the funds invested in corporate bonds in any one domestic business entity (including subsidiaries and affiliates thereof). Corporate bonds held by a school district must be sold if they are at any time downgraded below "AA-" (or the equivalent thereof) or, with respect to a corporate bond rated "AA-" (or the equivalent thereof), such corporate bond is placed on negative credit watch. Corporate bonds are not an eligible investment for a public funds investment pool. To invest in corporate bonds, an eligible school district must first (i) amend its investment policy to authorize corporate bonds as an eligible investment, (ii) adopt procedures for monitoring rating changes in corporate bonds and liquidating an investment in corporate bonds, and (iii) identify funds eligible to be invested in corporate bonds. As of the date of this Official Statement, the District has not taken the steps necessary to allow for investing in corporate bonds or made investments in that type of instrument.

### **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 and the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Texas Public Funds Investment Act. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas law, 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 an order 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 said order 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 portfolios require an interpretation of subjective investment standards, or relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority), 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 on-money market mutual funds in the aggregate to no

more than 15% of the entity'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 December 1, 2018, the following percentages of the District's investable funds were invested as indicated below:

<u>Category of Investments</u>	<u>Amount</u>	<u>Percentage</u>	<u>Term of Investments</u>
Investment Pools	\$47,819,476	100.00%	Daily liquidity

\* *Unaudited.*

As of such date, the market value of such investments (as determined by the District by reference to published quotations, dealer bids, and comparable information) was 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.

**LEGAL MATTERS**

**Legal Opinions and No-Litigation Certificate**

The District will furnish the Underwriters a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel, to the effect that the Bonds are valid and legally binding obligations of the District and, subject to the qualifications set forth herein under "TAX MATTERS," the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the captions "PLAN OF FINANCING - Refunded Obligations," "THE BONDS" (exclusive of the subcaptions "Permanent School Fund Guarantee," "Payment Record," "Future Issues," and "Default and Remedies," as to which no opinion is expressed), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM," "TAX RATE LIMITATIONS" (first paragraph only), "LEGAL MATTERS" (excluding the last two sentences of the first paragraph thereof and the information under the subcaption "Litigation," as to which no opinion is expressed), "TAX MATTERS," "CONTINUING DISCLOSURE" (excluding the information under the subcaption "Compliance with Prior Agreements," as to which no opinion is expressed), "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," and "OTHER PERTINENT INFORMATION - Registration and Qualification of Bonds for Sale" in the Official Statement, and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. Bond Counsel's legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, whose compensation is contingent on the sale and delivery of the Bonds. McCall, Parkhurst & Horton L.L.P. also advises the TEA in connection with its disclosure obligations under the federal securities laws, but such firm has not passed upon any TEA disclosures contained in this Official Statement.

Though it represents the Financial Advisor and the Underwriters from time to time in matters unrelated to the Bonds, Bond Counsel has been engaged by and only represents the District with respect to the issuance of the Bonds. The legal opinion to be delivered concurrently with the delivery of the Bonds expresses the professional judgment of the attorneys rendering the opinion as to the legal issues expressly 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 from the transaction.

**Litigation**

In the opinion of various officials of the District, except as disclosed in this Official Statement, there is no litigation or other proceeding pending against or, to their knowledge, threatened against the District in any court, agency, or administrative

body (either state or federal) wherein an adverse decision would materially adversely affect the financial condition of the District.

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

## **TAX MATTERS**

### **Opinion**

The delivery of the Bonds is subject to the opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel to the effect that interest on the Bonds for federal income tax purposes (1) is excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), of the owners thereof pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. The statute, regulations, rulings, and court decisions on which such opinion is based are subject to change. The form of Bond Counsel's opinion appears in APPENDIX D hereto.

In rendering the foregoing opinion, Bond Counsel will rely upon the Sufficiency Certificate of SAMCO Capital Markets, Inc., as disclosed in the subcaption "PLAN OF FINANCING - Refunded Obligations", regarding the sufficiency of the deposit to the Escrow Fund on the date of closing of the Bonds and upon the representations and certifications of the District made in a certificate of even date with the initial delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance with the provisions of the Order by the District subsequent to the issuance of the Bonds. The Order contains covenants by the District with respect to, among other matters, the use of the proceeds of the Bonds and the facilities and equipment financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, if required, the calculation and payment to the United States Treasury of any arbitrage "profits" and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

Except as described above, Bond Counsel will express no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the 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 Issuer described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS 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 IRS is likely to treat the District as the "taxpayer," and the owners of the Bonds would 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 Issuer 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.

### **Tax Changes**

Existing law may change to reduce or eliminate the benefit to bondholders of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

### **Ancillary Tax Consequences**

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust ("FASIT"), individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

### **Tax Accounting Treatment of Discount Bonds**

The initial public offering price to be paid for certain bonds may be less than the amount payable on such bonds at maturity (the "Discount Bonds"). An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and

the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bonds. A portion of such original issue discount, allocable to the holding period of a Discount Bond by the initial purchaser, will be treated as interest for federal income tax purposes, excludable from gross income on the same terms and conditions as those for other interest on the Bonds. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during his taxable year.

However, such accrued interest may be taken into account in determining the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Bonds and with respect to the state and local tax consequences of owning Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on the Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

#### **Tax Accounting Treatment of Premium Bonds**

The initial public offering price to be paid for certain bonds may be greater than the stated redemption price on such bonds at maturity (the "Premium Bonds"). An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and its stated redemption price at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium with respect to the Premium Bonds. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

#### **LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS**

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

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

## CONTINUING DISCLOSURE

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

### Annual Reports

The District will file certain updated financial information and operating data with the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement in APPENDIX A, attached hereto, exclusive of the tables reflecting "Direct and Estimated Gross Overlapping Funded Debt Payable from Ad Valorem Taxes," "Estimated Interest & Sinking Fund Management Index 2018/19" and "2019/2020 Pro Forma Interest & Sinking Fund Management Index," respectively, and in APPENDIX C attached hereto. Additionally, the tables which provide neither quantitative financial information nor operating data for the District, including, but not limited to the "Authorized but Unissued General Obligation Bonds" and "Anticipated Issuance of Additional Bonds", have not been and will not be included in the District's annual filings. The District will update and provide this information to the MSRB within 6 months after the end of each fiscal year ending in or after 2019.

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

The District's current fiscal year end is June 30. Accordingly, it must provide updated information by the last day of December in each year, unless it changes its fiscal year. If the District changes its fiscal year, it will file notice of such change with the MSRB.

### Notice of Certain Events

The District will file with the MSRB notice of any of the following events with respect to the Bonds in a timely manner (not more than 10 business days after occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into 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 Paying Agent/Registrar or the change of name of a Paying Agent/Registrar, if material. Neither the Bonds nor the Order make any provision for debt service reserves, credit enhancement (with the exception of the Texas Permanent School Fund guarantee), or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The District will provide each notice described in this paragraph to the MSRB.

For these purposes, any event described in clause (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.

## **Availability of Information from MSRB**

All information and documentation filing required to be made by the District in accordance with its undertaking made for the Bonds will be made with the MSRB in electronic format in accordance with MSRB guidelines by and through EMMA. Access to such filings will be provided, without charge to the general public, by the MSRB through EMMA at [www.emma.msrb.org](http://www.emma.msrb.org).

## **Limitations and Amendments**

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

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if (1) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent or (b) any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The District may also repeal or amend these provisions if the SEC amends or repeals the applicable provisions of the Rule or any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but in either case only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of the Rule. If the District amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

## **Compliance with Prior Agreements**

During the last five (5) years, the District has complied in all material respects with all previous continuing disclosure agreements made by it in accordance with the Rule.

## **OTHER PERTINENT INFORMATION**

### **Authenticity of Financial Information**

The financial data and other information contained herein have been obtained from the District's records, audited financial statements and other sources, which are believed to be reliable. All of the summaries of the statutes, documents and orders contained in this Official Statement are made subject to all of the provisions of such statutes, documents and orders. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

### **Registration and Qualification of Bonds for Sale**

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

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

## **Municipal Bond Ratings**

Fitch Ratings, Inc. ("Fitch") and S&P Global Ratings ("S&P") have assigned their municipal bond ratings of "AAA" and "AAA," respectively, to the Bonds based on the guarantee thereof by the Texas Permanent School Fund. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM." In addition, Fitch and S&P have assigned their underlying unenhanced ratings of "AA+" and "AA," respectively, to the District's ad valorem tax-supported indebtedness, including the Bonds.

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

## **Financial Advisor**

SAMCO Capital Markets, Inc. (the "Financial Advisor") is employed as the 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. SAMCO Capital Markets, Inc., in its capacity as Financial Advisor, has relied on the opinions of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants, and representations contained in any of the bond documentation with respect to the federal income tax status of the Bonds. In the normal course of business, the Financial Advisor may also from time to time sell investment securities to the District for the investment of bond proceeds or other funds of the District upon the request of the District.

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

## **Underwriting**

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the District at the price equal to the initial offering prices to the public, as shown on page -ii- herein, less an Underwriters' discount of \$462,087.80, plus accrued interest from their Dated Date to their date of initial delivery. The Underwriters' obligation is subject to certain conditions precedent. The Underwriters will be obligated to purchase all of the Bonds, if any of the Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

One of the Underwriters is BOK Financial Securities, Inc., which is not a bank, and the Bonds are not deposits of any bank and are not insured by the Federal Deposit Insurance Corporation.

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

## **Forward Looking Statements**

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

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



**Information from External Sources**

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

**Authorization of the Official Statement**

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

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

The Order approved the form and content of this Official Statement and any addenda, supplement or amendment thereto and authorized its further use in the reoffering of the Bonds by the Underwriters.

**NEW BRAUNFELS INDEPENDENT SCHOOL DISTRICT**

/s/ Sherry Harrison  
President, Board of Trustees

ATTEST:

/s/ David Heefner  
Secretary, Board of Trustees

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**SCHEDULE I**  
**REFUNDED OBLIGATIONS**

<u>Series</u>	<u>Maturities</u>	<u>Principal Amount(\$) Maturing In Year</u>	<u>Interest Rates(%)</u>	<u>Redemption Date and Price</u>
New Braunfels Independent School District				
Unlimited Tax Refunding Bonds, Series 2010	2-1-2020	1,010,000	4.000	03/15/2019@100.00%
	2-1-2021	1,050,000	4.000	03/15/2019@100.00%
	2-1-2022	1,095,000	4.000	03/15/2019@100.00%
New Braunfels Independent School District				
Unlimited Tax School Building Bonds, Series 2011	2-1-2020	1,450,000	3.250	03/15/2019@100.00%
	2-1-2021	1,440,000	3.625	03/15/2019@100.00%
	2-1-2022	1,440,000	5.000	03/15/2019@100.00%
	2-1-2023	1,445,000	5.000	03/15/2019@100.00%
	2-1-2024	1,455,000	5.000	03/15/2019@100.00%
	2-1-2025	1,460,000	5.000	03/15/2019@100.00%
	2-1-2026	1,720,000	5.000	03/15/2019@100.00%
	2-1-2027	1,730,000	4.625	03/15/2019@100.00%
	2-1-2028	1,730,000	4.750	03/15/2019@100.00%
	2-1-2029	1,735,000	4.750	03/15/2019@100.00%
	2-1-2030	2,020,000	4.750	03/15/2019@100.00%
	2-1-2031	2,120,000	5.000	03/15/2019@100.00%
	2-1-2035 <sup>(1)</sup>	9,635,000	5.000	03/15/2019@100.00%

<sup>(1)</sup> Term Bond maturing 2-1-2035.

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**APPENDIX A**  
**Selected Financial Information**  
**of the District**

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**VALUATION AND DEBT DATA**

**Valuation Information**

Total 2018 Appraised Valuation of District	\$6,183,547,485
Less: Exemptions/Exclusions <sup>(1)</sup>	<u>816,928,133</u>
Total 2018 Taxable Assessed Valuation <sup>(2)</sup>	\$5,366,619,352

*Source: Comal Appraisal District and Guadalupe Appraisal District certified values.*

<sup>(1)</sup> For a detailed description of the Exemptions/Exclusions see "2018 Tax Exemptions/Exclusions Allowed" herein.

<sup>(2)</sup> Includes valuations against which a freeze of tax levy has been granted for persons 65 years or older in 2018.

**Direct Debt Information**

Total Indebtedness Payable from Ad Valorem Taxes: (at 1-1-2019)

Maintenance and Operations Tax Debt .....	\$ -0-
Unlimited Tax Bond Debt .....	<u>210,030,167*</u>
Total All Bonded Indebtedness Payable from Taxes .....	210,030,167
Less Estimated Interest & Sinking Fund Consolidated Balance (at 12-1-2018) .....	<u>3,273,407</u>
<b>NET BONDED INDEBTEDNESS PAYABLE FROM AD VALOREM TAXES .....</b>	<b>\$206,756,760*</b>

\* Includes the Bonds and excludes the Refunded Obligations.

**Direct Debt Ratios**

Ratio of Total Bonded Debt (\$210,030,167*) to 2018 Taxable Assessed Valuation (\$5,366,619,352) .....	3.91%
Ratio of Total Bonded Debt (\$210,030,167*) to 2018 Total Appraised Valuation (\$6,183,547,485) .....	3.40%
Ratio of Net Bonded Debt (\$206,756,760*) to 2018 Taxable Assessed Valuation (\$5,366,619,352) .....	3.85%
Ratio of Net Bonded Debt (\$206,756,760*) to 2018 Total Appraised Valuation (\$6,183,547,485) .....	3.34%

\* Includes the Bonds and excludes the Refunded Obligations.

**Non-Funded Debt**

*Commitments Under Non-capitalized Leases ...* During the 2017-2018 fiscal year, the District expended a total of \$169,160 for operating (non-capitalized) leases and, in accordance with standard non-appropriation clauses in the various lease agreements, the District has no future obligations in relation to these leases.

*Source: District's 2018 Annual Financial Report.*

**Authorized But Unissued General Obligation Bonds**

After the issuance of the Bonds, the District will have \$71,891,000 in unissued unlimited ad valorem tax-supported bonds. The District may incur other financial obligations payable from its collection of taxes and other sources of revenue, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes.

**Anticipated Issuance of Additional Bonds**

The District anticipates the issuance of the next installment of bonds from the current authorization in the next 12 to 18 months along with potentially refunding bonds for debt service savings.

**Population and Per Capita Indebtedness**

2018 District Population Estimate .....	53,789
2018 Per Capita Taxable Assessed Valuation (\$5,366,619,352) .....	\$99,771.69
Per Capita Direct Bonded Debt (\$210,030,167*) .....	\$3,904.70

\* Includes the Bonds and excludes the Refunded Obligations.

**Enrollment and Average Daily Attendance Data**

2018-19 Enrollment (at 12-1-2018) .....	9,101
2018-19 Estimated Average Daily Attendance (at 12-1-2018) .....	8,837
2018 Taxable Assessed Valuation (\$5,366,619,352) Per Enrollment .....	\$589,673.59

**Valuation and Bonded Debt Data**

Area of District in Square Miles .....	75.70
Area of District in Acres .....	48,448
Total Direct Bonded Debt (\$210,030,167*) Per Acre .....	\$4,335.17
2018 Taxable Assessed Valuation (\$5,366,619,352) Per Acre .....	\$110,770.71
2018 Total Appraised Value (\$6,183,547,485) Per Acre .....	\$127,632.67

\* Includes the Bonds and excludes the Refunded Obligations.

**Outstanding Debt By Issues**

	<u>Original Amount</u>	<u>Amount Outstanding at 1-1-2019<sup>(1)</sup></u>
Unlimited Tax Bonds:		
Refunding Bonds, Series 2010	\$13,144,995	\$ 970,000 <sup>(2)</sup>
School Building Bonds, Series 2011	29,999,979	8,929 <sup>(2)</sup>
School Building and Refunding Bonds, Series 2012	23,122,245	21,192,245
Refunding Bonds, Series 2012A	9,940,000	6,435,000
Refunding Bonds, Series 2013	9,125,000	9,125,000
Refunding Bonds, Series 2014	9,145,000	8,155,000
Refunding Bonds, Series 2015	5,235,000	5,235,000
Refunding Bonds, Series 2015A	15,769,993	15,349,993
School Building Qualified School Construction Bonds, Taxable Series 2016	8,728,000	7,564,000
School Building and Refunding Bonds, Series 2016	47,300,000	43,810,000
School Building Bonds, Series 2017	18,400,000	18,150,000
School Building and Refunding Bonds, Series 2019 (the "Bonds")	74,035,000	<u>74,035,000</u>
Total Tax Debt .....		\$210,030,167

<sup>(1)</sup> Unaudited.

<sup>(2)</sup> Excludes the Refunded Obligations.



**Consolidated Schedule Of Bonded Issue Principal Requirements\***  
**(Year Ending August 31 In Each Of The Years 2019 - 2042 Inclusive)**

2019	\$ 8,310,929	
2020	10,092,000	
2021	10,812,000	
2022	11,172,000	
2023	6,523,221	22.33%
	-	
2024	10,313,017	
2025	11,167,000	
2026	11,972,000	
2027	9,897,000	
2028	10,432,000	47.94%
	-	
2029	11,102,000	
2030	8,556,000	
2031	8,611,000	
2032	8,545,000	
2033	8,580,000	69.55%
	-	
2034	8,630,000	
2035	8,705,000	
2036	7,295,000	
2037	7,270,000	
2038	6,905,000	88.03%
	-	
2039	6,835,000	
2040	5,670,000	
2041	6,335,000	
2042	<u>6,300,000</u>	100.00%
Total	\$210,030,167	

\* Includes the Bonds and excludes the Refunded Obligations.

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**Direct and Estimated Gross Overlapping Funded Debt Payable from Ad Valorem Taxes**

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

<u>Political Subdivision</u>	<u>Gross Debt</u>		<u>Percent Overlapping</u>	<u>Amount Overlapping</u>
	<u>Amount</u>	<u>As Of</u>		
Comal County	\$160,790,000	1-01-2019	27.81%	\$ 36,676,199
Guadalupe County	13,655,000	1-01-2019	8.97%	1,224,854
City of New Braunfels	178,220,000	1-01-2019	58.42%	<u>104,116,124</u>
Estimated Overlapping Funded Debt .....				\$142,012,177
New Braunfels ISD	210,030,167 *	1-01-2019	100.00%	210,030,167 *
Total Direct and Estimated Overlapping Funded Debt .....				\$352,042,344
Ratio to 2018 Total Appraised Valuation (\$6,183,547,485) .....				5.69%
Ratio to 2018 Taxable Assessed Valuation (\$5,366,619,352) .....				6.56%
Per Capita (53,789) Direct and Estimated Overlapping Debt .....				\$6,544.88

\* Includes the Bonds and excludes the Refunded Obligations.

**TAXATION DATA**

**Historical Valuations, Tax Rates, and Collection Data**

<u>Tax Year</u> <sup>(1)</sup>	<u>Assessed Valuation</u> <sup>(2)</sup>	<u>Tax Rate</u>	<u>% Collections</u>		<u>Fiscal Year Ending</u>
			<u>Current</u>	<u>Total</u>	
2007	\$2,470,562,974	\$1.3449	95.55%	100.50%	6-30-2008
2008	2,847,540,253	1.3388	95.90%	99.28%	6-30-2009
2009	2,948,992,994	1.3391	96.72%	100.13%	6-30-2010
2010	2,906,839,295	1.3391	97.29%	100.00%	6-30-2011
2011	2,973,189,232	1.3391	97.69%	100.62%	6-30-2012
2012	3,076,696,139	1.3391	96.93%	99.10%	6-30-2013
2013	3,259,588,231	1.3391	97.71%	100.54%	6-30-2014
2014	3,564,805,018	1.3391	98.17%	100.47%	6-30-2015
2015	3,849,024,345	1.3391	98.22%	100.09%	6-30-2016
2016	4,659,577,701	1.3391	98.33%	100.03%	6-30-2017
2017	4,957,161,948	1.3391	97.74%	99.16%	6-30-2018
2018	5,366,619,352	1.3658	(In process of collection)		6-30-2019

<sup>(1)</sup> The District's tax collection year previously began April 1 each year with taxes becoming due July 1 and becoming delinquent after July 31. Taxable valuations for current year were rendered and determined as of the period beginning January 1 of the previous year.

<sup>(2)</sup> Tax years 2007 through 2017 taken from District's 2018 Annual Financial Report; Tax year 2018 taken from the Comal Appraisal District and Guadalupe Appraisal District.

**Tax Rate Distribution**

	<u>2018/19</u>	<u>2017/18</u>	<u>2016/17</u>	<u>2015/16</u>	<u>2014/15</u>
Local Maintenance	\$1.0400	\$1.0133	\$1.0133	\$1.0133	\$1.0133
Interest & Sinking Fund	<u>_.3258</u>	<u>_.3258</u>	<u>_.3258</u>	<u>_.3258</u>	<u>_.3258</u>
Totals	\$1.3658	\$1.3391	\$1.3391	\$1.3391	\$1.3391

Source: *The District.*

**2018 Tax Exemptions/Exclusions Allowed**

The District has granted exemptions to property owners and for persons over 65 years of age and has granted those exemptions under the law for disabled property owners and veterans, and agricultural exclusions as provided. The exemptions in each of the categories listed are shown below:

Homestead - State-mandated \$25,000 General.....	\$318,804,655
State-mandated \$10,000 Over-65 .....	64,424,803
Homestead -100% Disabled/Veterans .....	103,702,084
Disabled/Deceased Veterans.....	10,148,610
Disabled Persons .....	4,034,083
Homestead - 10% Appraisal Cap Loss .....	31,500,578
Productivity Loss .....	284,037,446
Solar .....	175,300
Other .....	<u>100,574</u>
Total Exemptions and Exclusions .....	\$816,928,133

Source: *Comal Appraisal District and Guadalupe County Appraisal District.*

**Schedule of Delinquent Taxes Receivable Fiscal Year Ended June 30, 2018**

<u>Last Ten Years</u>	<u>Ending Balance</u>
2009 and prior years	\$ 86,270
2010	51,727
2011	55,331
2012	56,067
2013	69,507
2014	80,916
2015	104,947
2016	125,353
2017	222,376
2018	<u>1,409,578</u>
Total	\$2,262,072

Source: *District's 2018 Annual Report*

## Ten Largest Taxpayers

Name	Type of Property	2018 Net Taxable Assessed Valuation	% of Total 2018 Taxable Assessed Valuation
Rush Enterprises	Equipment Leasing	\$ 61,257,910	1.14%
Kahlig Enterprises Inc	Car Dealership	49,615,650	0.92%
T4V3 LLC	Commercial	28,800,000	0.54%
Grey Forest Development LLC	Real Estate Development	28,560,080	0.53%
LPF Westpointe LLC	Real Estate	22,402,820	0.42%
Ranch on the River LP	Real Estate Development	18,743,030	0.35%
SA WP Partners LLC	Commercial	18,088,570	0.34%
Walmart Real Estate Business Trust	Distribution Center	16,817,650	0.31%
HEB Grocery Co LP	Grocery Store	13,886,630	0.26%
De Anza Properties 4 LLC	Commercial	<u>13,001,795</u>	<u>0.24%</u>
Total		\$271,174,135	5.05%

Source: Comal Appraisal District.

## Taxpayers by Classification

Category	Assessed Valuation 2018	Percent Of Total	Assessed Valuation 2017	Percent Of Total	Assessed Valuation 2016	Percent Of Total
Single-Family Residences	\$4,430,535,201	71.65%	\$4,155,387,102	72.09%	\$3,732,623,047	71.76%
Multifamily Residences	232,419,277	3.76%	185,729,498	3.22%	167,716,491	3.22%
Vacant-Platted Lots	118,677,595	1.92%	137,179,146	2.38%	126,990,474	2.44%
Qualified Open Space/Improvements	287,584,068	4.65%	343,600,203	5.96%	315,513,264	6.07%
Rural land - non-qualified	117,486,034	1.90%	22,094,152	0.38%	19,596,785	0.38%
Commercial Real	644,400,150	10.42%	577,636,113	10.02%	489,491,746	9.41%
Industrial Real	17,658,410	0.29%	15,235,050	0.26%	14,160,260	0.27%
Oil, Gas and Minerals	-0-	0.00%	-0-	0.00%	-0-	0.00%
Utilities	29,340,450	0.48%	29,061,427	0.50%	27,216,468	0.52%
Commercial Personal	208,043,199	3.36%	184,729,360	3.21%	214,415,956	4.12%
Industrial Personal	12,585,237	0.20%	20,177,256	0.35%	16,083,065	0.32%
Mobile Homes	10,345,778	0.17%	10,316,304	0.18%	10,655,754	0.21%
Residential Inventory	53,803,161	0.87%	49,955,176	0.87%	33,499,466	0.64%
Special Inventory	<u>20,668,925</u>	<u>0.33%</u>	<u>33,416,530</u>	<u>0.58%</u>	<u>33,371,442</u>	<u>0.64%</u>
<b>Total Appraised Value</b>	\$6,183,547,485	100.00%	\$5,764,517,317	100.00%	\$5,201,334,218	100.00%
Less Exemptions and Exclusions	<u>816,928,133</u>		<u>776,417,760</u>		<u>696,544,157</u>	
<b>Net Taxable Assessed Valuation*</b>	<u>\$5,366,619,352</u>		<u>\$4,988,099,557</u>		<u>\$4,504,790,061</u>	

Source: Information is compiled from data from the Comal Appraisal District and the Guadalupe Appraisal District.

\* Total includes valuations against which a freeze of tax levy has been granted for persons 65 years or older.

**ESTIMATED INTEREST & SINKING FUND MANAGEMENT INDEX 2018/19**

Interest & Sinking Fund Balance at 8-31-2018.....	\$ 1,986,810
Estimated Income from \$0.3258 I&S Tax Rate @ 95% Collected Using 2018 Taxable Assessed Valuation of \$5,366,619,352 .....	16,610,224
Estimated Other Income .....	<u>2,150,000</u>
Estimated Total Funds Available .....	20,747,034
2018/19 Debt Service Requirement .....	<u>15,850,054</u>
Estimated Interest & Sinking Fund Balance at 8-31-2019 .....	\$ 4,896,980

**CONSOLIDATED DEBT SERVICE REQUIREMENTS  
INCLUDING THE BONDS AT ACTUAL RATES**

FISCAL YEAR 31-Aug <sup>(1)</sup>	CURRENTLY OUTSTANDING DEBT SERVICE	LESS REFUNDED OBLIGATIONS DEBT SERVICE	PLUS: THE BONDS AT ACTUAL RATES				GRAND TOTAL ALL DEBT SERVICE
			PRINCIPAL DUE 2/1	INTEREST DUE 2/1	INTEREST DUE 8/1	TOTAL	
2019	\$ 15,634,931.25	\$ 1,529,825.00			\$ 1,744,947.85	\$ 1,744,947.85	\$ 15,850,054.10
2020	15,517,718.75	3,946,062.50	\$ 2,755,000	\$ 1,602,503.13	1,533,628.13	5,891,131.25	17,462,787.50
2021	15,682,706.25	3,885,200.00	2,920,000	1,533,628.13	1,460,628.13	5,914,256.25	17,711,762.50
2022	15,800,662.50	3,825,200.00	2,790,000	1,460,628.13	1,390,878.13	5,641,506.25	17,616,968.75
2023	16,127,581.26	2,641,175.00	1,975,000	1,390,878.13	1,341,503.13	4,707,381.25	18,193,787.51
2024	14,848,218.76	2,578,675.00	1,955,000	1,341,503.13	1,312,178.13	4,608,681.25	16,878,225.01
2025	14,662,543.75	2,510,800.00	1,980,000	1,312,178.13	1,282,478.13	4,574,656.25	16,726,400.00
2026	14,940,106.25	2,691,300.00	2,360,000	1,282,478.13	1,223,478.13	4,865,956.25	17,114,762.50
2027	12,111,625.00	2,618,293.75	2,725,000	1,223,478.13	1,155,353.13	5,103,831.25	14,597,162.50
2028	11,990,281.25	2,537,200.00	3,015,000	1,155,353.13	1,079,978.13	5,250,331.25	14,703,412.50
2029	11,641,912.50	2,459,906.25	3,695,000	1,079,978.13	1,006,078.13	5,781,056.25	14,963,062.50
2030	9,583,890.63	2,655,725.00	3,200,000	1,006,078.13	942,078.13	5,148,156.25	12,076,321.88
2031	9,413,615.63	2,654,750.00	3,265,000	942,078.13	860,453.13	5,067,531.25	11,826,396.88
2032	8,698,200.00	2,656,000.00	3,765,000	860,453.13	801,625.00	5,427,078.13	11,469,278.13
2033	8,541,793.75	2,656,625.00	3,800,000	801,625.00	739,875.00	5,341,500.00	11,226,668.75
2034	8,388,868.75	2,656,375.00	3,835,000	739,875.00	663,175.00	5,238,050.00	10,970,543.75
2035	8,232,593.75	2,659,875.00	3,900,000	663,175.00	585,175.00	5,148,350.00	10,721,068.75
2036	5,410,868.75		2,480,000	585,175.00	535,575.00	3,600,750.00	9,011,618.75
2037	5,256,334.38		2,445,000	535,575.00	486,675.00	3,467,250.00	8,723,584.38
2038	4,781,850.00		2,405,000	486,675.00	438,575.00	3,330,250.00	8,112,100.00
2039	4,559,425.00		2,415,000	438,575.00	390,275.00	3,243,850.00	7,803,275.00
2040	1,984,125.00		3,720,000	390,275.00	315,875.00	4,426,150.00	6,410,275.00
2041			6,335,000	315,875.00	157,500.00	6,808,375.00	6,808,375.00
2042			6,300,000	157,500.00	-	6,457,500.00	6,457,500.00
	<u>\$233,809,853.16</u>	<u>\$47,162,987.50</u>	<u>\$74,035,000</u>	<u>\$21,305,540.63</u>	<u>\$21,447,985.35</u>	<u>\$116,788,525.97</u>	<u>\$303,435,391.63</u>

<sup>(1)</sup> The District's fiscal year is June 30, however, the debt service is shown on an August 31 basis in accordance with reporting to TEA.

**2019/2020 PRO FORMA INTEREST & SINKING FUND MANAGEMENT INDEX**

Estimated Interest & Sinking Fund Balance at 8-31-2019.....	\$ 4,896,980
Estimated Income from \$0.3308 I&S Tax Rate @ 95% Collected Using 2019 Estimated Taxable Assessed Valuation of \$5,634,950,320 .....	17,708,395
Estimated Other Income .....	<u>500,000</u>
Total Estimated Funds Available .....	23,105,375
2018/19 Debt Service Requirement .....	<u>17,462,787</u>
Estimated Interest & Sinking Fund Balance at 8-31-2020.....	\$ 5,642,588

**FIVE-YEAR RECORD OF FINANCIAL OPERATIONS**

The following summary of the District's results of operation reflects the District's historical performance under prior systems of school finance in Texas. For a description of the prior systems, the revised current system, and how the District's future financial performance may be affected by the revised system and ongoing litigation see "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS."

	Year Ended 6/30				
	2018	2017	2016	2015	2014
<b><u>REVENUE</u></b>					
Local Sources	\$ 66,986,309	\$61,666,360	\$55,586,453	\$50,584,421	\$46,343,558
State Sources	19,447,005	20,485,129	22,386,418	23,238,427	22,506,274
Federal Sources	<u>6,294,105</u>	<u>6,196,772</u>	<u>6,066,671</u>	<u>5,516,913</u>	<u>5,539,834</u>
Total all Revenue	92,727,419	88,348,261	84,039,542	79,339,761	74,389,666
<b><u>EXPENDITURES</u></b>					
Instruction	43,330,065	41,851,782	40,159,664	38,430,307	34,161,715
Instruction Related	6,030,106	5,342,886	5,121,612	4,751,223	6,510,078
Pupil Services	14,316,599	11,664,767	11,510,529	10,042,566	8,801,980
General Administration	2,181,680	2,052,391	2,101,555	1,937,702	1,524,639
Debt Service	15,764,828	14,609,935	27,045,692	17,477,548	11,802,670
Plant Maintenance & Operation	8,155,534	6,847,468	6,494,823	6,551,870	6,323,909
Construction/Capital Outlay	7,832,480	55,482,850	6,418,033	394,512	806,019
Data Processing	1,492,702	1,443,640	1,352,416	1,415,655	1,501,453
Community Services	439,663	416,372	420,804	425,234	417,566
Payments to Charter Schools	212,300	77,315	134,211	112,365	113,422
Intergovernmental Charge	<u>626,332</u>	<u>546,862</u>	<u>500,011</u>	<u>465,691</u>	<u>430,962</u>
Total all Expenditures	<u>100,382,289</u>	<u>140,336,268</u>	<u>101,259,350</u>	<u>82,004,673</u>	<u>72,394,413</u>
Total Other Resources and (Uses)	<u>-0-</u>	<u>23,108,349</u>	<u>59,134,697</u>	<u>5,723,018</u>	<u>168,206</u>
Excess (Deficiency) of Revenues and Other Resources Over Expenditures and Other Uses	( 7,654,870 )	( 28,879,658 )	41,914,889	3,058,106	2,163,459
Fund Balance Beginning of Year	66,538,508	95,418,166	53,503,277	50,445,171	48,281,712
Prior Period Adjustment	-0-	-0-	-0-	-0-	-0-
Fund Balance End of Year	<u>\$ 58,883,638</u>	<u>\$66,538,508</u>	<u>\$95,418,166</u>	<u>\$53,503,277</u>	<u>\$50,445,171</u>
General Fund Balance	\$46,309,837	<u>\$46,167,493</u>	<u>\$45,505,205</u>	<u>\$43,366,387</u>	<u>\$39,974,813</u>

	Year Ended 6/30				
	2018	2017	2016	2015	2014
Assessed Valuation	\$4,957,161,948	\$4,212,396,087	\$3,849,024,345	\$3,564,805,018	\$3,259,588,231
Total Tax Rate	\$1.3391	\$1.3391	\$1.3391	\$1.3391	\$1.3391
Percent of Debt Service to Total Expenditures	15.70%	10.41%	26.71%	21.31%	16.30%

Source: The District's audited financial statements.

**APPENDIX B**

**General Information Regarding the District  
and Its Economy**

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## THE DISTRICT

*This Appendix contains a brief discussion of certain economic and demographic characteristics of the area in which the District is located. It does not constitute a part of this Official Statement. Information in this Appendix has been obtained from sources that are believed to be reliable, although no investigation has been made to verify the accuracy of such information.*

### General

New Braunfels Independent School District (the "District") contains 75.7 square miles and is located primarily in Comal County, Texas, with a small portion extending into Guadalupe County, Texas. The District's 2018 population is estimated at 53,789.

### Administration

Policy-making and supervisory functions are the responsibility of and are vested in a seven-member Board of Trustees (the "Board"). Members of the Board serve three-year staggered terms with elections up to now being held each year on the second Saturday in May. The Board delegates administrative responsibilities to the Superintendent of Schools.

### Scholastic Information

The District is designated a Recognized District by the Texas Education Agency. This designation indicates that the district students demonstrate a high level of performance. Texas Education Agency indicators for the Recognized designation are structured to ensure that student performance is at a high level or improving for all students and for students within each subgroup represented within its diverse populations.

District results on statewide assessments have shown increases in all content areas; reading, writing, mathematics, science and social studies. Performance on the State of Texas Assessments of Academic Readiness was consistently above last year's mastery across grade levels and content areas in grades three through eight.

Curricular offerings in the District comply with and extend beyond legal requirements with a comprehensive curriculum for students in grades pre-kindergarten through twelve. There are extensive resources and special offerings for students who are gifted, speakers of other languages, handicapped and/or exhibit special learning problems.

The district is a leader in integrating instruction and technology. Campuses use a variety of technology to facilitate students in critical thinking and deep understanding of content.

### Budget and Personnel

The budget for all funds for the 2018-2019 school year is \$93,932,003. Local contribution is 83.9%; State contribution is 13.8%; Federal and other contribution is 2.3%. The District employs 1,216 professional and supportive staff in 2018-19, with an annual payroll budget exceeding \$64 million.

### Employee Retirement, Teacher Retirement System of Texas

The District has financial responsibility for the Teacher Retirement System of Texas only for the portion of the salaries of professional employees, which earn above the state minimum pay schedule, with employees contributing 6.65% of their annual compensation and the State of Texas contributing 7.31%.

### Food Service

The District operates a central kitchen where food is prepared for ten elementary schools and the Learning Center (the District's alternative campus). The high school and both middle school campuses have their own cooking facilities.

**Present Facilities**

<u>School Facility</u>	<u>Year Occupied</u>	<u>Grade Span</u>	<u>Enrollment (At 12-01-2018)</u>
New Braunfels High School	1964	10-12	1,764
New Braunfels High School Ninth Grade Center	1951	9	723
New Braunfels Middle School	2012	6-8	1,156
OakRun Middle School	1991	6-8	922
Lamar Primary School	1924	K-5	360
Carl Schurz Elementary School	1924	K-5	425
Lone Star Elementary School	1954	EE-PreK	344
Klein Road Elementary School	2008	K-5	590
County Line Elementary School	1986	K-5	374
Memorial Elementary School	1998	K-5	378
Seele Elementary School	1954	K-5	297
Walnut Springs Elementary School	1989	K-5	334
Voss Farms Elementary	2017	K-5	617
Veramendi Elementary	2017	K-5	773
School of Choice	1997	6-12	<u>23</u>
Total .....			9,080

Source: New Braunfels ISD

**Average Daily Attendance and Percentage Increase**

<u>School Year</u>	<u>Enrollment</u>	<u>Refined Average Daily Attendance</u>	<u>% ADA Increase (Decrease)</u>
2008-09	7,471	7,073	2.24%
2009-10	7,809	7,458	5.44%
2010-11	7,918	7,680	2.98%
2011-12	7,965	7,648	(0.41%)
2012-13	8,093	7,769	1.58%
2013-14	8,202	7,873	1.35%
2014-15	8,393	8,057	2.32%
2015-16	8,420	8,083	0.32%
2016-17	8,583	8,068	(0.19%)
2017-18	8,925	8,432	4.51%
2018-19 *	9,237	8,634	2.40%

Source: New Braunfels ISD

\* Fall of 2018

**GENERAL AND STATISTICAL INFORMATION**

**General Information**

The District, located primarily in Comal County, Texas (the "County"), a pioneer German settlement created in 1846 from Bexar, Gonzales and Travis Counties, Texas, is a scenic Southwest county named after the Comal River. The District also extends into part of Guadalupe County.

The City of New Braunfels, Texas (the "City"), the county seat of Comal County, is located in the southeast part of the County approximately twenty-five miles north of San Antonio on Interstate Highway 35 and forty miles south of Austin on Interstate Highway 35.

**Population**

<u>Census Report</u>	<u>City of New Braunfels</u>	<u>Comal County</u>
2018 Est.	76,345	141,009
2010	57,740	108,472
2000	36,464	78,021
1990	30,402	58,905
1980	22,402	36,446
1970	17,859	24,165

**Major Employers**

The County has been economically stable for many years because of the industries located there. A list of the major non-governmental employers, their products and number of employees as reported by the Greater New Braunfels Chamber of Commerce follows:

Name	Product	Approximate Number of Employees
Schlitterbahn	Waterpark and Resort	1,689*
Wal Mart Distribution Center	Distribution Center	1,218
Sysco	Food Products Supplier	864
IBEX Global	Call Center	750
Hunter Industries/Colorado Materials	Highway Contractor/Material Supplier	705
Resolute Health	Hospital	593
HD Supply Facilities Maintenance	Call Center	516
CHRISTUS Santa Rosa Hospital - New Braunfels	Hospital	460
GE Oil & Gas	Natural Gas	400
Buc-ees	Convenience Store	342
Rush Enterprises, Inc.	Heavy Duty Truck Dealer	330

\* The Schlitterbahn Water Park, located on 100 acres in the City, is a large seasonal employer. The operating season is Memorial Day through Labor Day, during which time approximately 1,800 people are employed.

In addition to the foregoing, estimated County, City and School District current employment figures follow:

Comal County .....	683*
City of New Braunfels .....	550*
New Braunfels Utilities .....	243
New Braunfels ISD .....	1,040
Comal ISD .....	2,559

\* Includes part-time and seasonal employees.

**Area Growth Statistics**

Year	Building Permits <sup>(1)</sup>	Utility Customer Count			
		Water <sup>(2)</sup>	Sewer <sup>(2)</sup>	Electric <sup>(2)</sup>	Gas <sup>(1)</sup>
2006	\$259,335,486	19,753	17,430	26,087	7,500
2007	243,877,007	20,729	18,281	27,000	7,733
2008	276,318,949	21,613	18,955	28,219	7,820
2009	227,485,081	22,457	19,358	28,894	7,747
2010	169,426,903	23,440	19,958	29,595	7,924
2011	184,328,445	24,436	20,488	30,252	8,102
2012	189,047,419	25,588	21,097	31,061	8,184
2013	398,197,600	27,303	21,942	32,404	8,364
2014	409,183,529	29,089	22,885	33,975	8,742
2015	223,638,556	31,415	24,034	35,455	9,117
2016	n/a	33,550	25,072	36,914	n/a
2017	n/a	36,140	26,294	38,867	n/a

(1) Source: Greater New Braunfels Chamber of Commerce. Beginning 2015 Building Permits no longer includes County values; gas statistics not available.

(2) Source: New Braunfels Utilities 2017 Comprehensive Annual Financial Report (fiscal year).

**Labor Force Statistics - Comal County**

	Annual Average				
	2017	2016	2015	2014	2013
Civilian Labor Force	66,826	63,539	61,696	58,965	58,132
Total Employed	<u>64,580</u>	<u>61,229</u>	<u>59,430</u>	<u>56,294</u>	<u>54,704</u>
Total Unemployed	2,246	2,310	2,266	2,671	3,428
% Unemployed	3.4%	3.6%	3.7%	4.5%	5.9%
% Unemployed (Texas)	4.3%	4.6%	4.4%	5.1%	6.2%
% Unemployed (United States)	4.4%	4.9%	5.3%	6.2%	7.4%

Source: Texas Workforce Commission - Economic Research and Analysis Department, and United States Department of Labor.

**Employment and Wages by Industry - Comal County**

	Number of Employees			
	Fourth Quarter	Fourth Quarter	Fourth Quarter	Fourth Quarter
	2017	2016	2015	2014
Natural Resources and Mining	609	537	538	362
Construction	5,662	5,220	4,773	4,397
Manufacturing	3,018	2,942	2,939	2,931
Trade, Transportation & Utilities	12,918	13,090	11,618	11,059
Information	593	583	571	549
Financial Activities	1,744	1,483	1,481	1,391
Professional and Business Services	6,518	5,305	4,798	4,048
Education and Health Services	6,880	6,605	6,536	6,644
Leisure and Hospitality	8,328	7,607	8,501	6,714
Other Services	1,717	1,827	1,406	1,513
Unclassified	70	58	10	24
Federal Government	210	206	168	165
State Government	171	183	170	168
Local Government	<u>5,651</u>	<u>5,523</u>	<u>5,486</u>	<u>5,334</u>
Total Employment	54,091	51,170	48,995	45,299
Total Wages	\$602,993,971	\$556,743,327	\$471,117,915	\$475,476,034

Source: Labor Market and Career Information Department, Texas Workforce Commission.

**Agriculture**

Agriculture continues as an important source of income to the area. According to latest statistics from the Annual Agricultural Increment Report, Comal County's annual income from agriculture is estimated at \$5.2 million. Some of the products include corn, hay, milo, wheat, oat, pecan and nursery crops; goat, beef, hog, horse, sheep, wool and mohair production; Christmas trees; hunting and recreation.

**Commercial**

The County has a wide range of commercial establishments including restaurants, motels, food stores, manufacturing, professional services, retail stores, and service stations. Those in the Canyon Lake area include motels, Cranes Mill Marina and Canyon Lake Marinas, Inc.

**Community Services**

The New Braunfels and Canyon Lake area contains approximately 26 motels/hotels, 27 resorts and condominiums, 22 campgrounds and RV parks, and 28 bed and breakfast/vacation home rentals. In addition, there are numerous other facilities available in San Antonio and adjoining towns.

The City has several museums, a library, two radio stations, and a newspaper which is published six days a week. In addition, one weekly newspaper is published in Comal County. Both the San Antonio and Austin daily newspapers are available. There are numerous radio stations, three commercial television stations, cable and satellite television, and one educational television station in San Antonio that serve the New Braunfels area.

Over thirty denominations are represented in more than seventy churches in the City. Those not represented generally are available in nearby San Antonio.

The Brauntex Performing Arts Theatre and Circle Arts Theatre provide live entertainment and theatre in New Braunfels. The Mid-Texas Symphony, a professional orchestra, is performing in its 39<sup>th</sup> season of concerts in New Braunfels and Seguin.

**Educational Facilities**

Other local public school facilities are provided through the Comal Independent School District. Enrollment records follow:

School Year	Comal ISD	
	Membership	Avg. Daily Attendance
2007-08	15,100	14,285
2008-09	16,010	15,141
2009-10	16,485	15,647
2010-11	17,190	16,262
2011-12	17,657	16,849
2012-13	18,643	17,611
2013-14	19,452	18,502
2014-15	20,155	19,225
2015-16	20,922	20,100
2016-17	22,049	21,036
2017-18	23,105	22,042
2018-19 *	24,042	22,790

Source: Comal ISD.

\* Estimates as of Fall 2018.

The preceding enrollment figures do not include enrollment at the four private and parochial schools.

Higher educational facilities include Texas Lutheran University - Seguin, approximately 13 miles from New Braunfels; Texas State University - San Marcos, approximately 15 miles from New Braunfels; and eight colleges and/or universities located in San Antonio, approximately 35 miles from New Braunfels. Planned higher educational facilities include the future Howard-Payne University campus which will be part of the proposed Veramendi development project. Currently, Howard-Payne University offers courses at New Braunfels High School and online. In addition, Wayland Baptist University has moved into a 10,000 sq. ft. educational space adding more higher education opportunities in the surrounding community.

The Central Texas Technology Center. The CTTC is a District Workforce Specialty Campus. It is the area’s first higher education facility dedicated to technology and it is a collaborative effort of the governing bodies and business development agencies of New Braunfels, Seguin and the Alamo Colleges. Alamo Colleges runs the programs and classes that provide college level education and training to residents of Comal, Guadalupe, Hays, Bexar and Wilson counties. In 2015, The U.S. Department of Commerce and Economic Development Administration awarded Alamo Colleges at \$1.25 million dollar grant to help double the size of the CTTC. These funds joined \$5 million already committed to the project and paved the way for the expansion project which was completed in 2016.

**Health Care**

The City has two hospitals, CHRISTUS Santa Rosa Hospital-New Braunfels (CSRH-NB) and Resolute Health. CSRH-NB is a full-service, 94-private bed facility that continues to expand to meet the needs of New Braunfels’ strong population growth. CSRH-NB employs more than 475 full and part time Associates and provides privileges to more than 150 physician staff members and nearly 100 volunteers. Innovative equipment and procedures are utilized, including an Outpatient Imaging Center, orthopedic and surgical services, rehabilitation, a renovated birthing center, including 24/7 neonatal coverage, emergency care, wound care/hyperbaric center, comprehensive heart care, from diagnostics to open-heart surgery, and a freestanding Emergency Center at Creekside Town Center. Resolute Health opened in June 2014 and employs about 600 associates. Resolute Health invested \$250 million into the 365,000 square-foot facility which has 125 beds in all-private rooms and offers a broad range of specialty services, including cardiovascular, orthopedics, oncology, imaging, wound care, rehabilitation and obstetrics. It is the only Level III neonatal intensive care unit in the area. The new hospital serves as the cornerstone of Resolute Health, a network of care in New Braunfels, which is located roughly 30 miles northeast of San Antonio. New Braunfels Regional Rehabilitation Hospital is a 40-bed hospital that specializes in severe head and neck/stroke patients. More than 160 employees work at the \$28 million dollar, 40-bed facility. Bexar County, University of Texas and U. S. Veterans Administration medical facilities are located in nearby northwest San Antonio.

## **Tourism and Recreation**

Located in the heart of the City are Comal Springs and Landa Park, a 300-acre park, which includes an 18-hole golf course, tennis courts, large picnic and playground areas, an Olympic-size swimming pool, and the largest spring-fed swimming pool in Texas. Schlitterbahn Waterpark Resort in New Braunfels is recognized annually as one of the best waterparks in the country. Numerous additional golf courses are available in the region.

Natural Bridge Caverns, the state's largest caverns, and Natural Bridge Wildlife Ranch are major tourist attractions located in the southern part of Comal County. Scenic drives and historic sites also attract many tourists to the area.

Canoeing, tubing, rafting, kayaking and other white water sports on the Guadalupe River are very popular.

Canyon Lake, located twenty miles from the City, is a popular water-resort area for sailing, boating, fishing, water skiing and scuba diving. Several parks have been established around the Lake.

Annual celebrations include the Comal County Fair, one of the oldest and best attended County fairs in the State, and the "Wurstfest." The annual "Wurstfest" is a ten-day event and always starts on the Friday before the first Monday in November. The 58th annual "Wurstfest" was held November 2 through November 11. Average annual attendance exceeds 125,000 with income from admissions and concessions sales well in excess of \$3,000,000.

The City constructed a Civic Center in 1971 which contributes materially to tourist income. In addition, the City built a new civic center and renovated the existing space in July 2008.

## **Transportation**

The City is served by Interstate Highway 35 (U.S. 81) and State Highway 46. Loop 337 circles the City and numerous Farm and Ranch Roads traverse the County. Railroads include the Union Pacific and Missouri Kansas and Texas Lines. The City's airport facility encompasses 1,000 acres and has four runways, four taxiways, and a parking ramp. The airport runways are of all asphalt construction with threshold lights and full runway lights. Jet fuel, aviation gas, and car rentals are available at the airport. The airport, located some four miles from the City, is reported to have an average of 75 flights per day. The New Braunfels Airport is also used for corporate flights. Greyhound/Trailways Bus Lines and several motor freight lines also serve the City.

## **Utilities**

The Guadalupe River provides NBU and the City of New Braunfels with a source of good quality and quantity of water. Well water from the Edwards Aquifer and the Trinity Aquifer is also available in most of the unincorporated areas of the County. The Guadalupe River, Comal River and Canyon Lake help to assure future water supply. Sale of water from Canyon Lake is in the control of the Guadalupe-Blanco River Authority. Water districts serve the eastern part of the County.

Electricity is available throughout the City and is provided by NBU which also serves approximately 5,300 customers in the surrounding rural area. GVEC and PEC also provide electric services to some areas of the City.

Natural Gas is available to the residents of the City from Enterprise Texas Pipeline, L.P., and distributed by Centerpoint Energy. In other areas where natural gas is not available, butane and propane gas service is available by truck delivery.

The City's telephone service is provided by AT&T, Inc. and Time Warner Cable, with other County areas being served by the Guadalupe Valley Telephone Cooperative (GVTC).

## **APPENDIX C**

### **Audited Financial Statements**

The information contained in this appendix consists of the New Braunfels Independent School District Audited Financial Statements (the "Report") for the fiscal year ended June 30, 2018.

The information presented represents only a part of the Report and does not purport to be a complete statement of the District's financial condition. Reference is made to the complete Annual Audit Report for additional information.

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*ANNUAL FINANCIAL REPORT*

of the

**NEW BRAUNFELS  
INDEPENDENT SCHOOL DISTRICT**

For the Year Ended  
June 30, 2018

***INTRODUCTORY SECTION***

CERTIFICATE OF BOARD

New Braunfels Independent School District      Comal      046-901  
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 June 30, 2018, at a meeting of the Board of Trustees of such school district on the 12<sup>th</sup> day of November, 2018.



Signature of Board Secretary



Signature of Board President

If the Board of Trustees disapproved of the auditors' report, the reason(s) for disapproving it is (are):

(attach list as necessary)

***FINANCIAL SECTION***



## ***INDEPENDENT AUDITORS' REPORT***

To the Board of Trustees of  
New Braunfels Independent School District:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of New Braunfels Independent School District (the "District"), as of and for the year ended June 30, 2018, 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.

### **Auditors' 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 auditors' 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2018, 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.

## **Emphasis of Matter**

### *Change in Accounting Principle*

In 2018, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

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

### *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, other supplementary information, and the schedule of required responses to selected school first indicators are presented for purposes of additional analysis and are not required parts 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 schedule of expenditures of federal awards, and other supplementary information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted

in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, the schedule of expenditures of federal awards, and other supplementary information are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section and the schedule of required responses to selected school first indicators have 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 them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2018 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 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.

*BELT HARRIS PECHACEK, LLLP*

Belt Harris Pechacek, LLLP  
*Certified Public Accountants*  
Houston, Texas  
November 2, 2018

***MANAGEMENT'S DISCUSSION  
AND ANALYSIS***



# **NEW BRAUNFELS INDEPENDENT SCHOOL DISTRICT**

## ***MANAGEMENT'S DISCUSSION AND ANALYSIS***

**For the Year Ended June 30, 2018**

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of New Braunfels Independent School District (the "District") for the year ending June 30, 2018. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the District's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the District's financial statements, which follow this section.

### **FINANCIAL HIGHLIGHTS**

- The District's total combined net position at June 30, 2018 was \$7,795,527.
- For the year, the District's general fund reported a total fund balance of \$46,309,837, of which \$1,202,787 is nonspendable for inventories and prepaid items; \$9,148,916 is committed for land acquisition, construction, and technology and equipment; and \$35,958,134 is unassigned.
- At the end of the year, the District's governmental funds (the general fund plus all state and federal grant funds, the debt service fund, and the capital projects fund) reported a combined ending fund balance of \$58,883,638.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The annual report consists of three parts – *Management's Discussion and Analysis* (this section), the *Basic Financial Statements*, and *Required Supplementary Information*. The basic statements include two kinds of statements that present different views of the District.

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in more detail than the government-wide statements.
- The *governmental funds* statements tell how *general government* services were financed in the *short-term* as well as what remains for future spending.
- The *proprietary fund* statements provide additional detail for the business-type activities information shown in the District's *government-wide financial statements* and information related to the District's internal service funds.
- *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the fiduciary resources belong. This fund includes student activity funds.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The notes to the financial statements are followed by a section entitled *Required Supplementary Information* that further explains and supports the information in the financial statements.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)*  
For the Year Ended June 30, 2018

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The government-wide statements report information about the District as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the District as an economic entity. The Statement of Net Position and the Statement of Activities, which appear first in the District's financial statements, report information on the District's activities that enable the reader to understand the financial condition of the District. These statements are prepared using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

The Statement of Net Position presents information on all of the District's assets, liabilities, and deferred outflows/inflows of resources, with the difference 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. Other nonfinancial factors, such as changes in the District's tax base, staffing patterns, enrollment, and attendance, need to be considered in order to assess the overall health of the District.

The Statement of Activities presents information showing how the District's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities include the following classes of activities:

*Governmental Activities* – Most of the District's basic services such as instruction, extracurricular activities, curriculum and staff development, health services, general administration, and plant operation and maintenance are included in *governmental activities*. Locally assessed property taxes, together with State foundation program entitlements, which are based upon student enrollment and attendance, finance most of the governmental activities.

*Business-Type Activities* – Services involving a fee for those services are reported here. These services include athletic camps.

The government-wide financial statements can be found after the MD&A.

**FUND FINANCIAL STATEMENTS**

The fund financial statements provide more detail information about the District's most significant funds – not the District as a whole. Funds are simply accounting devices that are used to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and other funds are mandated by bond agreements or bond covenants.
- The Board of Trustees establishes other funds to control and manage money set aside for particular purposes or to show that the District is properly using certain taxes and grants.
- Other funds are used to account for assets held by the District in a custodial capacity – these assets do not belong to the District, but the District is responsible to properly account for them.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)*  
For the Year Ended June 30, 2018

The District has the following kinds of funds:

- *Governmental Funds* – Most of the District's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- *Proprietary Funds* – The District operates various summer athletic camps primarily for students enrolled in the District. These programs are financed through the collection of fees and tuition from participating students. The proprietary funds also show the activity of internal services offered throughout the District including health insurance, workers' compensation insurance, and usage of the District's central office copiers. These funds are shown in a separate statement of proprietary net position and statement of changes in proprietary net position.
- *Fiduciary funds* – The District serves as the trustee, or fiduciary, for certain funds such as student activity funds. The District 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. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its governmental operations.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended June 30, 2018**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

The District's combined net position was \$7,795,527 at year end. *Table 1* focuses on net position while *Table 2* shows the revenues and expenses that changed the net position balance during the year. The District reported an increase of \$13,939,799 in net position from the prior year. Total revenue decreased by \$7,956,919 primarily due to decreases in operating grants and contributions related to on-behalf revenues in association with the TRS-Care OPEB plan. In addition, total expenses decreased by \$14,462,231 primarily due to a decrease in instruction related expenses related to on-behalf amounts from the state in association with TRS-Care.

**Table 1**  
**Net Position**

Description	Governmental Activities		Total Change 2017-2018	Business-Type Activities		Total Change 2017-2018
	2018	2017		2018	2017	
Current assets	\$ 72,503,453	\$ 81,954,448	\$ (9,450,995)	\$ 69,769	\$ -	\$ 69,769
Capital assets	178,546,338	175,180,812	3,365,526	-	-	-
<b>Total Assets</b>	<b>251,049,791</b>	<b>257,135,260</b>	<b>(6,085,469)</b>	<b>69,769</b>	<b>-</b>	<b>69,769</b>
Deferred charge on refunding	1,880,349	2,181,384	(301,035)	-	-	-
Deferred outflows - pensions	4,834,126	6,266,350	(1,432,224)	-	-	-
Deferred outflows - OPEB	399,733	296,344	103,389	-	-	-
<b>Total Deferred Outflows of Resources</b>	<b>7,114,208</b>	<b>8,744,078</b>	<b>(1,629,870)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Current liabilities	11,208,260	13,818,968	(2,610,708)	69,769	-	69,769
Long-term liabilities	226,934,444	257,303,754	(30,369,310)	-	-	-
<b>Total Liabilities</b>	<b>238,142,704</b>	<b>271,122,722</b>	<b>(32,980,018)</b>	<b>69,769</b>	<b>-</b>	<b>69,769</b>
Deferred inflows - pensions	2,077,139	900,888	1,176,251	-	-	-
Deferred inflows - OPEB	10,148,629	-	10,148,629	-	-	-
<b>Total Deferred Inflows of Resources</b>	<b>12,225,768</b>	<b>900,888</b>	<b>11,324,880</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Position:</b>						
Net investment in capital assets	5,251,052	428,879	4,822,173	-	-	-
Restricted	5,378,135	5,904,275	(526,140)	-	-	-
Unrestricted	(2,833,660)	(12,477,426)	9,643,766	-	-	-
<b>Total Net Position</b>	<b>\$ 7,795,527</b>	<b>\$ (6,144,272)</b>	<b>\$ 13,939,799</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)*  
For the Year Ended June 30, 2018

**Table 2**  
**Changes in Net Position**

	Governmental Activities		Total Change	Business-Type Activities		Total Change
	2018	2017	2017-2018	2018	2017	2017-2018
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 1,733,496	\$ 1,635,501	\$ 97,995	\$ 102,677	\$ 80,536	\$ 22,141
Operating grants and contributions	(6,231,812)	6,050,770	(12,282,582)	-	-	-
General revenues:						
Property taxes	62,357,281	56,582,155	5,775,126	-	-	-
Grants and contributions not restricted for specific programs	22,355,821	23,598,534	(1,242,713)	-	-	-
Investment earnings	1,085,721	748,541	337,180	-	-	-
Other revenue	1,999,034	2,640,959	(641,925)	-	-	-
<b>Total Revenue</b>	<u>83,299,541</u>	<u>91,256,460</u>	<u>(7,956,919)</u>	<u>102,677</u>	<u>80,536</u>	<u>22,141</u>
<b>Expenses</b>						
Instruction	31,643,952	44,543,358	(12,899,406)	-	-	-
Instructional resources and media services	1,415,922	1,153,232	262,690	-	-	-
Curriculum/instructional staff development	741,322	1,289,387	(548,065)	-	-	-
Instructional leadership	575,203	942,082	(366,879)	-	-	-
School leadership	3,800,689	4,849,929	(1,049,240)	-	-	-
Guidance, counseling, and evaluation services	1,849,839	2,710,673	(860,834)	-	-	-
Social work services	245,815	230,546	15,269	-	-	-
Health services	717,500	850,838	(133,338)	-	-	-
Student (pupil) transportation	2,966,032	2,431,469	534,563	-	-	-
Food services	3,137,966	3,517,940	(379,974)	-	-	-
Extracurricular activities	3,935,061	3,034,352	900,709	102,677	80,536	22,141
General administration	1,888,993	2,316,812	(427,819)	-	-	-
Plant maintenance and operations	7,336,430	7,050,132	286,298	-	-	-
Security and monitoring services	476,041	225,292	250,749	-	-	-
Data processing services	1,277,336	1,542,580	(265,244)	-	-	-
Community services	260,004	456,795	(196,791)	-	-	-
Debt service - interest on long-term debt	6,253,005	6,052,379	200,626	-	-	-
Payments to fiscal agent/member districts of SSA	212,300	77,315	134,985	-	-	-
Other intergovernmental charges	626,332	546,862	79,470	-	-	-
<b>Total Expenses</b>	<u>69,359,742</u>	<u>83,821,973</u>	<u>(14,462,231)</u>	<u>102,677</u>	<u>80,536</u>	<u>22,141</u>
<b>Change in Net Position</b>	13,939,799	7,434,487	6,505,312	-	-	-
Beginning net position	(6,144,272)	(13,578,759)	7,434,487	-	-	-
<b>Ending Net Position</b>	<u>\$ 7,795,527</u>	<u>\$ (6,144,272)</u>	<u>\$ 13,939,799</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)*  
For the Year Ended June 30, 2018

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

At the close of the fiscal year ending June 30, 2018, the District's governmental funds reported a combined fund balance of \$58,883,638. This compares to a combined fund balance of \$66,538,508 at June 30, 2017. The fund balance in the general fund increased by \$142,344 primarily due to increased property tax revenue and a decrease in instruction related expenses. The debt service and capital projects fund both experienced decreases in the current year primarily due to increases in debt payments and use of funds for ongoing construction projects, respectively.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

In accordance with State law and generally accepted accounting standards, the District prepares an annual budget for the general fund, the food service special revenue fund, and the debt service fund. Special revenue funds have budgets approved by the funding agency and are amended throughout the year as required.

During the period ended June 30, 2018, the District amended its budget as required by State law and to reflect current levels of revenue and anticipated expenses. The general fund's actual revenues exceeded budgeted revenues by \$2,120,223 due to an increase in foundation revenue that was not budgeted. Budgeted expenditures exceeded actual expenditures by \$4,603,988 primarily due to less instruction and extracurricular activities expenses incurred than appropriated.

**CAPITAL ASSETS**

Capital assets are generally defined as those items that have useful lives of two years or more and have an initial cost or value (if donated) of an amount determined by the Board. During the year, the District used a capitalization threshold of \$5,000, which means that all capital type assets, including library books, with a cost or initial value of less than \$5,000 were not included in the capital assets inventory.

At year end, the District had a total of \$178,546,338 invested in capital assets (net of depreciation) such as land, construction in progress, buildings, and District equipment. This total includes \$69,657,288 invested during the fiscal year ended June 30, 2018.

More detailed information about the District's capital assets can be found in note III.B. to the financial statements.

**LONG-TERM DEBT**

At year end, the District had \$168,530,168 in general obligation bonds outstanding versus \$176,481,374 last year.

More detailed information about the District's long-term liabilities is presented in note III.C. to the financial statements.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)*  
For the Year Ended June 30, 2018

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

Local economic growth continues in the area, as the U.S. Census Bureau latest population estimates has listed Comal County as the second fastest growing county in the nation. This growth is driving an increase in local property values and student enrollment.

The unemployment rate in the San Antonio-New Braunfels metropolitan area continues to be lower than the overall state unemployment rate – 3.0% in the New Braunfels area versus 4.1% statewide, as of May 2018.

The District maintains a conservative practice in budgeting and operation. The proposed 2018 Bond issue is for \$118.3 million will primarily be used for a new middle school and a new elementary campus. Security, expansion of an elementary campus and renovations district wide round out the proposed projects for the 2018 Bond issue. If successful, the I & S tax rate impact would be between \$0.00 and \$.04 dependent on student population growth and taxable value increases.

The District adopted a general fund budget for 2018-2019 of \$71,391,196. Through the 2017-2018 school year, the District's Maintenance & Operations (M&O) and Interest & Sinking (I&S) tax rate had not been increased since 2007. For the 2018-2019 school year, New Braunfels ISD increased the M&O tax rate to \$1.04 per one-hundred-dollar valuation, a \$.0267 (2.67) cents increase. This was done primarily to maximize State Funding available to NBISD through the State's school funding formula.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office at 430 W. Mill Street, New Braunfels, Texas, 78130 or by calling (830) 643-5700.

***BASIC FINANCIAL STATEMENTS***



# NEW BRAUNFELS INDEPENDENT SCHOOL DISTRICT

## STATEMENT OF NET POSITION - EXHIBIT A-1

June 30, 2018

Data Control Codes		1 Governmental Activities	2 Business-Type Activities	3 Total
	<b><u>Assets</u></b>			
1110	Cash and cash equivalents	\$ 2,401,877	\$ -	\$ 2,401,877
1120	Investments	63,263,761	-	63,263,761
1225	Property taxes receivable (net)	2,168,271	-	2,168,271
1240	Due from other governments	3,484,844	-	3,484,844
1260	Internal balances	(69,769)	69,769	-
1267	Due from fiduciary funds	6,685	-	6,685
1290	Other receivables (net)	32,452	-	32,452
1300	Inventories	45,434	-	45,434
1410	Prepaid items	1,169,898	-	1,169,898
		<u>72,503,453</u>	<u>69,769</u>	<u>72,573,222</u>
	Capital assets:			
1510	Land	7,818,270	-	7,818,270
1520	Buildings and improvements, net	166,895,159	-	166,895,159
1530	Equipment and vehicles, net	3,139,148	-	3,139,148
1580	Construction in progress	693,761	-	693,761
		<u>178,546,338</u>	<u>-</u>	<u>178,546,338</u>
1000	<b>Total Assets</b>	<u>251,049,791</u>	<u>69,769</u>	<u>251,119,560</u>
	<b><u>Deferred Outflows of Resources</u></b>			
1700	Deferred charge on refunding	1,880,349	-	1,880,349
1705	Deferred outflows - pensions	4,834,126	-	4,834,126
1710	Deferred outflows - OPEB	399,733	-	399,733
	<b>Total Deferred Outflows of Resources</b>	<u>7,114,208</u>	<u>-</u>	<u>7,114,208</u>
	<b><u>Liabilities</u></b>			
2110	Accounts payable	844,825	-	844,825
2140	Interest payable	2,964,950	-	2,964,950
2165	Accrued liabilities	6,925,277	-	6,925,277
2180	Due to other governments	95,528	-	95,528
2300	Unearned revenue	377,680	69,769	447,449
		<u>11,208,260</u>	<u>69,769</u>	<u>11,278,029</u>
	Noncurrent liabilities:			
2501	Long-term liabilities due within one year	8,885,334	-	8,885,334
2502	Long-term liabilities due in more than one year	180,207,449	-	180,207,449
2540	Net pension liability	13,580,167	-	13,580,167
2550	Net OPEB liability	24,261,494	-	24,261,494
2000	<b>Total Liabilities</b>	<u>238,142,704</u>	<u>69,769</u>	<u>238,212,473</u>
	<b><u>Deferred Inflows of Resources</u></b>			
2605	Deferred inflows - pensions	2,077,139	-	2,077,139
2610	Deferred inflows - OPEB	10,148,629	-	10,148,629
	<b>Total Deferred Inflows of Resources</b>	<u>12,225,768</u>	<u>-</u>	<u>12,225,768</u>
	<b><u>Net Position</u></b>			
3200	Net investment in capital assets	5,251,052	-	5,251,052
	Restricted for:			
3820	Federal and state programs	(106,088)	-	(106,088)
3850	Debt service	4,883,485	-	4,883,485
3870	Campus activities	600,738	-	600,738
3900	Unrestricted	(2,833,660)	-	(2,833,660)
3000	<b>Total Net Position</b>	<u>\$ 7,795,527</u>	<u>\$ -</u>	<u>\$ 7,795,527</u>

See Notes to Financial Statements.

**NEW BRAUNFELS  
INDEPENDENT SCHOOL DISTRICT**  
*STATEMENT OF ACTIVITIES - EXHIBIT B-1*  
For the Year Ended June 30, 2018

Data Control Codes	Functions/Programs	1 Expenses	Program Revenues	
			3 Charges for Services	4 Operating Grants and Contributions
<b>Primary Government</b>				
<b>Governmental Activities</b>				
11	Instruction	\$ 31,643,952	\$ 144,382	\$ (4,920,796)
12	Instructional resources			
12	and media services	1,415,922	-	(116,532)
13	Curriculum/instructional staff development	741,322	-	(31,273)
21	Instructional leadership	575,203	-	(125,395)
23	School leadership	3,800,689	-	(911,860)
31	Guidance, counseling, and			
31	evaluation services	1,849,839	-	(314,450)
32	Social work services	245,815	-	36,144
33	Health services	717,500	-	(135,272)
34	Student (pupil) transportation	2,966,032	-	(261,463)
35	Food services	3,137,966	1,250,852	1,498,425
36	Extracurricular activities	3,935,061	338,262	(214,333)
41	General administration	1,888,993	-	(379,017)
51	Plant maintenance and operations	7,336,430	-	(436,443)
52	Security and monitoring services	476,041	-	(16,515)
53	Data processing services	1,277,336	-	(172,326)
61	Community services	260,004	-	56,994
72	Debt service - interest on long-term debt	6,253,005	-	-
93	Payments to fiscal agent/member			
93	districts of SSA	212,300	-	212,300
99	Other intergovernmental charges	626,332	-	-
TG	<b>Total Governmental Activities</b>	<u>69,359,742</u>	<u>1,733,496</u>	<u>(6,231,812)</u>
<b>Business-Type Activities</b>				
01	Athletic camps	102,677	102,677	-
TB	<b>Total Business-Type Activities</b>	<u>102,677</u>	<u>102,677</u>	<u>-</u>
TP	<b>Total Primary Government</b>	<u>\$ 69,462,419</u>	<u>\$ 1,836,173</u>	<u>\$ (6,231,812)</u>
<b>General Revenues</b>				
MT	Property taxes, levied for general purposes			
DT	Property taxes, levied for debt service			
GC	Grants and contributions not restricted			
GC	for specific programs			
IE	Investment earnings			
MI	Miscellaneous local and intermediate revenue			
TR	<b>Total General Revenues</b>			
CN	<b>Change in Net Position</b>			
NB	Beginning net position			
NE	<b>Ending Net Position</b>			

See Notes to Financial Statements.

<b>Net (Expense) Revenue and Changes in Net Position</b>		
<b>6</b>	<b>7</b>	<b>8</b>
<b>Primary Government</b>		
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ (36,420,366)	\$ -	\$ (36,420,366)
(1,532,454)	-	(1,532,454)
(772,595)	-	(772,595)
(700,598)	-	(700,598)
(4,712,549)	-	(4,712,549)
(2,164,289)	-	(2,164,289)
(209,671)	-	(209,671)
(852,772)	-	(852,772)
(3,227,495)	-	(3,227,495)
(388,689)	-	(388,689)
(3,811,132)	-	(3,811,132)
(2,268,010)	-	(2,268,010)
(7,772,873)	-	(7,772,873)
(492,556)	-	(492,556)
(1,449,662)	-	(1,449,662)
(203,010)	-	(203,010)
(6,253,005)	-	(6,253,005)
-	-	-
(626,332)	-	(626,332)
<u>(73,858,058)</u>	<u>-</u>	<u>(73,858,058)</u>
-	-	-
-	-	-
<u>(73,858,058)</u>	<u>-</u>	<u>(73,858,058)</u>
47,302,067	-	47,302,067
15,055,214	-	15,055,214
22,355,821	-	22,355,821
1,085,721	-	1,085,721
1,999,034	-	1,999,034
<u>87,797,857</u>	<u>-</u>	<u>87,797,857</u>
13,939,799	-	13,939,799
(6,144,272)	-	(6,144,272)
<u>\$ 7,795,527</u>	<u>\$ -</u>	<u>\$ 7,795,527</u>

# NEW BRAUNFELS INDEPENDENT SCHOOL DISTRICT

## BALANCE SHEET GOVERNMENTAL FUNDS - EXHIBIT C-1 June 30, 2018

Data Control Codes	10 General	50 Debt Service	60 Capital Projects	Other Governmental Funds	
<b>Assets:</b>					
1110	Cash and cash equivalents	\$ 1,092,886	\$ -	\$ -	\$ 833,234
1120	Investments	49,259,360	5,068,066	7,267,440	-
1220	Taxes receivable	1,713,158	548,914	-	-
1230	Allowance for uncollectible taxes	(72,022)	(21,779)	-	-
1240	Due from other governments	3,232,255	-	-	252,589
1260	Due from other funds	416,914	57,017	17,200	228,234
1267	Due from fiduciary funds	6,685	-	-	-
1290	Other receivables	16,178	-	(16,795)	33,069
1300	Inventories	32,889	-	-	12,545
1410	Prepaid items	1,169,898	-	-	-
1000	<b>Total Assets</b>	<u>\$ 56,868,201</u>	<u>\$ 5,652,218</u>	<u>\$ 7,267,845</u>	<u>\$ 1,359,671</u>
<b>Liabilities:</b>					
2110	Accounts payable	\$ 298,988	\$ -	\$ 326,321	\$ 219,516
2150	Payroll deductions payable	509,809	-	-	-
2160	Accrued wages payable	6,042,617	-	-	-
2170	Due to other funds	1,526,655	-	-	328,560
2180	Due to other governments	90,646	-	-	4,882
2200	Accrued expenditures	372,851	-	-	-
2300	Unearned revenue	75,662	-	-	299,518
2000	<b>Total Liabilities</b>	<u>8,917,228</u>	<u>-</u>	<u>326,321</u>	<u>852,476</u>
<b>Deferred Inflows of Resources:</b>					
2600	Unavailable revenue - property taxes	1,641,136	527,136	-	-
<b>Fund Balances:</b>					
Nonspendable:					
3410	Inventories	32,889	-	-	12,545
3430	Prepaid items	1,169,898	-	-	-
Restricted:					
3450	Grant funds	-	-	-	(106,088)
3470	Capital acquisitions and contracts	-	-	6,941,524	-
3480	Debt service	-	5,125,082	-	-
3490	Other restrictions of fund balance	-	-	-	600,738
Committed:					
3510	Construction	9,139,826	-	-	-
3530	Capital expenditures for equipment	9,090	-	-	-
3600	Unassigned	35,958,134	-	-	-
3000	<b>Total Fund Balances</b>	<u>46,309,837</u>	<u>5,125,082</u>	<u>6,941,524</u>	<u>507,195</u>
4000	<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<u>\$ 56,868,201</u>	<u>\$ 5,652,218</u>	<u>\$ 7,267,845</u>	<u>\$ 1,359,671</u>

See Notes to Financial Statements.

**98**  
**Total**  
**Governmental**  
**Funds**

---

\$ 1,926,120  
61,594,866  
2,262,072  
(93,801)  
3,484,844  
719,365  
6,685  
32,452  
45,434  
1,169,898  
\$ 71,147,935

\$ 844,825  
509,809  
6,042,617  
1,855,215  
95,528  
372,851  
375,180  
10,096,025

2,168,272

45,434  
1,169,898

(106,088)  
6,941,524  
5,125,082  
600,738

9,139,826  
9,090  
35,958,134  
58,883,638

\$ 71,147,935

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**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION - EXHIBIT C-1R**  
June 30, 2018

Total fund balances for governmental funds \$ 58,883,638

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.

Capital assets - nondepreciable	8,512,031	
Capital assets - depreciable	<u>170,034,307</u>	178,546,338

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	2,168,272
---	-----------

The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position.	3,208,233
--	-----------

Some liabilities, and deferred out/inflows, including bonds payable, are not reported as liabilities in the governmental funds.

Accrued interest	(2,964,950)	
Deferred charge on refunding	1,880,349	
Deferred outflows - pensions	4,834,126	
Deferred inflows - pensions	(2,077,139)	
Deferred outflows - OPEB	399,733	
Deferred inflows - OPEB	(10,148,629)	
Noncurrent liabilities due in one year	(8,885,334)	
Noncurrent liabilities due in more than one year	(180,207,449)	
Net pension liability	(13,580,167)	
Net OPEB liability	<u>(24,261,494)</u>	<u>(235,010,954)</u>

<b>Net Position of Governmental Activities</b>	<b>\$ <u>7,795,527</u></b>
--	----------------------------

See Notes to Financial Statements.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES*  
**GOVERNMENTAL FUNDS - EXHIBIT C-2**

For the Year Ended June 30, 2018

Data Control Codes		10	50	60	Other
		General	Debt Service	Capital Projects	Governmental Funds
<b>Revenues</b>					
5700	Local, intermediate, and out-of-state	\$ 49,124,621	\$ 15,174,637	\$ 169,068	\$ 2,517,983
5800	State program revenues	18,350,709	358,616	-	737,680
5900	Federal program revenues	1,112,848	-	-	5,181,257
5020	<b>Total Revenues</b>	<u>68,588,178</u>	<u>15,533,253</u>	<u>169,068</u>	<u>8,436,920</u>
<b>Expenditures</b>					
0011	Instruction	37,456,746	-	-	3,150,926
0012	Instructional resources/media services	1,127,371	-	299,998	105,975
0013	Curriculum and staff development	886,903	-	-	302,146
0021	Instructional leadership	823,550	-	-	160,877
0023	School leadership	5,000,063	-	-	45,616
0031	Guidance, counseling, and				
0031	evaluation services	2,398,866	-	-	305,896
0032	Social work services	217,766	-	-	54,776
0033	Health services	884,085	-	-	-
0034	Student (pupil) transportation	3,286,859	-	-	-
0035	Food service	-	-	-	3,320,117
0036	Extracurricular activities	2,959,848	-	-	888,386
0041	General administration	2,181,179	-	-	501
0051	Plant maintenance and operations	7,694,833	-	-	-
0052	Security and monitoring services	460,701	-	-	-
0053	Data processing services	1,492,467	-	-	235
0061	Community services	257,311	-	-	182,352
<b>Debt service:</b>					
0071	Principal	6,882	7,944,324	-	-
0072	Interest	73	7,813,549	-	-
<b>Capital outlay:</b>					
0081	Facilities acquisition and construction	683,999	-	7,148,481	-
<b>Intergovernmental:</b>					
0093	Shared services arrangements	-	-	-	212,300
0099	Other intergovernmental charges	626,332	-	-	-
6030	<b>Total Expenditures</b>	<u>68,445,834</u>	<u>15,757,873</u>	<u>7,448,479</u>	<u>8,730,103</u>
1100	<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>142,344</u>	<u>(224,620)</u>	<u>(7,279,411)</u>	<u>(293,183)</u>
1200	<b>Net Change in Fund Balances</b>	142,344	(224,620)	(7,279,411)	(293,183)
0100	Beginning fund balances	46,167,493	5,349,702	14,220,935	800,378
3000	<b>Ending Fund Balances</b>	<u>\$ 46,309,837</u>	<u>\$ 5,125,082</u>	<u>\$ 6,941,524</u>	<u>\$ 507,195</u>

See Notes to Financial Statements.



**98**  
**Total**  
**Governmental**  
**Funds**

---

\$ 66,986,309  
19,447,005  
6,294,105  
92,727,419

40,607,672  
1,533,344  
1,189,049  
984,427  
5,045,679

2,704,762  
272,542  
884,085  
3,286,859  
3,320,117  
3,848,234  
2,181,680  
7,694,833  
460,701  
1,492,702  
439,663

7,951,206  
7,813,622

7,832,480

212,300  
626,332  
100,382,289

(7,654,870)

(7,654,870)  
66,538,508  
\$ 58,883,638

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,*  
*AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE*  
*STATEMENT OF ACTIVITIES - EXHIBIT C-3*  
For the Year Ended June 30, 2018

Net changes in fund balances - total governmental funds \$ (7,654,870)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation	(5,056,465)
Capital outlay (net of disposed assets)	8,421,991

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	465,448
--	---------

The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when it is first issued; whereas, these amounts are deferred and amortized in the Statement of Activities.

Principal repayments	7,951,206
Accrued interest	(241,597)
Amortization of loss on bond refunding	(301,035)
Amortization of premiums	1,085,887
Accreted interest	1,017,362

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	(3,786)
Change in net pension liability	2,044,037
Deferred inflows - pensions	(1,176,251)
Deferred outflows - pensions	(1,432,224)
Change in net OPEB liability	18,274,604
Deferred inflows - OPEB	(10,148,629)
Deferred outflows - OPEB	103,389

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.

590,732

**Change in Net Position of Governmental Activities** \$ 13,939,799

See Notes to Financial Statements.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*STATEMENT OF NET POSITION*  
*PROPRIETARY FUNDS - EXHIBIT D-1*  
June 30, 2018

	Business-Type Activities - Enterprise Funds 702 Athletic Camps	Governmental Activities Internal Service Funds
<b><u>Assets</u></b>		
Current assets:		
Cash and cash equivalents	\$ -	\$ 475,757
Investments	-	1,668,895
Due from other funds	69,769	1,198,427
<b>Total Assets</b>	69,769	3,343,079
<b><u>Liabilities</u></b>		
Current liabilities:		
Due to other funds	-	132,346
Unearned revenue	69,769	2,500
<b>Total Liabilities</b>	69,769	134,846
<b><u>Net Position</u></b>		
Unrestricted	-	3,208,233
<b>Total Net Position</b>	\$ -	\$ 3,208,233

See Notes to Financial Statements.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION*  
**PROPRIETARY FUNDS - EXHIBIT D-2**  
For the Year Ended June 30, 2018

	<b>Business-Type Activities Enterprise Funds <u>702 Athletic Camps</u></b>	<b>Governmental Activities <u>Internal Service Funds</u></b>
<b><u>Operating Revenues</u></b>		
Charges for services	\$ 102,677	\$ 6,923,980
<b>Total Operating Revenues</b>	<u>102,677</u>	<u>6,923,980</u>
<b><u>Operating Expenses</u></b>		
Payroll costs	50,627	-
Contractual services	-	490,697
Insurance and bonding costs	-	5,866,096
Other supplies and expenses	24,991	934
Other operating costs	27,059	-
<b>Total Operating Expenses</b>	<u>102,677</u>	<u>6,357,727</u>
<b>Operating Income</b>	<u>-</u>	<u>566,253</u>
<b><u>Nonoperating Revenues (Expenses)</u></b>		
Interest and investment revenue	-	24,479
<b>Total Nonoperating Revenues</b>	<u>-</u>	<u>24,479</u>
<b>Change in Net Position</b>	<u>-</u>	<u>590,732</u>
Beginning net position	<u>-</u>	<u>2,617,501</u>
<b>Ending Net Position</b>	<u>\$ -</u>	<u>\$ 3,208,233</u>

See Notes to Financial Statements.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*STATEMENT OF CASH FLOWS*  
*PROPRIETARY FUNDS - EXHIBIT D-3*  
For the Year Ended June 30, 2018

	Business-Type Activities Enterprise Funds	Governmental Activities
	702 Athletic Camps	Internal Service Funds
<b><u>Cash Flows from Operating Activities</u></b>		
Cash received from customers	\$ 102,677	\$ 6,923,980
Cash payments to suppliers	(52,050)	(6,356,793)
Cash payments to employees	(50,627)	-
Other payments	-	(758,372)
<b>Net Cash (Used) by Operating Activities</b>	<u>-</u>	<u>(191,185)</u>
<b><u>Cash Flows From Investing Activities</u></b>		
Interest and dividends	-	24,479
<b>Net Cash Provided by Investing Activities</b>	<u>-</u>	<u>24,479</u>
<b>Net (Decrease) in Cash and Cash Equivalents</b>	-	(166,706)
Beginning cash and cash equivalents	-	2,311,358
<b>Ending Cash and Cash Equivalents</b>	<u>\$ -</u>	<u>\$ 2,144,652</u>
<b>Reconciliation of Operating Income (Loss) to</b>		
<b>Net Cash Provided (Used) by Operating Activities:</b>		
Operating income	\$ -	\$ 566,253
Adjustments to reconcile operating income to net cash (used) by operating activities:		
<b>Change in Assets and Liabilities:</b>		
(Increase) decrease in due from other funds	14,313	(792,742)
Increase (decrease) in due to other funds	-	35,304
Increase (decrease) in unearned revenue	(14,313)	-
<b>Net Cash (Used) by Operating Activities</b>	<u>\$ -</u>	<u>\$ (191,185)</u>

See Notes to Financial Statements.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*STATEMENT OF FIDUCIARY NET POSITION*  
*FIDUCIARY FUNDS - EXHIBIT E-1*  
June 30, 2018

		<u>Agency Fund Student Activity</u>
<b><u>Assets</u></b>		
Cash and cash equivalents	\$	41,588
<b>Total Cash</b>		<u>41,588</u>
<b>Total Assets</b>		<u>41,588</u>
 <b><u>Liabilities</u></b>		
Due to other funds		6,686
Unearned revenue		34,902
<b>Total Liabilities</b>		<u>41,588</u>
 <b><u>Net Position</u></b>		
Held in trust		-
<b>Total Net Position</b>	\$	<u><u>-</u></u>

See Notes to Financial Statements.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS*  
For the Year Ended June 30, 2018

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

New Braunfels Independent School District (the “District”) is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven-member Board of Trustees (the “Board”) elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB) and it complies with the requirements of the appropriate version of Texas Education Agency’s (TEA) *Financial Accountability System Resource Guide* (the “Resource Guide”) and the requirements of contracts and grants of agencies from which it receives funds.

The District is an independent political subdivision of the State of Texas governed by a board elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations, and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the District’s financial reporting entity. No other entities have been included in the District’s reporting entity. Additionally, as the District is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

**B. Government-Wide Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support.

**C. Basis of Presentation – Government-Wide Financial Statements**

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the District’s enterprise funds. 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.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the District’s business-type activities and other functions of the District. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2018

**D. Basis of Presentation – Fund Financial Statements**

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

The District reports the following governmental funds:

**General Fund**

The general fund is the District’s primary operating fund. It is used to account for and report all financial resources not accounted for and reported in another fund. The general fund is always considered a major fund for reporting purposes.

**Debt Service Fund**

The debt service fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest on all long-term debt of the District. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

**Capital Projects Funds**

The capital projects fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The capital projects fund is considered a major fund for reporting purposes.

**Special Revenue Funds**

The special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects. The restricted or committed proceeds of specific revenue sources comprise a substantial portion of the inflows of these special revenue funds. Most federal and some state financial assistance is accounted for in a special revenue fund.

**Proprietary Funds**

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the District’s business-type activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues include charges for services. Operating expenses includes costs of material, contracts, personnel, and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.



**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2018

The District has the following types of proprietary funds:

**Enterprise Funds**

The enterprise funds are used to account for and report operations that are financed and operated in a manner similar to private business enterprises where the intent of the District is that the costs (expenses including depreciation) of providing goods or services on a continuing basis will be financed or recovered primarily through user charges. These funds are reported as business-type activities in the government-wide financial statements.

**Internal Service Funds**

These funds are used to account for and report revenue and expenses related to services provided to parties inside the District on a cost-reimbursement basis. These funds account for the District's workers' compensation risk management, the District's health insurance, and the central office copiers. Because the principal users of the internal service funds are the District's governmental activities, this fund type is included in the governmental activities column of the governmental-wide financial statements.

**Fiduciary Funds**

The fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. 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 has the following type of fiduciary funds:

**Agency Funds**

The agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for the District's student activity funds.

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

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2018

eliminated so that only the net amount is included as internal balances in the business-type activities column.

**E. Measurement Focus and Basis of Accounting**

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

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

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

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

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

**1. Cash and Cash Equivalents**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2018

**2. Investments**

Investments, except for certain investment pools, commercial paper, money market funds, and investment contracts, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost. Money market funds, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations and commercial paper that have a remaining maturity of one year or less upon acquisition, are reported at amortized cost. Investments in nonparticipating interest earning contracts, such as certificates of deposits, are reported at cost.

The District has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. In summary, the District is authorized to invest in the following:

- Direct obligations of the U.S. Government
- Fully collateralized certificates of deposit and money market accounts
- Fully collateralized repurchase agreements that meet certain criteria
- Statewide investment pools and commercial paper

**3. Inventories and Prepaid Items**

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method). Certain payments to vendors reflect costs applicable to the future accounting period (prepaid expenditures) are recognized as expenditures when utilized.

**4. Restricted Assets**

Certain proceeds of bonds, as well as other resources set aside for specific purposes, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or contractual agreements.

**5. Capital Assets**

Capital assets, which include land, buildings, furniture, and equipment, are reported in the applicable governmental activities columns 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 cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2018

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful years:

Asset Description	Estimated Useful Life
Buildings and improvements	7 to 40 years
Vehicles	5 to 10 years
Equipment	5 to 20 years

**6. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has six items that qualify for reporting in this category on the government-wide Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred charges have been recognized as a result of differences between the actuarial expectations and the actual economic experience, for the changes in actuarial assumptions, and for the changes in proportion and difference between the employer's contributions and the proportionate share of contributions related to the District's defined benefit pension plan. These amounts are deferred and amortized over the average of the expected service lives of pension plan members. Deferred outflows of resources are also recognized for the difference between the projected and actual investment earnings on the pension plan assets. This amount is deferred and amortized over a period of five years. A deferred charge has been recognized for employer pension plan contributions that were made subsequent to the measurement date through the end of the District's fiscal year. This amount is deferred and recognized as a reduction to the net pension liability during the measurement period in which the contributions were made.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has three items that qualify for reporting in this category in the government-wide Statement of Net Position. Deferred charges have been recognized as a result of differences between the actuarial expectations and the actual economic experience, for the changes in actuarial assumptions, and for the changes in proportion and difference between the employer's contributions and the proportionate share of contributions related to the District's defined benefit pension plan. These amounts are deferred and amortized over the average of the expected service lives of pension plan members. At the fund level, the District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2018

**7. Compensated Absences**

It is the District's policy to permit certain employees to accumulate earned but unused vacation benefits. Amounts accumulated, up to certain amounts, may be paid to employees upon termination of employment.

**8. 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, business-type activities, or proprietary fund Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payment of principal and interest reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable, available financial resources.

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with the interest earned in the debt service fund.

**9. Net Position Flow Assumption**

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

**10. Fund Balance Flow Assumptions**

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

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2018

**11. Fund Balance Policies**

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

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Amounts that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions are classified as restricted fund balance.

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

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

**12. Estimates**

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

**13. Data Control Codes**

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

**14. Negative Operating Grants and Contributions – Statement of Activities**

Expense activity is required to be recorded by districts who are participants in cost-sharing pension and OPEB benefit plans with a special funding situation where non-employer contributing entities (NECE) also participate in contributions to the plans. Teacher Retirement System of Texas (TRS) and Texas Public School Retired Employees Group Insurance Program ("TRS-Care") are both cost-

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2018

sharing plans with special funding situations. Therefore, on-behalf expense activity of the NECE must be recorded at the government-wide level of reporting on the statement of activities in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

During the year, under audit, the NECE expense was negative, due to changes in benefits within TRS-Care. The accrual for the proportionate share of that expense was a negative on-behalf expense. This resulted in negative revenue for operating grants and contributions on the statement of activities.

Following are the effects on the statement of activities as a result of the negative on-behalf accruals recorded:

	<b>Operating Grants and Contributions (Excluding On-Behalf Accruals)</b>	<b>Negative On- Behalf Accruals</b>	<b>Operating Grants and Contributions As Reported</b>
0011 Instruction	\$ 2,887,177	\$ (7,807,973)	\$ (4,920,796)
0012 Instructional resources/media services	19,943	(136,475)	(116,532)
0013 Curriculum and staff development	301,871	(332,094)	(30,223)
0021 Instructional leadership	160,877	(286,272)	(125,395)
0023 School leadership	-	(911,860)	(911,860)
0031 Guidance, counseling, and evaluation services	305,896	(620,346)	(314,450)
0032 Social work services	54,776	(18,632)	36,144
0033 Health services	-	(135,272)	(135,272)
0034 Student (pupil) transportation	-	(261,463)	(261,463)
0035 Food service	1,892,034	(393,609)	1,498,425
0036 Extracurricular activities	8,921	(223,254)	(214,333)
0041 General administration	-	(379,017)	(379,017)
0051 Plant maintenance and operations	-	(436,443)	(436,443)
0052 Security and monitoring services	-	(16,515)	(16,515)
0053 Data processing services	-	(172,326)	(172,326)
0061 Community services	182,232	(125,238)	56,994
0093 Payments to fiscal agent/member districts of SSA	212,300	-	212,300
<b>Total</b>	<b>\$ 6,026,027</b>	<b>\$ (12,256,789)</b>	<b>\$ (6,230,762)</b>

**15. 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,

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2018

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.

**16. Other Post-Employment Benefits**

The fiduciary net position of the Teacher Retirement System of Texas (TRS) TRS-Care Plan 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 other post-employment benefits (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, and information about assets, liabilities, and additions to/deductions from TRS-Care's fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments as this is a pay-as-you-go plan and all cash is held in a cash account.

**G. Revenues and Expenditures/Expenses**

**1. Program Revenues**

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

**2. Property Taxes**

All taxes due to the District on real or personal property are payable at the Office of the Tax Assessor-Collector and may be paid at any time after the tax rolls for the year have been completed and approved, which is no later than October 1. Taxes are due by January 31, and all taxes not paid prior to this date are deemed delinquent and are subject to such penalty and interest.

Property taxes attach as an enforceable lien on property as of January 1 each year. Taxes are levied on October 1 and are payable prior to the next February 1. District property tax revenues are recognized when collected.

**3. Proprietary Funds Operating and Nonoperating Revenues and Expenses**

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. The principal operating revenues of the enterprise funds and internal service funds are charges to students and charges to other departments of the District for services provided. Operating expenses for the enterprise funds and internal service funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.



**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2018

**II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

Annual budgets are adopted on a basis consistent with GAAP. The original budget is adopted by the District prior to the beginning of the year. The legal level of control is the function code stated in the approved budget. Appropriations lapse at the end of the year, excluding capital project budgets.

In accordance with State law and generally accepted accounting standards, the District prepares an annual budget for the general fund, the national school lunch and breakfast program special revenue fund, and the debt service fund. The District budgets the capital projects fund for each *project*, which normally covers multiple years. Special revenue funds have budgets approved by the funding agency and are amended throughout the year as required.

During the year, the District amended its budget as required by State law and to reflect current levels of revenue and anticipated expenditures. There were no material changes between the original budget and the final amended budget.

**A. Deficit Fund Balance**

As of year end, the District reported a deficit fund balance in the state textbook fund of \$106,040.

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District’s investment policy requires funds on deposit at the depository bank to be collateralized. As of year end, checking and time deposits were completely insured or collateralized with securities as provided by State laws and regulations and FDIC insurance.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the District’s investments are held in external investment pools which are not subject to custodial credit risk.

As of June 30, 2018, the District’s investments, other than those which are obligations of or guaranteed by the U.S. Government, are rated as to credit quality as follows:

<u>Investments</u>	<u>Maturity</u>	<u>Amount</u>	<u>Rating</u>
Texpool	N/A	\$ 5,214,042	AAAm
Lone Star	N/A	58,049,489	AAA
Texas CLASS	N/A	230	AAAm
		<u>\$ 63,263,761</u>	

**TexPool**

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2018

the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rates TexPool 'AAAm'. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review.

TexPool is an external investment pool measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, the investment pool must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity, and diversification requirements within TexPool. TexPool transacts at a net asset value of \$1.00 per share, has weighted average maturities of 60 days or less, and weighted average lives of 120 days or less. Investments held are highly rated by nationally recognized statistical rating organizations, have no more than five percent of portfolio with one issuer (excluding U.S. government securities), and can meet reasonably foreseeable redemptions. TexPool has a redemption notice period of one day and may redeem daily. TexPool's authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium, or national state of emergency that affects TexPool's liquidity.

**Lone Star**

The First Public Lone Star Investment Pool ("Lone Star") is a public funds investment pool operated under Section 2256.016 of the Public Funds Investment Act, Texas Government Code, as amended. Lone Star is governed by trustees comprised of active participants in Lone Star. The Board of Trustees for Lone Star has the responsibility for adopting and monitoring compliance with the investment policy; of appointing investment officers; and of overseeing the selection of an investment advisor, custodian, investment consultant, administrator, and other service providers. Lone Star is rated "AAA" by Standard & Poor's.

**Texas CLASS**

The Texas Cooperative Liquid Assets Securities System Trust – Texas (CLASS) is a public funds investment pool under Section 2256.016 of the Public Funds Investment Act, Texas Government Code, as amended. CLASS is created under an amended and restated trust agreement, dated as of December 14, 2011 (the "Agreement"), among certain Texas governmental entities investing in CLASS (the "Participants"), with Cutwater Investor Services Corporation as program administrator and Wells Fargo Bank Texas, NA as custodian. CLASS is not SEC registered and is not subject to regulation by the State of Texas. Under the Agreement, however, CLASS is administered and supervised by a seven-member board of trustees (the "Board"), whose members are investment officers of the Participants, elected by the Participants for overlapping two-year terms. In the Agreement and by resolution of the Board, CLASS has contracted with Cutwater Investors Service Corporation to provide for the investment and management of the public funds of CLASS. Separate financial statements for CLASS may be obtained from CLASS' website at [www.texasclass.com](http://www.texasclass.com).

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2018

**B. Capital Assets**

A summary of changes in capital assets for governmental activities at year end is as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balances</u>
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 7,818,270	\$ -	\$ -	\$ 7,818,270
Construction in progress	53,550,426	8,011,409	(60,868,074)	693,761
<b>Total Capital Assets Not Being Depreciated</b>	<u>61,368,696</u>	<u>8,011,409</u>	<u>(60,868,074)</u>	<u>8,512,031</u>
Other capital assets:				
Buildings and improvements	156,897,118	60,868,074	-	217,765,192
Equipment and vehicles	11,405,650	777,805	(367,223)	11,816,232
<b>Total Other Capital Assets</b>	<u>168,302,768</u>	<u>61,645,879</u>	<u>(367,223)</u>	<u>229,581,424</u>
Less accumulated depreciation for:				
Buildings and improvements	(46,004,202)	(4,865,831)	-	(50,870,033)
Equipment and vehicles	(8,486,450)	(557,857)	367,223	(8,677,084)
<b>Total Accumulated Depreciation</b>	<u>(54,490,652)</u>	<u>(5,423,688)</u>	<u>367,223</u>	<u>(59,547,117)</u>
Other capital assets, net	113,812,116	56,222,191	-	170,034,307
<b>Governmental Activities Capital Assets, Net</b>	<u>\$ 175,180,812</u>	<u>\$ 64,233,600</u>	<u>\$ (60,868,074)</u>	<u>178,546,338</u>
			Less associated debt	(182,117,159)
			Plus unspent bond proceeds	6,941,524
			Plus deferred charge on refunding	1,880,349
			<b>Net Investment in Capital Assets</b>	<u>\$ 5,251,052</u>

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2018

Depreciation was charged to governmental functions as follows:

		<b>Governmental</b>
		<b>Activities</b>
11	Instruction	\$ 3,389,031
12	Instructional resources/media services	78,356
13	Curriculum and staff development	28,670
21	Instructional leadership	1,443
23	School leadership	63,101
31	Guidance, counseling, and evaluation services	34,983
33	Health services	27,466
34	Student (pupil) transportation	421,472
35	Food service	382,491
36	Extracurricular activities	407,093
41	General administration	251,023
51	Plant maintenance and operations	267,686
52	Security and monitoring services	39,031
53	Data processing services	31,842
	<b>Total Depreciation Expense</b>	<b>\$ 5,423,688</b>

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2018

**C. Long-Term Debt**

The following is a summary of changes in the District's total governmental long-term liabilities for the year. In general, the District uses the general and debt service funds to liquidate governmental long-term liabilities.

Governmental Activities:	Beginning Balance	Additions	(Reductions)	Ending Balance	Amounts Due Within One Year	Interest Rates
Bonds payable						
Series 2010	\$ 5,055,000	\$ -	\$ (930,000)	\$ 4,125,000	\$ 970,000	3.00-4.00%
Series 2011	29,406,255	-	(17,325)	29,388,930	8,929	2.00-5.00%
Series 2012	22,047,245	-	(855,000)	21,192,245	910,000	1.625-5.00%
Series 2012A	9,420,000	-	(2,985,000)	6,435,000	3,135,000	2.00-5.00%
Series 2013	9,125,000	-	-	9,125,000	405,000	3.00-3.50%
Series 2014	8,545,000	-	(390,000)	8,155,000	30,000	2.00-2.75%
Series 2015	5,235,000	-	-	5,235,000	-	3.50%
Series 2015A	15,449,993	-	(100,000)	15,349,993	100,000	2.00-5.00%
Series 2016	45,645,000	-	(1,835,000)	43,810,000	1,920,000	3.00-5.00%
QSCB Series 2016	8,146,000	-	(582,000)	7,564,000	582,000	0.00%
Series 2017	18,400,000	-	(250,000)	18,150,000	250,000	3.125-5.00%
Capital lease	6,881	-	(6,881)	-	-	0.27%
	<u>176,481,374</u>	<u>-</u>	<u>(7,951,206)</u>	<u>168,530,168</u>	<u>* 8,310,929</u>	
Other liabilities:						
Compensated absences	634,442	574,784	(570,998)	638,228	574,405	
Net issuance premiums (discounts)	14,672,878	-	(1,085,887)	13,586,991	*	-
Accreted interest	7,354,758	-	(1,017,362)	6,337,396	-	-
Net pension liability	15,624,204	-	(2,044,037)	13,580,167	-	-
Net OPEB liability	42,536,098	-	(18,274,604)	24,261,494	-	-
<b>Total Governmental Activities</b>	<u>\$ 257,303,754</u>	<u>\$ 574,784</u>	<u>\$ (30,944,094)</u>	<u>\$ 226,934,444</u>	<u>\$ 8,885,334</u>	
				<u>\$ 218,049,110</u>		
				<u>*Debt associated with capital assets</u>	<u>\$ 182,117,159</u>	

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2018

The annual requirements to amortize debt issues outstanding at year end are as follows:

<b>Year Ended</b> <b>June 30</b>	<b>General Obligation Bonds</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b> <b>Requirements</b>
2019	\$ 8,310,929	\$ 6,276,544	\$ 14,587,473
2020	9,797,000	5,919,319	15,716,319
2021	10,382,000	5,522,119	15,904,119
2022	10,917,000	5,079,294	15,996,294
2023	5,993,221	5,668,038	11,661,259
2024-2028	49,841,018	18,983,469	68,824,487
2029-2033	38,119,000	10,453,925	48,572,925
2034-2038	28,800,000	3,802,575	32,602,575
2039-2040	6,370,000	278,850	6,648,850
<b>Totals</b>	<b>\$ 168,530,168</b>	<b>\$ 61,984,132</b>	<b>\$ 230,514,300</b>

**D. Commitments Under Noncapitalized Leases**

During the year, the District expended a total of \$169,160 for operating (noncapitalized) leases and, in accordance with standard nonappropriation clauses in the various lease agreements, the District has no future obligation in relation to these leases.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2018

**E. Interfund Transactions**

The interfund balances and transfers were as follows:

	<b>Due From Other Funds</b>
General fund	
Other governmental funds	\$ 284,569
Internal service funds	132,346
<b>Total General Fund</b>	<b>416,915</b>
Debt service fund	
General fund	57,017
<b>Total Debt Service Fund</b>	<b>57,017</b>
Capital projects fund	
General fund	17,200
<b>Total Capital Projects Fund</b>	<b>17,200</b>
Other governmental funds	
General fund	228,234
<b>Total Other Governmental Funds</b>	<b>228,234</b>
Enterprise funds	
General fund	69,769
<b>Total Enterprise Funds</b>	<b>69,769</b>
Internal service funds	
General fund	1,198,426
<b>Total Internal Service Funds</b>	<b>1,198,426</b>
<b>Total</b>	<b>\$ 1,987,561</b>

Amounts recorded as due to/from are considered to be temporary loans and will be repaid during the following year.

**IV. OTHER INFORMATION**

**A. 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; and natural disasters for which the District purchases commercial insurance. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

**B. Contingent Liabilities**

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2018

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed, or not performed correctly, it could result in a substantial liability to the District. The District has engaged an arbitrage consultant to perform the calculations in accordance with IRS rules and regulations. The District does not anticipate an arbitrage rebate liability.

**C. Defined Benefit Pension Plan**

**Teacher Retirement System**

Plan Description

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

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

Pension Plan Fiduciary Net Position

Detailed information about the TRS's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and Required Supplementary Information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.



**NEW BRAUNFELS  
INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2018

Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3% (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 cost of living adjustments (COLAs). Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan Description above.

Contributions

Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

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

<u>Contribution Rates</u>	<u>2017</u>	<u>2018</u>
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
2017 Employer Contributions	\$1,391,975	
2017 Member Contributions	\$1,377,169	
2017 NECE On-behalf Contributions	\$2,338,984	

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 GAA.

**NEW BRAUNFELS  
INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2018

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

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

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

- When employing a retiree of TRS, 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, 2017 actuarial valuation was determined using the following actuarial assumptions:

Valuation date	August 31, 2017
Actuarial cost method	Individual entry age normal
Asset valuation method	Market value
Single discount rate	8.0%
Long-term expected investment rate of return	8.0%
Inflation	2.5%
Salary increases including inflation	3.5% to 9.5%
Payroll growth rate	2.5%
Benefit changes during the year	None
Ad hoc post-employment benefit changes	None

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2018

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

Discount Rate

The discount rate used to measure the total pension liability was 8%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2018

Best estimates of geometric real rates of return for each major asset class included in the system's target asset allocation as of August 31, 2017 are summarized below:

	<u>Target Allocation</u>	<u>Long-Term Expected Geometric Real Rate of Return</u>	<u>Expected Contribution to Long-Term Portfolio Returns *</u>
<b>Global Equity</b>			
U.S.	18.0%	4.6%	1.0%
Non-U.S. Developed	13.0%	5.1%	0.8%
Emerging Markets	9.0%	5.9%	0.7%
Directional Hedge Funds	4.0%	3.2%	0.1%
Private Equity	13.0%	7.0%	1.1%
<b>Stable Value</b>			
U.S. Treasuries	11.0%	0.7%	0.1%
Absolute Returns	0.0%	1.8%	0.0%
Hedge Funds (Stable Value)	4.0%	3.0%	0.1%
Cash	1.0%	-0.2%	0.0%
<b>Real Return</b>			
Global Inflation-Linked Bonds	3.0%	0.9%	0.0%
Real Assets	16.0%	5.1%	1.1%
Energy & Natural Resources	3.0%	6.6%	0.2%
Commodities	0.0%	1.2%	0.0%
<b>Risk Parity</b>			
Risk Parity	5.0%	6.7%	0.3%
Inflation Expectation	0.0%		2.2%
Alpha	0.0%		1.0%
<b>Total</b>	<u>100.0%</u>		<u>8.7%</u>

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

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2018

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 2017 net pension liability.

	<b>1% Decrease in Discount Rate (7%)</b>	<b>Discount Rate (8%)</b>	<b>1% Increase in Discount Rate (9%)</b>
District's proportionate share of the net pension liability	\$ 22,893,478	\$ 13,580,167	\$ 5,825,324

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

At June 30, 2018, the District reported a liability of \$13,580,167 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$	13,580,167
State's proportionate share that is associated with the District		22,867,197
<b>Total</b>		<b>\$ 36,447,364</b>

The net pension liability was measured as of August 31, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2016 through August 31, 2017.

At August 31, 2017, the District's proportion of the collective net pension liability was 0.0424717%, which was a decrease of 0.0011253% from its proportion measured as of August 31, 2016.

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

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

For the year ended June 30, 2018, the District recognized pension expense of \$2,308,657 and revenue of \$1,744,219 for support provided by the State.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2018

At June 30, 2018, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual economic experience	\$ 198,684	\$ (732,361)
Changes in actuarial assumptions	618,598	(354,133)
Difference between projected and actual investment earnings	-	(989,693)
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	2,763,107	(952)
Contributions paid to TRS subsequent to the measurement date	1,253,737	-
<b>Total</b>	<u><u>\$ 4,834,126</u></u>	<u><u>\$ (2,077,139)</u></u>

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:

<u>Year Ended June 30</u>	<u>Pension Expense</u>
2018	\$ 232,723
2019	1,099,580
2020	166,119
2021	(98,114)
2022	72,581
Thereafter	30,361
<b>Total</b>	<u><u>\$ 1,503,250</u></u>

**D. Defined Other Post-Employment Benefit Plans**

Plan Description

The District participates in the Texas Public School Retired Employees Group Insurance Program ("TRS-Care"). It is a multiple-employer, cost-sharing defined benefit other post-employment benefit (OPEB) plan that has a special funding situation. TRS-Care is administered through a trust by the Teacher Retirement System of Texas (TRS) Board of Trustees (the "Board"). It is established and administered in accordance with the Texas Insurance Code, Chapter 1575.

OPEB Plan Fiduciary Net Position

Detailed information about the TRS-Care's fiduciary net position is available in the separately-issued TRS Comprehensive Annual Financial Report that includes financial statements and Required Supplementary Information. That report may be obtained on the Internet at [www.trs.state.tx.us/about/documents/cafr.pdf#CAFR](http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR); by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512)542-6592.

**NEW BRAUNFELS  
INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2018

Components of the net OPEB liability of TRS-Care as of August 31, 2017 are as follows:

Total OPEB liability	\$ 43,885,784,621	
Less: plan fiduciary net position	399,535,986	
<b>Net OPEB Liability</b>	<b>\$ 43,486,248,635</b>	
Net position as a percentage of total OPEB liability		0.92%

Benefits Provided

TRS-Care provides a basic health insurance coverage, TRS-Care 1 (the “Basic Plan”) at no cost to all retirees from public schools, charter schools, regional education service centers, and other educational districts who are members of the TRS pension plan. Optional dependent coverage is available for an additional fee.

Eligible retirees and their dependents not enrolled in Medicare may pay premiums to participate in one of two optional insurance plans with more comprehensive benefits, TRS-Care 2 and TRS-Care 3 (the “Optional Health Insurance”). Eligible retirees and dependents enrolled in Medicare may elect to participate in one of the two Medicare health plans for an additional fee. To qualify for TRS-Care coverage, a retiree must have at least ten years of service credit in the TRS pension system. The Board of Trustees is granted the authority to establish basic and optional group insurance coverage for participants, as well as to amend benefit terms as needed under Chapter 1575.052. There are no automatic post-employment benefit changes, including automatic cost-of-living adjustments.

The premium rates for the Optional Health Insurance are based on years of service of the member. The schedule below shows the monthly rates for the average retiree with Medicare Parts A and B coverage, with 20 to 29 years of service, for the Basic Plan and the two Optional Health Insurance plans:

<b>TRS-Care Plan Premium Rates</b>				
<b>Effective September 1, 2016 - December 31, 2017</b>				
	<b>TRS-Care 1</b>	<b>TRS-Care 2</b>	<b>TRS-Care 3</b>	
	<b>Basic Plan</b>	<b>Optional Plan</b>	<b>Optional Plan</b>	
Retiree*	\$ -	\$ 70	\$ 100	
Retiree and spouse	\$ 20	\$ 175	\$ 255	
Retiree and children	\$ 41	\$ 132	\$ 182	
Retiree and family	\$ 61	\$ 237	\$ 337	
Surviving children only	\$ 28	\$ 62	\$ 82	

*\*or surviving spouse*

Contributions

Contribution rates for TRS-Care are established in state statute by the Texas Legislature and there is no continuing obligation to provide benefits beyond each fiscal year. TRS-Care is currently funded on a pay-as-you-go basis and is subject to change based on available funding. Funding for TRS-Care is provided by retiree premium contributions and contributions from the State, active employees, and school districts based upon public school district payroll. The TRS Board does not have the authority to set or amend contribution rates.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2018

Texas Insurance Code, section 1575.202 establishes the State’s contribution rate, which is 1.00 percent of the employee’s salary. Section 1575.203 establishes the active employee’s rate, which is 0.65 percent of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25 percent or not more than 0.75 percent of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to TRS-Care by type of contributor:

	Contribution Rates	
	Fiscal Year	
	2017	2018
Active employee	0.65%	0.65%
Non-employer contributing entity (State)	1.00%	1.25%
Employers	0.55%	0.75%
Federal/private funding remitted by employers	1.00%	1.25%
Current fiscal year District contributions	\$	290,059
Current fiscal year member contributions	\$	118,970
2017 measurement year NECE contributions	\$	437,910

In addition to the employer contributions listed above, there is an additional surcharge to which all TRS employers are subject (regardless of whether or not they participate in TRS-Care). When employers hire a TRS retiree, they are required to pay a monthly surcharge of \$535 per retiree to TRS-Care.

TRS-Care received supplemental appropriations from the State of Texas as the non-employer contributing entity in the amount of \$15.6 million in fiscal year 2017 and \$182.6 million in fiscal year 2018.

Actuarial Assumptions

The total OPEB liability in the August 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

- The actuarial valuation of TRS-Care is similar to the actuarial valuations performed for the TRS pension plan, except that the OPEB valuation is more complex. All of the demographic assumptions, including mortality, and most of the economic assumptions are identical to those which were adopted by the Board in 2015 and are based on the 2014 actuarial experience study of TRS.
- The active mortality rates were based on 90 percent of the RP-2014 Employee Mortality Tables for males and females. The post-retirement mortality rates were based on the 2015 TRS of Texas Healthy Pensioner Mortality Tables.



**NEW BRAUNFELS  
INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2018

The following assumptions and other inputs used for members of TRS-Care are identical to the assumptions used in the August 31, 2017 TRS pension actuarial valuation:

- |                                  |                            |
|----------------------------------|----------------------------|
| 1. Rates of Mortality            | 5. General Inflation       |
| 2. Rates of Retirement           | 6. Wage Inflation          |
| 3. Rates of Termination          | 7. Expected Payroll Growth |
| 4. Rates of Disability Incidence |                            |

Additional actuarial methods and assumptions are as follows:

Valuation date	August 31, 2017
Actuarial cost method	Individual entry age normal
Inflation	2.50%
Discount rate*	3.42% *
Aging factors	Based on plan specific experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Payroll growth rate	2.50%
Projected salary increases**	3.50% to 9.50% **
Healthcare trend rates***	4.50% to 12.00% ***
Election rates	Normal retirement: 70% participation prior to age 65 and 75% participation after age 65.
Ad hoc post-employment benefit changes	None

\* Source: Fixed income municipal bonds with 20 years to maturity that include only federal tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of August 31, 2017.

\*\* Includes inflation at 2.50%

\*\*\* Initial trend rates are 7.00% for non-Medicare retirees, 10.00% for Medicare retirees, and 12.00% for prescriptions for all retirees. Initial trend rates decrease to an ultimate trend rate of 4.50% over a period of 10 years.

Discount Rate

A single discount rate of 3.42 percent was used to measure the total OPEB liability. There was a change of 0.44 percent in the discount rate since the previous year. Because TRS-Care is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, TRS-Care's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability. The source of the municipal bond rate was fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of August 31, 2017.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2018

Sensitivity of the Net OPEB Liability

**Discount Rate Sensitivity Analysis** – The following schedule shows the impact of the net OPEB liability if the discount rate used was one percent less than and one percent greater than the discount rate that was used in measuring the net OPEB liability:

	<b>1% Decrease in Discount Rate (2.42%)</b>	<b>Current Single Discount Rate (3.42%)</b>	<b>1% Increase in Discount Rate (4.42%)</b>
District's proportionate share of net OPEB liability	\$ 28,634,586	\$ 24,261,494	\$ 20,746,514

**Healthcare Cost Trend Rates Sensitivity Analysis** – The following presents the net OPEB liability of TRS-Care using the assumed healthcare cost trend rate, as well as what the net OPEB liability would be if it were calculated using a trend rate that is one percent less than or one percent higher than the assumed healthcare cost trend rate:

	<b>1% Decrease in Healthcare Cost Trend Rate</b>	<b>Current Healthcare Cost Trend Rate</b>	<b>1% Increase in Healthcare Cost Trend Rate</b>
District's proportionate share of net OPEB liability	\$ 20,200,118	\$ 24,261,494	\$ 29,590,532

OPEB Liabilities, OPEB Expense, and Deferred Outflows/Inflows of Resources Related to OPEBs

At August 31, 2018, the District reported a liability of \$24,261,494 for its proportionate share of TRS-Care's net OPEB liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective net OPEB liability	\$ 24,261,494
State's proportionate share that is associated with the District	36,628,258
<b>Total</b>	<b>\$ 60,889,752</b>

The net OPEB liability was measured as of August 31, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on the District's contributions to TRS-Care relative to the contributions of all employers to TRS-Care for the period September 1, 2016 through August 31, 2017.

At the August 31, 2017 measurement date, the District's proportion of the collective net OPEB liability was 0.0557912 percent, which was the same proportion measured as of August 31, 2016.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2018

Changes Since the Prior Actuarial Valuation

The following were changes to the actuarial assumptions or other inputs that affected measurement of the total OPEB liability since the prior measurement period:

- Significant plan changes were adopted during the fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan option will exist (instead of three) and all retirees will be required to contribute monthly premiums for coverage. The health plan changes triggered changes to several of the assumptions, including participation rates, retirement rates, and spousal participation rates.
- The August 31, 2016 valuation had assumed that the savings related to the Medicare Part D reimbursements would phase out by 2022. This assumption was removed for the August 31, 2017 valuation. Although there is uncertainty regarding these federal subsidies, the new assumption better reflects the current substantive plan. This change was unrelated to the plan amendment and its impact was included as an assumption change in the reconciliation of the total OPEB liability. This change significantly lowered the OPEB liability.
- The discount rate changed from 2.98 percent as of August 31, 2016 to 3.42 percent as of August 31, 2017. This change lowered total OPEB liability.

In this valuation, the impact of the Cadillac Tax has been calculated as a portion of the trend assumption. Assumptions and methods used to determine the impact of the Cadillac Tax include:

- 2018 thresholds of \$850/\$2,292 were indexed annual by 2.50%.
- Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.
- There were no special adjustments to the dollar limit other than those permissible for non-Medicare retirees over 55.

Results indicate that the value of the excise tax would be reasonably represented by a 25 basis-point addition to the long-term trend rate assumption.

Future actuarial measurements may differ significantly from the current measurements due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions, changes in economic or demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for these measurements, and changes in plan provision or applicable law.

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

For the year ended August 31, 2018, the District recognized OPEB expense of \$3,734,061 and revenue of \$12,256,789 for support provided by the State.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2018

At August 31, 2018, the District reported its proportionate share of TRS-Care's deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual economic experience	\$ -	\$ (506,477)
Changes in actuarial assumptions	-	(9,642,152)
Differences between projected and actual investment earnings	3,685	-
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	112	-
Contributions paid to TRS subsequent to the measurement date	395,936	-
<b>Total</b>	<u>\$ 399,733</u>	<u>\$ (10,148,629)</u>

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

<b>Year Ended June 30, 2018</b>	<b>Expense Amount</b>
2019	\$ (1,338,622)
2020	(1,338,622)
2021	(1,338,622)
2022	(1,338,622)
2023	(1,339,543)
Thereafter	(3,450,801)
	<u>\$ (10,144,832)</u>

**E. Employee Health Care Coverage**

During the year, employees of the District were covered by a health insurance plan (the "Plan"). The District paid premiums of \$332 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement. The contract between the District and the insurer is renewable September 1, 2018 and terms of coverage and premiums costs are included in the contractual provisions.

**F. Workers' Compensation Insurance**

During the year ended June 30, 2018, the District met its statutory workers' compensation obligations through participation in the TASB Risk Management Fund (the "Fund"). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Workers' Compensation Program is authorized by Chapter 504, Texas Labor Code. All members participating in the Fund execute interlocal agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members' injured employees.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2018

The Fund and its members are protected against higher than expected claims costs through the purchase of stop-loss coverage for any claim in excess of the Fund's self-insured retention of \$2 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2017, the Fund carries a discounted reserve of \$49,076,113 for future development on reported claims and claims that have been incurred but not yet reported. For the year ended June 30, 2018, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contributions.

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 accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2017 are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

**G. Unemployment Compensation**

During the year ended June 30, 2018, the 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 quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop-loss coverage for the unemployment compensation pool. For the year ended June 30, 2018, the Fund anticipates that the District has no additional liability beyond the contractual obligation for payment of contribution.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2017 are available on the TASB Risk Management Fund's website and have been filed with the Texas Department of Insurance in Austin.

**H. Shared Services Arrangements**

The District participates in a shared services arrangement (SSA) for homeless children and youth. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Education Service Center, Region X, 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 the District. The fiscal agent manager is responsible for part of the financial activities of the SSA.

The District participates in an SSA for hearing impaired children. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Education Service Center, Region XIII, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2018

accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for part of the financial activities of the SSA.

The District participates in an SSA for visually handicapped children. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Education Service Center, Region XIII, 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 the District. The fiscal agent manager is responsible for part of the financial activities of the SSA.

**I. Restatement of Net Position**

Due to the implementation of GASB standard 75, the District restated its beginning government wide net position as follows:

	<b>Governmental Activities</b>
Beginning net position - as reported	\$ 36,095,482
Restatement - net OPEB liability	(42,536,098)
Restatement - deferred outflows	296,344
Beginning net position - restated	\$ (6,144,272)

**APPENDIX D**

**Form of Opinion of Bond Counsel**

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**FINAL**

IN REGARD to the authorization and issuance of the “New Braunfels Independent School District Unlimited Tax School Building and Refunding Bonds, Series 2019” (the *Bonds*), dated January 15, 2019, in the aggregate principal amount of \$74,035,000, we have reviewed the legality and validity of the issuance thereof by the Board of Trustees of the New Braunfels Independent School District (the *Issuer*). The Bonds are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity). The Bonds have Stated Maturities of February 1 in each of the years 2020 through 2042, unless redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Bonds. Interest on the Bonds accrues from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the order (the *Order*) authorizing the issuance of the Bonds. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Order.

WE HAVE SERVED AS BOND COUNSEL for the Issuer solely to pass upon the legality and validity of the issuance of the Bonds under the laws of the State of Texas and the defeasance and discharge of the Issuer’s obligations being refunded by the Bonds and with respect to the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes and for no other purpose. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Issuer. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Bonds. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Bonds. Our role in connection with the Issuer’s Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

WE HAVE EXAMINED the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the proceedings of the Board of Trustees of the Issuer in connection with the issuance of the Bonds, including the Order and the Escrow Deposit Letter (the *Escrow Agreement*) between the Issuer and Zions Bancorporation, National Association, Houston, Texas (the *Escrow Agent*), and the Certificate of Sufficiency (the *Sufficiency Certificate*) of SAMCO Capital Markets, Inc. (the *Financial Advisor*) concerning the sufficiency of the cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement; (2) certificates executed by officers of the Issuer relating to the expected use and investment of proceeds of the Bonds and certain other funds of the Issuer, and to certain other facts solely within the knowledge and control of the Issuer; and (3) such other documentation, including an examination of the Bond executed and delivered initially by the Issuer, and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us

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**Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, in connection with the authorization and issuance of NEW BRAUNFELS INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING AND REFUNDING BONDS, SERIES 2019**

as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such certificates. We express no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

BASED ON OUR EXAMINATION, IT IS OUR OPINION that the Escrow Agreement has been duly authorized, executed, and delivered by the Issuer and, assuming due authorization, execution, and delivery thereof by the Escrow Agent, is a valid and binding obligation, enforceable in accordance with its terms (except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity), and that the outstanding obligations refunded, discharged, paid, and retired with certain proceeds of the Bonds have been defeased and are regarded as being outstanding only for the purpose of receiving payment from the funds held in trust with the Escrow Agent, pursuant to the Escrow Agreement and the orders authorizing their issuance, and in accordance with the provisions of Chapter 1207, as amended, Texas Government Code. In rendering this opinion, we have relied upon the Sufficiency Certificate of the Financial Advisor concerning the sufficiency of cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement for the purposes of paying the outstanding obligations refunded and to be retired with the proceeds of the Bonds and the interest thereon.

BASED ON OUR EXAMINATION, IT IS FURTHER OUR OPINION that the Bonds have been duly authorized and issued in conformity with the laws of the State of Texas now in force and that the Bonds are valid and legally binding obligations of the Issuer enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. The Bonds are payable from the proceeds of an ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property in the Issuer.

BASED ON OUR EXAMINATION IT IS FURTHER OUR OPINION that, assuming continuing compliance after the date hereof by the Issuer with the provisions of the Order and in reliance upon the Sufficiency Certificate of the Financial Advisor concerning the sufficiency of the cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement and upon the representations and certifications of the Issuer made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Bonds, under existing statutes, regulations, published rulings, and court decisions (1) interest on the Bonds will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the *Code*), of the owners thereof for federal income tax purposes, pursuant to section 103 of the Code, and (2) interest on the Bonds will not be included in computing the alternative minimum taxable income of the owners thereof.

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and

**Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, in connection with the authorization and issuance of NEW BRAUNFELS INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING AND REFUNDING BONDS, SERIES 2019**

profits, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax exempt obligations.

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.

Norton Rose Fulbright US LLP

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