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

PRELIMINARY OFFICIAL STATEMENT
Dated: October 28, 2019

NEW ISSUE: BOOK-ENTRY-ONLY

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

$14,000,000*
BARBERS HILL INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Chambers County, Texas)
Unlimited Tax School Building Bonds, Series 2019

Dated Date: November 1, 2019 **Due: February 15, as shown on the inside cover page**

The Barbers Hill Independent School District Unlimited Tax School Building Bonds, Series 2019 (the "Bonds") are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, Chapter 1371, Texas Government Code, as amended ("Chapter 1371"), an election held in the Barbers Hill Independent School District (the "District") on May 6, 2017 and the order adopted by the Board of Trustees of the District (the "Board") on September 23, 2019 (the "Bond Order"). As permitted by Chapter 1371, the Board, in the Bond Order, delegated the authority to certain District officials (the "Pricing Officer") to execute a pricing certificate (the "Pricing Certificate") establishing the pricing terms for the Bonds (the Pricing Certificate, together with the Bond Order, are collectively referred to herein as the "Order"). The Bonds are payable as to principal and interest from the proceeds of an ad valorem tax levied annually, without legal limit as to rate or amount, against all taxable property located within the District. The District has received conditional approval from the Texas Education Agency for the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined), which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "THE BONDS – Permanent School Fund Guarantee" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

Interest on the Bonds will accrue from the Dated Date specified above and will be payable on February 15, 2020 and each August 15 and February 15 thereafter, until stated maturity. The Bonds will be issued in fully registered form in principal denominations of $5,000 or any integral multiple thereof. Principal of the Bonds will be payable by the Paying Agent/Registrar, which initially is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent/Registrar"), upon presentation and surrender of the Bonds for payment. Interest on the Bonds is payable by check dated as of the interest payment date and mailed by the Paying Agent/Registrar to the registered owners as shown on the records of the Paying Agent/Registrar on the Record Date, as defined herein.

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

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

The Bonds are not subject to optional redemption prior to maturity.

Concurrently with the issuance of the Bonds, the District is issuing its Unlimited Tax Refunding Bonds, Taxable Series 2019 (the "2019 Refunding Bonds." This Official Statement describes only the Bonds and not the 2019 Refunding Bonds. Investors interested in making an investment decision concerning the 2019 Refunding Bonds should review the offering document relating thereto.

MATURITY SCHEDULE
(On Inside Cover)

The Bonds are offered for delivery when, as and if issued, and received by the initial purchasers (the "Underwriters") subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Hunton Andrews Kurth LLP, Houston, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Bracewell LLP, Houston, Texas. The Bonds are expected to be available for initial delivery through the facilities of DTC on or about November 21, 2019.

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

**Preliminary, subject to change.*

$14,000,000*
BARBERS HILL INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Chambers County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2019

MATURITY SCHEDULE
Base CUSIP No.: 067167[1]

Maturity Date 2/15	Principal Amount*	Interest Rate	Initial Yield	CUSIP No. Suffix[1]
2021	$1,275,000			
2022	1,305,000			
2023	1,330,000			
2024	1,355,000			
2025	1,385,000			
2026	1,410,000			
2027	1,440,000			
2028	1,470,000			
2029	1,500,000			
2030	1,530,000			

(Interest to accrue from the Dated Date)

**Preliminary, subject to change.*

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

BARBERS HILL INDEPENDENT SCHOOL DISTRICT

BOARD OF TRUSTEES

Name	Date Initially Elected	Current Term Expires	Occupation
George Barrera, President	2002	2020	County Purchasing Agent
Fred Skinner, Vice President	2007	2021	Engineer
Cynthia Erwin, Secretary	2010	2022	Medical Sales
Eric Davis, Member	2018	2021	General Manager
Benny May, Member	1996	2022	Plant Supervisor
Clint Pipes, Member	2019	2020	Vice President / Controller
Becky Tice, Member	2009	2021	Finance Manager

APPOINTED OFFICIALS

Name	Position	Length of Education Service	Length of Service with District
Dr. Greg Poole	Superintendent	34 Years	13 Years
Rebecca McManus	Assistant Superintendent of Finance	15 Years	12 Years
Stanley Frazier	Assistant Superintendent / Planning and Operations	32 Years	12 Years
Chelsea McDaniel	Business Manager	1 Year	1 Year

CONSULTANTS AND ADVISORS

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

For additional information, contact:

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

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

USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

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

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

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – PSF Continuing Disclosure Undertaking" and "CONTINUING DISCLOSURE OF INFORMATION" for a description of the undertakings of the Texas Education Agency (the "TEA") and the District, respectively, to provide certain information on a continuing basis.

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

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

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

NONE OF THE DISTRICT, ITS FINANCIAL ADVISOR, OR THE UNDERWRITERS MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY, NEW YORK, NEW YORK ("DTC") OR ITS BOOK-ENTRY-ONLY SYSTEM, OR THE AFFAIRS OF THE TEA DESCRIBED UNDER "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM", AS SUCH INFORMATION WAS PROVIDED BY DTC AND TEA, RESPECTIVELY.

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

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

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SELECTED DATA FROM THE OFFICIAL STATEMENT

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

The District	The Barbers Hill Independent School District (the "District") is a political subdivision of the State of Texas located in Chambers County, Texas. The District is governed by a seven-member Board of Trustees (the "Board"). Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors.
The Bonds	The Bonds are being issued in the principal amount of $14,000,000 (preliminary, subject to change) pursuant to the Constitution and general laws of the State of Texas, particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, Chapter 1371, Texas Government Code, as amended ("Chapter 1371"), an election held in the District on May 6, 2017 and the order adopted by the Board on September 23, 2019 (the "Bond Order"). As permitted by Chapter 1371, the Board, in the Bond Order, delegated the authority to certain District officials (the "Pricing Officer") to execute a pricing certificate (the "Pricing Certificate") establishing the pricing terms of the Bonds (the Pricing Certificate, and the Bond Order, are collectively referred to herein as the "Order"). Proceeds from the sale of the Bonds will be used for (i) the construction, acquisition, and equipment of school buildings in the District, the purchase of new school buses, and the purchase of necessary sites for school buildings and (ii) paying the costs of issuing the Bonds. (See "THE BONDS - Authorization and Purpose")
Paying Agent/Registrar	The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. The District intends to use the Book-Entry-Only System of The Depository Trust Company, New York, New York. (See "BOOK-ENTRY-ONLY SYSTEM" herein).
Security	The Bonds will constitute direct and voted obligations of the District, payable as to principal and interest from ad valorem taxes levied annually against all taxable property located within the District, without legal limit as to rate or amount. Payments of principal and interest on the Bonds will be further secured by the corpus of the Permanent School Fund of Texas. (See "THE BONDS – Security", "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").
No Optional Redemption	The Bonds are not subject to redemption prior to maturity. However, the Underwriters may select consecutive maturities of Bonds to be grouped together as one or more term bonds and such term bonds would be subject to mandatory sinking fund redemption. (see "THE BONDS – No Optional Redemption" and "THE BONDS – Mandatory Sinking Fund Redemption").
Permanent School Fund Guarantee	The District has received conditional approval from the Texas Education Agency for the payment of the Bonds to be guaranteed under the Permanent School Fund Guarantee Program (defined herein), which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "THE BONDS – Permanent School Fund Guarantee" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.")
Ratings	The Bonds are rated "Aaa" by Moody's Investors Service Inc. ("Moody's") and "AAA" by S&P Global Ratings ("S&P"), based upon the guaranteed repayment thereof under the Permanent School Fund Guarantee Program of the Texas Education Agency. The District's unenhanced, underlying ratings, on its unlimited tax-supported indebtedness, including the Bonds, are "Aa2" by Moody's and "AA+" by S&P. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "RATINGS" herein.)
Tax Matters	In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS" herein, and is not an item of tax preference for purposes of the federal alternative minimum income tax. (See "TAX MATTERS" and Appendix C - "Form of Legal Opinion of Bond Counsel.")
Payment Record	The District has never defaulted on the payment of its bonded indebtedness.
Legal Opinion	Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by Hunton Andrews Kurth LLP, Houston, Texas, Bond Counsel.
Delivery	When issued, anticipated to be on or about November 21, 2019.
Concurrent Issuance of Bonds by the District	The Bonds are being issued concurrently with the District's contemplated issuance of $61,190,000 (preliminary, subject to change) Barbers Hill Independent School District Unlimited Tax Refunding Bonds, Taxable Series 2019, scheduled to close on or about November 21, 2019 (the "2019 Refunding Bonds"). This Official Statement describes only the Bonds and not the 2019 Refunding Bonds. Investors interested in making an investment decision concerning the 2019 Refunding Bonds should review the offering document relating thereto.

INTRODUCTORY STATEMENT

This Official Statement (the "Official Statement"), which includes the cover page and the Appendices attached hereto, has been prepared by the Barbers Hill Independent School District (the "District"), a political subdivision of the State of Texas (the "State") located in Chambers County, Texas, in connection with the offering by the District of its Unlimited Tax School Building Bonds, Series 2019 (the "Bonds") identified on page ii hereof.

Concurrently with the issuance of the Bonds, the District is issuing its Unlimited Tax Refunding Bonds, Taxable Series 2019 (the "2019 Refunding Bonds." This Official Statement describes only the Bonds and not the 2019 Refunding Bonds. Investors interested in making an investment decision concerning the 2019 Refunding Bonds should review the offering document relating thereto.

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

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

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

THE BONDS

Authorization and Purpose

The Bonds are being issued pursuant to the Constitution and general laws of the State, including particularly Sections 45.001 and 45.003(b)(1), as amended, Texas Education Code, Chapter 1371, Texas Government Code, as amended ("Chapter 1371"), an election held in the District on May 6, 2017 (the "Election") and the Bond Order adopted on September 23, 2019 (the "Bond Order"). As permitted by Chapter 1371, the Board, in the Bond Order, delegated the authority to certain District officials (the "Pricing Officer") to execute a pricing certificate (the "Pricing Certificate") establishing the pricing terms of the Bonds (the Pricing Certificate, and the Bond Order, are collectively referred to herein as the "Order"). Proceeds from the sale of the Bonds will be used for (i) the construction, acquisition, and equipment of school buildings in the District, the purchase of new school buses, and the purchase of necessary sites for school buildings and (ii) paying the costs of issuing the Bonds.

General Description

The Bonds will be dated November 1, 2019 (the "Dated Date") and will bear interest from the Dated Date. The Bonds will mature on the dates and in the principal amounts set forth on page ii of this Official Statement. Interest on the Bonds will be computed on the basis of a 360-day year of twelve 30-day months, and is payable on February 15, 2020 and on each August 15 and February 15 thereafter until stated maturity.

The Bonds will be issued only as fully registered bonds. The Bonds will be issued in the denominations of $5,000 of principal or any integral multiple thereof within a maturity.

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

If the date for the payment of the principal of or interest on the Bonds is a Saturday, Sunday, legal holiday or a day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not a Saturday, Sunday, legal holiday or a day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

No Optional Redemption

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

Mandatory Sinking Fund Redemption

Two or more consecutive maturities of the Bonds may be grouped together as one or more "Term Bonds" by the Underwriters, and such Term Bonds would be subject to mandatory sinking fund redemption in accordance with the provisions of the Order. In that event, the redemption provisions will be described in the final Official Statement.

Security

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

Permanent School Fund Guarantee

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

In the event the District defeases any of the Bonds, the payment of such defeased Bonds will cease to be guaranteed by the Permanent School Fund Guarantee.

Legality

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

Payment Record

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

Defeasance

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

Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District authorizes the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that on the date the governing body of the District adopts or approves the proceedings authorizing the financial arrangements have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Bond Order does not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used for defeasance purposes or that for any other Defeasance Security will be maintained at any particular rating category.

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

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

Sources and Uses of Funds

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

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

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

REGISTERED OWNERS' REMEDIES

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

The District is also eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Chapter 9 includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or registered owners of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Co-Bond Counsel will note that all opinions relative to the enforceability of the Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, including rights afforded to creditors under the Bankruptcy Code.

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

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the Book-Entry-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 tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. All payments with respect to the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the District or the

Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, physical Bond certificates are required to be printed and delivered.

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

The information in this section concerning DTC and DTC's Book-Entry-Only System has been obtained from sources that the District believes to be reliable, but none of the District, the Financial Advisor, nor the Underwriters take any responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of this Official Statement

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

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

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

Successor Paying Agent/Registrar

Provision is made in the Order for replacing the Paying Agent/Registrar. If the District replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District shall be a commercial bank or trust company organized under the laws of the United States or any state or other entity duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District has agreed to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first-class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Initial Registration

Definitive Bonds will be initially registered and delivered only to CEDE & CO., the nominee of DTC pursuant to the Book-Entry-Only System described herein.

Future Registration

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

Record Date For Interest Payment

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

Replacement Bonds

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

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

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

History and Purpose

The PSF was created with a $2,000,000 appropriation by the Texas Legislature (the "Legislature") in 1854 expressly for the benefit of the public schools of Texas. The Constitution of 1876 stipulated that certain lands and all proceeds from the sale of these lands should also constitute the PSF. Additional acts later gave more public domain land and rights to the PSF. In 1953, the U.S. Congress passed the Submerged Lands Act that relinquished to coastal states all rights of the U.S. navigable waters within state boundaries. If the state, by law, had set a larger boundary prior to or at the time of admission to the Union, or if the boundary had been approved by Congress, then the larger boundary applied. After three years of litigation (1957-1960), the U. S. Supreme Court on May 31, 1960, affirmed Texas' historic three marine leagues (10.35 miles) seaward boundary. Texas proved its submerged lands property rights to three leagues into the Gulf of Mexico by citing historic laws and treaties dating back to 1836. All lands lying within that limit belong to the PSF. The proceeds from the sale and the mineral-related rental of these lands, including bonuses, delay rentals and royalty payments, become the corpus of the Fund. Prior to the approval by the voters of the State of an amendment to the constitutional provision under which the Fund is established and administered, which occurred on September 13, 2003 (the "Total Return Constitutional Amendment"), and which is further described below, the PSF had as its main sources of revenues capital gains from securities transactions and royalties from the sale of oil and natural gas. The Total Return Constitutional Amendment provides that interest and dividends produced by Fund investments will be additional revenue to the PSF. The State School Land Board ("SLB") maintains the land endowment of the Fund on behalf of the Fund and is generally 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"). (But see "2019 Texas Legislative Session" for a description of legislation that is expected to change the composition of the SLB). As of August 31, 2018, the General Land Office (the "GLO") managed approximately 23% 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 distributions to the ASF amounted to an estimated $247 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, 2018, 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, 2018 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, 2018 and for a description of the financial results of the PSF for the year ended August 31, 2018, the most recent year for which audited financial information regarding the Fund is available. The 2018 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2018 Annual Report or any other Annual Report. The TEA posts each Annual Report, which includes statistical data regarding the Fund as of the close of each fiscal year, the most recent disclosure for the Guarantee Program, the

Statement of Investment Objectives, Policies and Guidelines of the Texas Permanent School Fund, which is codified at 19 Texas Administrative Code, Chapter 33 (the "Investment Policy"), monthly updates with respect to the capacity of the Guarantee Program (collectively, the "Web Site Materials") on the TEA web site at http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/ and with the MSRB at www.emma.msrb.org. Such monthly updates regarding the Guarantee Program are also incorporated herein and made a part hereof for all purposes. In addition to the Web Site Materials, the Fund is required to make quarterly filings with the SEC under Section 13(f) of the Securities Exchange Act of 1934. Such filings, which consist of a list of the Fund's holdings of securities specified in Section 13(f), including exchange-traded (e.g., NYSE) or NASDAQ-quoted stocks, equity options and warrants, shares of closed-end investment companies and certain convertible debt securities, is available from the SEC at www.sec.gov/edgar.shtml. A list of the Fund's equity and fixed income holdings as of August 31 of each year is posted to the TEA web site and filed with the MSRB. Such list excludes holdings in the Fund's securities lending program. Such list, as filed, is incorporated herein and made a part hereof for all purposes.

2019 Texas Legislative Session

During the 86th Regular Session of the Texas Legislature, which concluded on May 27, 2019 (the "86th Session"), various bills were enacted that relate to the PSF. Among such enacted legislation are bills that relate to the composition of the SLB and its relationship to the SBOE with respect to the management of the PSF. Legislation was approved that will change the composition of the SLB to a five member board from a three member board. Under that bill, the Land Commissioner will continue to head the SLB, but the remaining four members will be appointed by the Governor, and of those four members, two are required to be selected from a list of nominees to be submitted to the Governor by the SBOE. That legislation also requires an annual joint meeting of the SLB and the SBOE for the purpose of discussing the allocation of the assets of the PSF and the investment of money in the PSF. Other enacted legislation requires the SLB and the SBOE to provide quarterly financial reports to each other and creates a "permanent school fund liquid account" in the PSF for the purpose of receiving funds transferred from the SLB on a quarterly basis that are not then invested by the SLB or needed within the forthcoming quarter for investment by the SBOE. Such funds shall be invested in liquid assets in the same manner that the PSF is managed until such time as the funds are required for investment by the SLB. That legislation also requires the Texas Education Agency, in consultation with the GLO, to conduct a study regarding distributions to the ASF from the PSF. In addition, a joint resolution was approved that proposes a constitutional amendment to the Texas Constitution to increase the permissible amount of distributions to the ASF from revenue derived during a year from PSF land or other properties from $300 million to $600 million annually. That constitutional change is subject to approval at a State-wide referendum to be conducted on November 5, 2019.

Other legislation enacted during the 86th Session provides for the winding up of the affairs of an open-enrollment charter school that ceases operations, including as a result of the revocation or other termination of its charter. In particular, among other provisions, the legislation addresses the disposition of real and personal property of a discontinued charter school and provides under certain circumstances for reimbursement to be made to the State, if the disposed property was acquired with State funds; authorizes the Commissioner to adopt a rule to govern related party transactions by charter schools; and creates a "charter school liquidation fund" for the management of any reclaimed State funds, including, in addition to other potential uses, for the use of deposit of such reclaimed funds to the Charter District Reserve Fund.

No assessment has been made by the TEA or PSF staff as to the potential financial impact of any legislation enacted during the 86th Session, including the increase in the permissible amount that may be transferred from the PSF to the ASF, should State voters approve the proposed constitutional amendment described above on November 5, 2019.

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: 40.52% in public market equity investments; 13.25% in fixed income investments; 10.35% in absolute return assets; 9.16% in private equity assets; 7.47% in real estate assets; 6.78% in risk parity assets; 5.95% in real return assets; 6.21% in emerging market debt; and 0.31% in unallocated cash.

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

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

The asset allocation of the Fund's financial assets portfolio is subject to change by the SBOE from time to time based upon a number of factors, including recommendations to the SBOE made by internal investment staff and external consultants, changes made by the SBOE without regard to such recommendations and directives of the Legislature. Fund performance may also be affected by factors other than asset allocation, including, without limitation, the general performance of the securities markets in the United States and abroad; political and investment considerations including those relating to socially responsible investing; economic impacts relating to domestic and international climate change; development of hostilities in and among nations; cybersecurity issues that affect the securities markets, 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 SLB. 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. Based upon the cost basis of the Fund at August 31, 2018, the State Law Capacity increased from $111,568,711,072 on August 31, 2017 to $118,511,255,268 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/, 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, the ratio of Fund assets to guaranteed bonds and the growth of the Fund in general could be adversely affected by a number of factors, including 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, changes in State laws that implement funding decisions for school districts and charter districts, which could adversely affect the credit quality of those districts, 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. 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 27, 2019 (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 5.85%. As of June 10, 2019, there were 181 active open-enrollment charter schools in the State and there were 764 charter school campuses operating under such charters (though as of such date, 15 of such campuses have not begun serving students for various reasons). Section 12.101, Texas Education Code, as amended by the Legislature in 2013, limits the number of charters that the Commissioner may grant to 215 charters as of the end of fiscal year 2014, with the number increasing in each fiscal year thereafter through 2019 to a total number of 305 charters. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see "Capacity Limits for the Guarantee Program." The Act provides that the Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

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

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

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

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

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

From time to time, TEA has limited new guarantees under the Charter District Bond Guarantee Program to conform to capacity limits specified by the Act. Legislation enacted during the Legislature's 2017 regular session modified the manner of calculating the capacity of the Charter District Bond Guarantee Program (the "CDBGP Capacity"), which further increased 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 April 30, 2019, the amount of outstanding bond guarantees represented 69.90% 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 5.85% in February 2019. 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 determined not to implement a previously approved the multiplier increase to 3.75 times market value, opting to increase the multiplier to 3.50 times 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 April 30, 2019, the Charter District Reserve Fund represented approximately 0.87% 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 April 30, 2019, the Charter District Reserve Fund contained $14,743,830.

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.

Legislation was approved during the 86th Session that provides supplemental appropriations to the TEA in amounts of $535,200,000 and $636,000,000 for the fiscal biennia ending August 31, 2019 and August 31, 2021, respectively. Those appropriations are designated for use as an adjustment to school district property values and reimbursement for disaster remediation costs as a result of Hurricane Harvey. That legislation also included a reimbursement to the TEA in the amount of $271,300,000 for costs previously incurred by the TEA for increased student costs, the reduction in school district property values and other disaster remediation costs stemming from Hurricane Harvey. 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 "RATINGS" herein.

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations

Fiscal Year Ended 8/31	Book Value[1]	Market Value[1]
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[2]	33,860,358,647	44,074,197,940

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

[2] At August 31, 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 $13.4 million, $238.8 million, $2,983.3 million, $7.5 million, and $4,247.3 million, respectively, and market values of approximately $2,022.8 million, $661.1 million, $3,126.7 million, $4.2 million, and $4,247.3 million, respectively. At April 30, 2019, the PSF had a book value of $34,917,398,274 and a market value of $44,978,512,134. April 30, 2019 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds

At 8/31	Principal Amount[1]
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[2]

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

[2] As of August 31, 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 $126,346,333,815, of which $47,265,432,746 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), 97.35% of Program capacity was available to the School District Bond Guarantee Program and 2.65% was available to the Charter District Bond Guarantee Program.

Permanent School Fund Guaranteed Bonds by Category[1]

	School District Bonds		Charter District Bonds		Totals	
Fiscal Year Ended 8/31	No. of Issues	Principal Amount	No. of Issues	Principal Amount	No. of Issues	Principal Amount
2014[2]	2,869	$58,061,805,783	10	$302,545,000	2,879	$58,364,350,783
2015	3,089	63,197,514,047	28	757,935,000	3,117	63,955,449,047
2016	3,244	67,342,303,445	35	961,025,000	3,279	68,303,328,445
2017	3,253	72,884,480,023	40	1,381,610,000	3,293	74,266,090,023
2018[3]	3,249	77,647,966,069	44	1,432,935,000	3,293	79,080,901,069

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

[2] Fiscal 2014 was the first year of operation of the Charter District Bond Guarantee Program.

[3] At April 30, 2019 (based on unaudited data, which is subject to adjustment), there were $82,005,532,177 of bonds guaranteed under the Guarantee Program, representing 3,269 school district issues, aggregating $80,311,477,177 in principal amount and 46 charter district issues, aggregating $1,694,055,000 in principal amount. At April 30, 2019, the capacity allocation of the Charter District Bond Guarantee Program was $3,265,722,717 (based on unaudited data, which is subject to adjustment).

Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2018

The following discussion is derived from the Annual Report for the year ended August 31, 2018, including the Message of the Executive Administrator of the Fund and the Management's Discussion and Analysis contained therein. Reference is made to the Annual Report, when filed, for the complete Message and MD&A. Investment assets managed by the fifteen member SBOE are referred to throughout this MD&A as the PSF(SBOE) assets. As of August 31, 2018, 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 2018, the Fund balance was $44.0 billion, an increase of $2.6 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, 2018, were 7.23%, 7.68% and 6.92%, 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, five-year, and ten-year annualized total returns for the PSF(SLB) real assets, including cash, were 8.69%, 7.78%, and 4.23%, 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, 2018, 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, 2018, the SBOE has approved and the Fund made capital commitments to externally managed real estate investment funds in a total amount of $4.2 billion and capital commitments to private equity limited partnerships for a total of $5.2 billion. Unfunded commitments at August 31, 2018, totaled $1.5 billion in real estate investments and $2.1 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, 2018, the remaining commitments totaled approximately $2.6 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 19.83%, 23.95%, 3.51%, and -1.07%, respectively, during the fiscal year ended August 31, 2018. The PSF(SBOE)'s investment in domestic fixed income securities produced a return of -0.78% during the fiscal year and absolute return investments yielded a return of 6.66%. The PSF(SBOE) real estate and private equity investments returned 12.01% and 15.94%, respectively. Risk parity assets produced a return of 3.43%, while real return assets yielded 0.70%. Emerging market debt produced a return of -11.40%. Combined, all PSF(SBOE) asset classes produced an investment return of 7.23% for the fiscal year ended August 31, 2018, out-performing the benchmark index of 6.89% by approximately 34 basis points. All PSF(SLB) real assets (including cash) returned 8.69% for the fiscal year ending August 31, 2018.

For fiscal year 2018, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled $4.0 billion, a decrease of $1.4 billion from fiscal year 2017 earnings of $5.4 billion. This decrease reflects the performance of the securities markets in which the Fund was invested in fiscal year 2018. In fiscal year 2018, 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, decreased 17.1% for the fiscal year ending August 31, 2018. This decrease is primarily attributable to a decrease in PSF(SLB) 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 2017 and 2018, the distribution from the SBOE to the ASF totaled $1.1 billion and $1.2 billion, respectively. There were no contributions to the ASF by the SLB in fiscal years 2017 and 2018.

At the end of the 2018 fiscal year, PSF assets guaranteed $79.1 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 7,242 school district and charter district bond issues totaling $176.4 billion in principal amount. During the 2018 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program remained flat at 3,293. The dollar amount of guaranteed school and charter bond issues outstanding increased by $4.8 billion or 6.5%. The State Capacity Limit increased by $6.9 billion, or 6.2%, during fiscal year 2018 due to continued growth in the cost basis of the Fund used to calculate that Program capacity limit. The effective capacity of the Program increased by only $5.7 billion, or 5.2%, during fiscal year 2018 as the IRS Limit was reached during the fiscal year, and it is the lower of the two State and federal capacity limits for the Program.

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 million 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.

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, 2018, certain lawsuits were pending against the State and/or the GLO, which challenge the Fund's title to certain real property and/or past or future mineral income from that property, and other litigation arising in the normal course of the investment activities of the PSF. Reference is made to the Annual Report, when filed, for a description of such lawsuits that are pending, which may represent contingent liabilities of the Fund.

PSF Continuing Disclosure Undertaking

The SBOE has adopted an investment policy rule (the "TEA Rule") pertaining to the PSF and the Guarantee Program. The TEA Rule is codified in Section I of the TEA Investment Procedure Manual, which relates to the Guarantee Program and is posted to the TEA web site at http://tea.texas.gov/Finance_and_Grants/Texas_Permanent_School_Fund/Texas_Permanent_School_Fund_Disclosure_Statement_-_Bond_Guarantee_Program/. The most recent amendment to the TEA Rule was adopted by the SBOE on February 1, 2019, and is summarized below. Through the adoption of the TEA Rule and its commitment to guarantee bonds, the SBOE has made the following agreement for the benefit of the issuers, holders and beneficial owners of guaranteed bonds. The TEA (or its successor with respect to the management of the Guarantee Program) is required to observe the agreement for so long as it remains an "obligated person," within the meaning of Rule 15c2-12, with respect to guaranteed bonds. Nothing in the TEA Rule obligates the TEA to make any filings or disclosures with respect to guaranteed bonds, as the obligations of the TEA under the TEA Rule pertain solely to the Guarantee Program. The issuer or an "obligated person" of the guaranteed bonds has assumed the applicable obligation under Rule 15c2-12 to make all disclosures and filings relating directly to guaranteed bonds, and the TEA takes no responsibility with respect to such undertakings. Under the TEA agreement, the TEA will be obligated to provide annually certain updated financial information and operating data, and timely notice of specified material events, to the MSRB.

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

Annual Reports

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

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

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

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

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.

Limitations and Amendments

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

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

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

Compliance with Prior Undertakings

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

SEC Exemptive Relief

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

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

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

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

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

Possible Effects of Changes in Law on District Bonds

The Court's decision in Morath upheld the constitutionality of the Finance System but noted that the 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 any litigation that may be associated with such legislation, on the District's financial condition, revenues or operations. While the enactment of future legislation to address school funding in Texas could adversely affect the financial condition, revenues or operations of the District, the District does not anticipate that the security for payment of the Bonds, specifically, the District's obligation to levy an unlimited debt service tax and any Permanent School Fund guarantee of the Bonds would be adversely affected by any such legislation. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM".

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

During the 2019 Legislative Session, the State Legislature made numerous changes to the current public school finance system, the levy and collection of ad valorem taxes, and the calculation of defined tax rates, including particularly those contained in House Bill 3 ("HB 3") and Senate Bill 2 ("SB 2"). In some instances, the provisions of HB 3 and SB 2 will require further interpretation in connection with their implementation in order to resolve ambiguities contained in the bills. The District is still in the process of (a) analyzing the provisions of HB 3 and SB 2, and (b) monitoring the on-going guidance provided by TEA. The information contained herein under the captions "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" and "TAX RATE LIMITATIONS" is subject to change, and only reflects the District's understanding of HB 3 and SB 2 based on information available to the District as of the date of this Official Statement. Prospective investors are encouraged to review HB 3, SB 2, and the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes, the calculation of the defined tax rates, and the administration of the current public school finance system.

Overview

The following language constitutes only a summary of the public school 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 43 through 49 of the Texas Education Code, as amended.

Local funding is derived from collections of ad valorem taxes levied on property located within each school district's boundaries. School districts are authorized to levy two types of property taxes: a maintenance and operations ("M&O") tax to pay current expenses and an interest and sinking fund ("I&S") tax to pay debt service on bonds. School districts may not increase their M&O tax rate for the purpose of creating a surplus to pay debt service on bonds. Prior to 2006, school districts were authorized to levy their M&O tax at a voter-approved rate, generally up to $1.50 per $100 of taxable value. Since 2006, the State Legislature has enacted various legislation that has compressed the voter-approved M&O tax rate, as described below. Current law also requires school districts to demonstrate their ability to pay debt service on outstanding bonded indebtedness through the levy of an I&S tax at a rate not to exceed $0.50 per $100 of taxable value at the time bonds are issued. Once bonds are issued, however, school districts generally may levy an I&S tax sufficient to pay debt service on such bonds unlimited as to rate or amount (see "TAX RATE LIMITATIONS – I&S Tax Rate Limitations" herein). Because property values vary widely among school districts, the amount of local funding generated by school districts with the same I&S tax rate and M&O tax rate is also subject to wide variation; however, the public school finance funding formulas are designed to generally equalize local funding generated by a school district's M&O tax rate.

Prior to the 2019 Legislative Session, a school district's maximum M&O tax rate for a given tax year was determined by multiplying that school district's 2005 M&O tax rate levy by an amount equal a compression percentage set by legislative appropriation or, in the absence of legislative appropriation, by the Commissioner of Education (the "Commissioner"). This compression percentage was historically 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, since most school districts in the State had a voted maximum M&O tax rate of $1.50 per $100 of taxable value (though certain school districts located in Harris County had special M&O tax rate authorizations allowing a higher M&O tax rate). School districts were permitted, however, to generate additional local funds by raising their M&O tax rate up to $0.04 above the compressed tax rate or, with voter-approval at a valid election in the school district, up to $0.17 above the compressed tax rate (for most school districts, this equated to an M&O tax rate between $1.04 and $1.17 per $100 of taxable value). School districts received additional State funds in proportion to such taxing effort.

Local Funding for School Districts

During the 2019 Legislative Session, the State Legislature made several significant changes to the funding methodology for school districts (the "2019 Legislation"). The 2019 Legislation orders a school district's M&O tax rate into two distinct parts: the "Tier One Tax Rate", which is the local M&O tax rate required for a school district to receive any part of the basic level of State funding (referred to herein as "Tier One") under the Foundation School Program, as further described below, and the "Enrichment Tax

Rate", which is any local M&O tax effort in excess of its Tier One Tax Rate. The 2019 Legislation amended formulas for the State Compression Percentage and Maximum Compressed Tax Rate (each as described below) to compress M&O tax rates in response to year-over-year increases in property values across the State and within a school district, respectively. The discussion in this subcaption "Local Funding For School Districts" is generally intended to describe funding provisions applicable to all school districts; however, there are distinctions in the funding formulas for school districts that generate local M&O tax revenues in excess of the school districts' funding entitlements, as further discussed under the subcaption "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Revenue Level In Excess of Entitlement" herein.

State Compression Percentage

The "State Compression Percentage" for the State fiscal year ending in 2020 (the 2019-2020 school year) is a statutorily-defined percentage of the rate of $1.00 per $100 at which a school district must levy its Tier One Tax Rate to receive the full amount of the Tier One funding to which a school district is entitled. For the State fiscal year ending in 2020, the State Compression Percentage is set at 93% per $100 of taxable value. Beginning in the State fiscal year ending in 2021, the State Compression Percentage is the lesser of three alternative calculations: (1) 93% or a lower percentage set by appropriation for a school year; (2) a percentage determined by formula if the estimated total taxable property value of the State (as submitted annually to the State Legislature by the State Comptroller) has increased by at least 2.5% over the prior year; and (3) the prior year State Compression Percentage. For any year, the maximum State Compression Percentage is 93%.

Maximum Compressed Tax Rate

Pursuant to the 2019 Legislation, beginning with the State fiscal year ending in 2021 (the 2020-2021 school year) the Maximum Compressed Tax Rate (the "MCR") is the tax rate per $100 of valuation of taxable property at which a school district must levy its Tier One Tax Rate to receive the full amount of the Tier One funding to which the school district is entitled. The MCR is equal to the lesser of three alternative calculations: (1) the school district's prior year MCR; (2) a percentage determined by formula if the school district experienced a year-over-year increase in property value of at least 2.5%; or (3) the product of the State Compression Percentage for the current year multiplied by $1.00. However, each year the TEA shall evaluate the MCR for each school district in the State, and for any given year, if a school district's MCR is calculated to be less than 90% of any other school district's MCR for the current year, then the school district's MCR is instead equal to the school district's prior year MCR, until TEA determines that the difference between the school district's MCR and any other school district's MCR is not more than 10%. These compression formulas are intended to more closely equalize local generation of Tier One funding among districts with disparate tax bases and generally reduce the Tier One Tax Rates of school districts as property values increase.

Tier One Tax Rate

For the 2019-2020 school year, the Tier One Tax Rate is the State Compression Percentage multiplied by (i) $1.00, or (ii) for a school district that levied an M&O tax rate for the 2018-2019 school year that was less than $1.00 per $100 of taxable value, the total number of cents levied by the school district for the 2018-2019 school year for M&O purposes; effectively setting the Tier One Tax Rate for the State fiscal year ending in 2020 for most school districts at $0.93. Beginning in the 2020-2021 school year, a school district's Tier One Tax Rate is defined as a school district's M&O tax rate levied that does not exceed the school district's MCR.

Enrichment Tax Rate

The Enrichment Tax Rate is the number of cents a school district levies for M&O in excess of the Tier One Tax Rate, up to an additional $0.17. The Enrichment Tax Rate is divided into two components: (i) "Golden Pennies" which are the first $0.08 of tax effort in excess of a school district's Tier One Tax Rate; and (ii) "Copper Pennies" which are the next $0.09 in excess of a school district's Tier One Tax Rate plus Golden Pennies.

School districts may levy an Enrichment Tax Rate at a level of their choice, subject to the limitations described under "TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate"; however to levy any of the Enrichment Tax Rate in a given year, a school district must levy a Tier One Tax Rate equal to $0.93 for the 2019-2020 school year, or equal to the school district's MCR for the 2020-2021 and subsequent years. Additionally, a school district's levy of Copper Pennies is subject to compression if the guaranteed yield (i.e., the guaranteed level of local tax revenue and State aid generated for each cent of tax effort) of Copper Pennies is increased from one year to the next (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts – Tier Two").

State Funding for School Districts

State funding for school districts is provided through the two-tiered Foundation School Program, which guarantees certain levels of funding for school districts in the State. School districts are entitled to a legislatively appropriated guaranteed yield on their Tier One Tax Rate and Enrichment Tax Rate. When a school district's Tier One Tax Rate and Enrichment Tax Rate generate tax revenues at a level below the respective entitlement, the State will provide "Tier One" funding or "Tier Two" funding, respectively, to fund the difference between the school district's entitlements and the calculated M&O revenues generated by the school district's respective M&O tax rates.

The first level of funding, Tier One, is the basic level of funding guaranteed to all school districts based on a school district's Tier One Tax Rate. Tier One funding may then be "enriched" with Tier Two funding. Tier Two provides a guaranteed entitlement for each cent of a school district's Enrichment Tax Rate, allowing a school district increase or decrease its Enrichment Tax Rate to supplement Tier One funding at a level of the school district's own choice. While Tier One funding may be used for the payment of debt service (except for school districts subject to the recapture provisions of Chapter 49 of the Texas Education Code, as discussed herein), and in some instances is required to be used for that purpose (see "TAX RATE LIMITATIONS – I&S Tax Rate Limitations"), Tier Two funding may not be used for the payment of debt service or capital outlay.

The current public school 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. For the 2020-2021 State fiscal biennium, the State Legislature appropriated funds in the amount of $1,323,444,300 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 school 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, provided that a school district qualifies for such funding and that the State Legislature makes sufficient appropriations to fund the allotments for a State fiscal biennium. Tier One and Tier Two allotments and existing EDA and IFA allotments are generally required to be funded each year by the State Legislature.

Tier One

Tier One funding is the basic level of funding guaranteed to a school district, consisting of a State-appropriated baseline level of funding (the "Basic Allotment") for each student in "Average Daily Attendance" (being generally calculated as the sum of student attendance for each State-mandated day of instruction divided by the number of State-mandated days of instruction, defined herein as "ADA"). The Basic Allotment is revised downward if a school district's Tier One Tax Rate is less than the State-determined threshold. The Basic Allotment is supplemented by additional State funds, allotted based upon the unique school district characteristics and demographics of students in ADA, to make up most of a school district's Tier One entitlement under the Foundation School Program.

For the 2019-2020 State fiscal year, the Basic Allotment for school districts with a Tier One Tax Rate equal to $0.93, is $6,160 for each student in ADA and is revised downward for school districts with a Tier One Tax Rate lower than $0.93. For the State fiscal year ending in 2021 and subsequent State fiscal years, the Basic Allotment for a school district with a Tier One Tax Rate equal to the school district's MCR, is $6,160 (or a greater amount as may be provided by appropriation) for each student in ADA and is revised downward for a school district with a Tier One Tax Rate lower than the school district's MCR. The Basic Allotment is then supplemented for all school districts by various weights to account for differences among school districts and their student populations. Such additional allotments include, but are not limited to, increased funds for students in ADA who: (i) attend a qualified special education program, (ii) are diagnosed with dyslexia or a related disorder, (iii) are economically disadvantaged, or (iv) have limited English language proficiency. Additional allotments to mitigate differences among school districts include, but are not limited to: (i) a transportation allotment for mileage associated with transporting students who reside two miles or more from their home campus, (ii) a fast growth allotment (for school districts in the top 25% of enrollment growth relative to other school districts), and (iii) a college, career and military readiness allotment to further Texas' goal of increasing the number of students who attain a post-secondary education or workforce credential, and (iv) a teacher incentive allotment to increase teacher compensation retention in disadvantaged or rural school districts. A school district's total Tier One funding, divided by $6,160, is a school district's measure of students in "Weighted Average Daily Attendance" ("WADA"), which serves to calculate Tier Two funding.

Tier Two

Tier Two supplements Tier One funding and provides two levels of enrichment with different guaranteed yields (i.e., Golden Pennies and Copper Pennies) depending on the school district's Enrichment Tax Rate. Golden Pennies generate a guaranteed yield equal to the greater of (i) the local revenue per student in WADA per cent of tax effort available to a school district at the ninety-sixth (96th) percentile of wealth per student in WADA, or (ii) the Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.016. For the 2020-2021 State fiscal biennium, school districts are guaranteed a yield of $98.56 per student in WADA for each Golden Penny levied. Copper Pennies generate a guaranteed yield per student in WADA equal to the school district's Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.008. For the 2020-2021 State fiscal biennium, school districts are guaranteed a yield of $49.28 per student in WADA for each Copper Penny levied. For any school year in which the guaranteed yield of Copper Pennies per student in WADA exceeds the guaranteed yield of Copper Pennies per student in WADA for the preceding school year, a school district is required to reduce its Copper Pennies levied so as to generate no more revenue per student in WADA than was available to the school district for the preceding year. Accordingly, the increase in the guaranteed yield from $31.95 per Copper Penny per student in WADA for the 2018-2019 school year to $49.28 per Copper Penny per student in WADA for the 2019-2020 school year requires school districts to compress their levy of Copper Pennies by a factor of 0.64834. As such, school districts that levied an Enrichment Tax Rate of $0.17 in school year 2018-2019 must reduce their Enrichment Tax Rate to approximately $0.138 per $100 taxable value for the 2019-2020 school year.

Existing Debt Allotment, Instruction Facilities Allotment, and New Instructional Facilities Allotment

The Foundation School Program also includes facilities funding components consisting of the IFA and the EDA, subject to legislative appropriation each State fiscal biennium. To the extent funded for a biennium, these programs assist school districts in funding facilities by, generally, equalizing a school district's I&S tax effort. The IFA guarantees each awarded school district a specified amount per student (the "IFA Yield") in State and local funds for each cent of I&S tax levied to pay the principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. The IFA Yield 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 new IFA awards are available, a school district must apply to the Commissioner in accordance with rules adopted by the TEA before issuing the bonds to be paid with IFA State assistance. The total amount of debt service assistance over a biennium for which a school district may be awarded is limited to the lesser of (1) the actual debt service payments made by the school 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 school 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. For the 2020-2021 State fiscal biennium, the State Legislature did not appropriate any funds for new IFA awards; however, awards previously granted in years the State Legislature did appropriate funds for new IFA awards will continue to be funded.

State financial assistance is provided for certain existing eligible debt issued by school districts through the EDA program. The EDA guaranteed yield (the "EDA Yield") is the lesser of (i) $40 per student in ADA 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 school districts would have been entitled to if the EDA Yield were $35. The portion of a school district's local debt service rate that qualifies for EDA assistance is limited to the first $0.29 of its I&S tax rate (or a greater amount for any year provided by appropriation by the State Legislature). In general, a school district's bonds are eligible for EDA assistance if (i) the school district made payments on the bonds during the final fiscal year of the preceding State fiscal biennium, or (ii) the school 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 school district may not receive EDA funding for the principal and interest on a series of otherwise eligible bonds for which the school district receives IFA funding.

Since future-year IFA awards were not funded by the State Legislature for the 2020-2021 State fiscal biennium and debt service assistance on school district bonds that are not yet eligible for EDA is not available, debt service payments during the 2020-2021 State fiscal biennium on new bonds issued by school districts in the 2020-2021 State fiscal biennium to construct, acquire and improve facilities must be funded solely from local I&S taxes.

A school district may also qualify for a NIFA allotment, which provides assistance to school districts for operational expenses associated with opening new instructional facilities. In the 2019 Legislative Session, the State Legislature appropriated funds in the amount of $100,000,000 for each fiscal year of the 2020-2021 State fiscal biennium for NIFA allotments.

Tax Rate and Funding Equity

The Commissioner may adjust a school district's funding entitlement if the funding formulas used to determine the school district's entitlement result in an unanticipated loss or gain for a school district. Any such adjustment requires preliminary approval from the Legislative Budget Board and the office of the Governor, and such adjustments may only be made through the 2020-2021 school year.

Additionally, the Commissioner may proportionally reduce the amount of funding a school district receives under the Foundation School Program and the ADA calculation if the school district operates on a calendar that provides less than the State-mandated minimum instruction time in a school year. The Commissioner may also adjust a school district's ADA as it relates to State funding where disaster, flood, extreme weather or other calamity has a significant effect on a school district's attendance.

Furthermore, "property-wealthy" school districts that received additional State funds under the public school finance system prior to the enactment of the 2019 Legislation are entitled to an equalized wealth transition grant on an annual basis through the 2023-2024 school year in an amount equal to the amount of additional revenue such school district would have received under former Texas Education Code Sections 41.002(e) through (g), as those sections existed on January 1, 2019. This grant is phased out through the 2023-2024 school year as follows: (1) 20% reduction for the 2020-2021 school year, (2) 40% reduction for the 2021-2022 school year, (3) 60% reduction for the 2022-2023 school year, and (4) 80% reduction for the 2023-2024 school year.

Local Revenue Level in Excess of Entitlement

A school district that has sufficient property wealth per student in ADA to generate local revenues on the school district's Tier One Tax Rate and Copper Pennies in excess of the school district's respective funding entitlements (a "Chapter 49 school district") is subject to the local revenue reduction provisions contained in Chapter 49 of Texas Education Code, as amended ("Chapter 49"). Additionally, in years in which the amount of State funds appropriated specifically excludes the amount necessary to provide the guaranteed yield for Golden Pennies, local revenues generated on a school district's Golden Pennies in excess of the school district's respective funding entitlement are subject to the local revenue reduction provisions of Chapter 49. To reduce local revenue, Chapter 49 school districts are generally subject to a process known as "recapture", which requires a Chapter 49 school district to exercise certain options to remit local M&O tax revenues collected in excess of the Chapter 49 school district's funding entitlements to the State (for redistribution to other school districts) or otherwise expending the respective M&O tax revenues for the benefit of students in school districts that are not Chapter 49 school districts, as described in the subcaption "Options for Local Revenue Levels in Excess of Entitlement". Chapter 49 school districts receive their allocable share of funds distributed from the constitutionally-prescribed Available School Fund, but are generally not eligible to receive State aid under the Foundation School Program, although they may continue to receive State funds for certain competitive grants and certain programs that remain outside the Foundation School Program.

Whereas prior to the 2019 Legislation, the recapture process had been based on the proportion of a school district's assessed property value per student in ADA, recapture is now measured by the "local revenue level" (being the M&O tax revenues generated in a school district) in excess of the entitlements appropriated by the State Legislature each fiscal biennium. Therefore, school districts are now guaranteed that recapture will not reduce revenue below their statutory entitlement. The changes to the wealth transfer provisions are expected to reduce the cumulative amount of recapture payments paid by school districts by approximately $3.6 billion during the 2020-2021 State fiscal biennium.

Options for Local Revenue Levels in Excess of Entitlement

Under Chapter 49, a school district has six options to reduce local revenues to a level that does not exceed the school district's respective entitlements: (1) a school district may consolidate by agreement with one or more school districts to form a consolidated school district; all property and debt of the consolidating school districts vest in the consolidated school district; (2) a school district may detach property from its territory for annexation by a property-poor school district; (3) a school district may purchase attendance credits from the State; (4) a school district may contract to educate nonresident students from a property-poor school district by sending money directly to one or more property-poor school districts; (5) a school district may execute an agreement to provide students of one or more other school districts with career and technology education through a program designated as an area program for career and technology education; or (6) a school district may consolidate by agreement with one or more school districts to form a consolidated taxing school district solely to levy and distribute either M&O taxes or both M&O taxes and I&S taxes. A Chapter 49 school district may also exercise any combination of these remedies. Options (3), (4) and (6) require prior approval by the Chapter 49 school district's voters.

Furthermore, a school district may not adopt a tax rate until its effective local revenue level is at or below the level that would produce its guaranteed entitlement under the Foundation School Program. If a school district fails to exercise a permitted option, the Commissioner must reduce the school district's local revenue level to the level that would produce the school district's guaranteed entitlement, by detaching certain types of property from the school district and annexing the property to a property-poor school district or, if necessary, consolidate the school district with a property-poor school district. Provisions governing detachment and annexation of taxable property by the Commissioner do not provide for assumption of any of the transferring school district's existing debt.

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

For the 2019-2020 school year, the District was designated as an "excess local revenue" Chapter 49 school district by TEA. Accordingly, the District the District has entered into a wealth equalization agreement with the Commissioner for the purchase of attendance credits for the 2019-20 school year, for the purpose of implementing permitted wealth equalization options.

A district's local revenue level must be tested for each future school year and, if it exceeds the District's funding entitlements, the District must reduce its local revenue level by the exercise of one of the permitted wealth equalization options. Accordingly, if the District's local revenue level should exceed the District's funding entitlements in future school years, it will be required to exercise one or more of the permitted wealth equalization 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 an annexing district.

For a detailed discussion of State funding for school district see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts."

AD VALOREM TAX PROCEDURES

The following is a summary of certain provisions of State law as it relates to ad valorem taxation and is not intended to be complete. Reference is made to Title I of the Texas Tax Code, as amended (the "Property Tax Code"), for identification of property subject to ad valorem taxation, property exempt or which may be exempted from ad valorem taxation if claimed, the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Valuation of Taxable Property

The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the "Appraisal Review Board") responsible for appraising property for all taxing units within the county. The appraisal of property within the District is the responsibility of the Chambers County Appraisal District (the "Appraisal District"). Except as generally described below, the Appraisal District is required to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, the Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in its jurisdiction at least once every three (3) years. A taxing unit may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board.

State law requires the appraised value of an owner's principal residence ("homestead" or "homesteads") to be based solely on the property's value as a 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 homestead to the lesser of (1) the market value of the property or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property.

State law provides that eligible owners of both agricultural land and open-space land, including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified as both agricultural and open-space land.

The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board. The appraisal rolls, as approved by the Appraisal Review Board, are used by taxing units, such as the District, in establishing their tax rolls and tax rates (see "AD VALOREM TAX PROCEDURES – District and Taxpayer Remedies").

State Mandated Homestead Exemptions

State law grants, with respect to each school district in the State, (1) a $25,000 exemption of the appraised value of all homesteads, (2) a $10,000 exemption of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled, and (3) various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty. See "Appendix A – Financial Information of the District – Assessed Valuation" for the reduction in taxable valuation attributable to state-mandated homestead exemptions.

Local Option Homestead Exemptions

The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the appraised value of all homesteads (but not less than $5,000) and (2) an additional exemption of at least $3,000 of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable. The governing body of a school district may not repeal or reduce the amount of the local option homestead exemption described in (1), above, that was in place for the 2014 tax year (fiscal year 2015) for a period ending December 31, 2019. The exemption described in (2), above, may also be created, increased, decreased or repealed at an election called by the governing body of a taxing unit upon presentment of a petition for such creation, increase, decrease, or repeal of at least 20% of the number of qualified voters who voted in the preceding election of the taxing unit. See "Appendix A – Financial Information of the District – Assessed Valuation" for the reduction in taxable valuation, if any, attributable to local option homestead exemptions.

State Mandated Freeze on School District Taxes

Except for increases attributable to certain improvements, a school district is prohibited from increasing the total ad valorem tax on the homestead of persons sixty-five (65) years of age or older or of disabled persons above the amount of tax imposed in the year such homestead qualified for such exemption. This freeze is transferable to a different homestead if a qualifying taxpayer moves and, under certain circumstances, is also transferable to the surviving spouse of persons sixty-five (65) years of age or older, but not the disabled. See "Appendix A – Financial Information of the District – Assessed Valuation" for the reduction in taxable valuation attributable to the freeze on taxes for the elderly and disabled.

Personal Property

Tangible personal property (furniture, machinery, supplies, inventories, etc.) used in the "production of income" is taxed based on the property's market value. Taxable personal property includes income-producing equipment and inventory. Intangibles such as goodwill, accounts receivable, and proprietary processes are not taxable. Tangible personal property not held or used for production of income, such as household goods, automobiles or light trucks, and boats, is exempt from ad valorem taxation unless the governing body of a taxing unit elects to tax such property.

Freeport Exemptions

Certain goods that are acquired in or imported into the State to be forwarded outside the State, and are detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication ("Freeport Property") are exempt from ad valorem taxation unless a taxing unit took official action to tax Freeport Property before April 1, 1990 and has not subsequently taken official action to exempt Freeport Property. Decisions to continue taxing Freeport Property may be reversed in the future; decisions to exempt Freeport Property are not subject to reversal.

Certain goods, that are acquired in or imported into the State to be forwarded to another location within or without the State, stored in a location that is not owned by the owner of the goods and are transported to another location within or without the State within 175 days ("Goods-in-Transit"), are generally exempt from ad valorem taxation; however, the Property Tax Code permits a taxing unit, on a local option basis, to tax Goods-in-Transit if the taxing unit takes official action, after conducting a public hearing, before

January 1 of the first tax year in which the taxing unit proposes to tax Goods-in-Transit. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include aircraft or special inventories such as manufactured housing inventory, or a dealer's motor vehicle, boat, or heavy equipment inventory.

A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property. See "Appendix A – Financial Information of the District – Assessed Valuation" for the reduction in taxable valuation, if any, attributable to Goods-in-Transit or Freeport Property exemptions.

Other Exempt Property

Other major categories of exempt property include property owned by the State or its political subdivisions if used for public purposes, property exempt by federal law, property used for pollution control, farm products owned by producers, property of nonprofit corporations used for scientific research or educational activities benefitting a college or university, designated historic sites, solar and wind-powered energy devices, and certain classes of intangible personal property.

Tax Increment Reinvestment Zones

A city or county, by petition of the landowners or by action of its governing body, may create one or more tax increment reinvestment zones ("TIRZ") within its boundaries. At the time of the creation of the TIRZ, a "base value" for the real property in the TIRZ is established and the difference between any increase in the assessed valuation of taxable real property in the TIRZ in excess of the base value is known as the "tax increment". During the existence of the TIRZ, all or a portion of the taxes levied against the tax increment by a city or county, and all other overlapping taxing units that elected to participate, are restricted to paying only planned project and financing costs within the TIRZ and are not available for the payment of other obligations of such taxing units.

Until September 1, 1999, school districts were able to reduce the value of taxable property reported to the State to reflect any taxable value lost due to TIRZ participation by the school district. The ability of the school district to deduct the taxable value of the tax increment that it contributed prevented the school district from being negatively affected in terms of state school funding. However, due to a change in law, local M&O tax rate revenue contributed to a TIRZ created on or after May 31, 1999 will count toward a school district's Tier One entitlement (reducing Tier One State funds for eligible school districts) and will not be considered in calculating any school district's Tier Two entitlement (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts").

Tax Limitation Agreements

The Texas Economic Development Act (Chapter 313, Texas Tax Code, as amended), allows school districts to grant limitations on appraised property values to certain corporations and limited liability companies to encourage economic development within the school district. Generally, during the last eight (8) years of the ten-year term of a tax limitation agreement, a school district may only levy and collect M&O taxes on the agreed-to limited appraised property value. For the purposes of calculating its Tier One and Tier Two entitlements, the portion of a school district's property that is not fully taxable is excluded from the school district's taxable property values. Therefore, a school district will not be subject to a reduction in Tier One or Tier Two State funds as a result of lost M&O tax revenues due to entering into a tax limitation agreement (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts").

For a discussion of how the various exemptions described above are applied by the District, see "THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT" herein.

District and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units, including the District, may appeal the determinations of the Appraisal District by timely initiating a protest with the Appraisal Review Board. Additionally, taxing units such as the District may bring suit against the Appraisal District to compel compliance with the Property Tax Code.

Beginning in the 2020 tax year, owners of certain property with a taxable value in excess of the current year "minimum eligibility amount", as determined by the State Comptroller, and situated in a county with a population of one million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at $50 million for the 2020 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the District and provides for taxpayer referenda that could result in the repeal of certain tax increases (see "TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate"). The Property Tax Code also establishes a procedure for providing notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

Levy and Collection of Taxes

The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the District. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes for certain taxpayers. Furthermore, the District may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances.

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units. A tax lien on real property takes 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; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. 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.

Collection of delinquent taxes 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 attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases, post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

TAX RATE LIMITATIONS

M&O Tax Rate Limitations

The maximum voted M&O tax rate for the District is $1.50 per $100 of assessed valuation as approved by the voters at an election held on March 16, 1963 pursuant to Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended.

The 2019 Legislation established the following maximum M&O tax rate per $100 of taxable value that may be adopted by independent school districts, such as the District, for the 2019 and subsequent tax years:

> For the 2019 tax year, the maximum M&O tax rate per $100 of taxable value that may be adopted by a school district is the sum of $0.17 and the product of the State Compression Percentage multiplied by $1.00. For the 2019 tax year, the state compression percentage has been set at 93%.
>
> For the 2020 and subsequent tax years, the maximum maintenance tax rate per $100 of taxable value that may be adopted by an independent school district is the sum of $0.17 and the school district's MCR. The District's MCR is, generally, inversely proportional to the change in taxable property values both within the District and the State, and is subject to recalculation annually. For any year, highest possible MCR for an independent school district is $0.93.

Furthermore, a school district cannot annually increase its tax rate in excess of the school district's Voter-Approval Tax Rate without submitting such tax rate to an election and a majority of the voters voting at such election approving the adopted rate. See "TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate" herein.

I&S Tax Rate Limitations

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

Section 45.0031 of the Texas Education Code, as amended, requires a school 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 voters of a school district 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 (the "50-cent Test"). In demonstrating the ability to pay debt service at a rate of $0.50, a school district may take into account EDA and IFA allotments to the school district, which effectively reduces the school district's local share of debt service, and may also take into account Tier One funds allotted to the school district. If a school district exercises this option, it may not adopt an I&S tax until it has credited to the school district's I&S fund an amount equal to all State allotments provided solely for payment of debt service and any Tier One funds needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Additionally, a school district may demonstrate its ability to comply with the 50-cent Test by applying the $0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the school district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five (5) years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a school district uses projected future taxable values to meet the 50-cent 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 school district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the 50-cent Test from a tax rate of $0.45 per $100 of valuation. Once the prospective ability to pay such tax has been shown and the bonds are issued, a school district may levy an unlimited tax to pay debt service. The Bonds are issued as "new money bonds" and are subject to the $0.50 threshold tax rate test. The District has not used projected property values to satisfy this threshold test.

Public Hearing and Voter-Approval Tax Rate

A school district's total tax rate is the combination of the M&O tax rate and the I&S tax rate. Generally, the highest rate at which a school district may levy taxes for any given year without holding an election to approve the tax rate is the "Voter-Approval Tax Rate", as described below.

For the 2019 tax year, a school district is required to adopt its annual tax rate before the later of September 30 or the sixtieth (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 being 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. "Effective tax rate" means the rate that will produce the prior year's total tax levy from the current year's total taxable values, adjusted such that lost values are not included in the calculation of the prior year's taxable values and new values are not included in the current year's taxable values.

For the 2019 tax year, the Voter-Approval Tax Rate for a school district is the sum of (i) the State Compression Percentage, multiplied by $1.00; (ii) the greater of (a) the school district's M&O tax rate for the 2018 tax year, less the sum of (1) $1.00, and (2) any amount by which the school district is required to reduce its Enrichment Tax Rate for the 2019 tax year, or (b) $0.04; and

(iii) the school district's I&S tax rate. For the 2019 tax year, a school district's M&O tax rate may not exceed the rate equal to the sum of (i) $0.17 and (ii) the product of the State Compression Percentage multiplied by $1.00.

For the 2019 tax year, a school district with a Voter-Approval Tax Rate equal to or greater than $0.97 (excluding the school district's current I&S tax rate) may not adopt tax rate for the 2019 tax year that exceeds the school district's Voter-Approval Tax Rate. For the 2019 tax year, the District is not eligible to adopt a tax rate that exceeds its Voter-Approval Tax Rate.

Beginning with the 2020 tax year, a school district is required to adopt its annual tax rate before the later of September 30 or the sixtieth (60th) day after the date the certified appraisal roll is received by the taxing unit, except that a tax rate that exceeds the Voter-Approval Tax Rate must be adopted not later than the seventy-first (71st) day before the next occurring November uniform election date. A school district's failure to adopt a tax rate equal to or less than the Voter-Approval Tax Rate by September 30 or the sixtieth (60th) day after receipt of the certified appraisal roll, will result in the tax rate for such school district for the tax year to be the lower of the "no-new-revenue tax rate" calculated for that tax year or the tax rate adopted by the school district for the preceding tax year. A school district's failure to adopt a tax rate in excess of the Voter-Approval Tax Rate on or prior to the seventy-first (71st) day before the next occurring November uniform election date, will result in the school district adopting a tax rate equal to or less than its Voter-Approval Tax Rate by the later of September 30 or the sixtieth (60th) day after receipt of the certified appraisal roll. "No-new-revenue tax rate" means the rate that will produce the prior year's total tax levy from the current year's total taxable values, adjusted such that lost values are not included in the calculation of the prior year's taxable values and new values are not included in the current year's taxable values.

For the 2020 and subsequent tax years, the Voter-Approval Tax Rate for a school district is the sum of (i) the school district's MCR; (ii) the greater of (a) the school district's Enrichment Tax Rate for the preceding year, less any amount by which the school district is required to reduce its current year Enrichment Tax Rate pursuant to Section 48.202(f), Education Code, as amended, or (b) the rate of $0.05 per $100 of taxable value; and (iii) the school district's current I&S tax rate. However, for only the 2020 tax year, if the governing body of the school district does not adopt by unanimous vote an M&O tax rate at least equal to the sum of the school district's MCR plus $0.05, then $0.04 is substituted for $0.05 in the calculation for such school district's Voter-Approval Tax Rate for the 2020 tax year. For the 2020 tax year, and subsequent years, a school district's M&O tax rate may not exceed the rate equal to the sum of (i) $0.17 and (ii) the school district's MCR (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" herein, for more information regarding the State Compression Percentage, MCR, and the Enrichment Tax Rate).

Beginning with the 2020 tax year, the governing body of a school district generally cannot adopt a tax rate exceeding the school district's Voter-Approval Tax Rate without approval by a majority of the voters approving the higher rate at an election to be held on the next uniform election date. Further, subject to certain exceptions for areas declared disaster areas, State law requires the board of trustees of a school district to conduct an efficiency audit before seeking voter approval to adopt a tax rate exceeding the Voter-Approval Tax Rate and sets certain parameters for conducting and disclosing the results of such efficiency audit. An election is not required for a tax increase to address increased expenditures resulting from certain natural disasters in the year following the year in which such disaster occurs; however, the amount by which the increased tax rate exceeds the school district's Voter-Approval Tax Rate for such year may not be considered by the school district in the calculation of its subsequent Voter-Approval Tax Rate.

The calculation of the Voter-Approval Tax Rate does not limit or impact the District's ability to set an I&S tax rate in each year sufficient to pay debt service on all of the District's tax-supported debt obligations, including the Bonds.

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 the school district's budget and proposed tax rate must be published in the time, format and manner prescribed in Section 44.004 of the Texas Education Code. Section 44.004(e) of the Texas Education Code provides that a person who owns taxable property in a school district is entitled to an injunction restraining the collection of taxes by the school district if the school 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), (c-1), (c-2), and (d), and, if applicable, subsection (i), and if such failure to comply was not in good faith. Section 44.004(e) further provides the action to enjoin the collection of taxes must be filed before the date the school district delivers substantially all of its tax bills. A school district that elects to adopt a tax rate before the adoption of a budget for the fiscal year that begins in the current tax year may adopt a tax rate for the current tax year before receipt of the certified appraisal roll, so long as the chief appraiser of the appraisal district in which the school district participates has certified to the assessor for the school district an estimate of the taxable value of property in the school district. If a school district adopts its tax rate prior to the adoption of its budget, both the no-new-revenue tax rate and the Voter-Approval Tax Rate of the school district shall be calculated based on the school district's certified estimate of taxable value. A school 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.

Beginning with the 2020 tax year, a school district must annually calculate and prominently post on its internet website, and submit to the county tax assessor-collector for each county in which all or part of the school district is located its Voter-Approval Tax Rate in accordance with forms prescribed by the State Comptroller.

THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT

The Appraisal District has the responsibility for appraising property in the District as well as other taxing units in Chambers County. The Appraisal District is governed by a board of directors appointed by members of the governing bodies of various political subdivisions within Chambers County.

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

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

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

The District collects an additional 20% penalty to defray attorney costs in the collection of delinquent taxes over and above the penalty automatically assessed under the Property Tax Code.

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

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

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

The District does not grant the "Goods-in-Transit" exemption.

The District has not granted the Freeport Property exemption.

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

Company	Application #	First Year of Taxable Value for I&S Taxation [1]	Total Investment [2]	Capped Value for M&O Taxation	First Year of Capped Value And Payments to the District [3]
Enterprise Products Operating LLC	166	2010/11	$245,300,000	$30,000,000	2012/13
Enterprise Products Operating LLC	178	2011/12	$237,000,000	$30,000,000	2013/14
Enterprise Products Operating LLC	192	2012/13	$310,000,000	$30,000,000	2014/15
Oneok Hydrocarbon, L.P.	193	2012/13	$225,000,000	$30,000,000	2014/15
Cedar Bayou Fractionators, L.P.	194	2012/13	$225,000,000	$30,000,000	2014/15
Lone Star NGL Asset Holdings II, LLC	195	2012/13	$350,100,000	$30,000,000	2014/15
Lone Star NGL Asset Holdings II, LLC	251	2014/15	$324,200,000	$30,000,000	2016/17
Oneok Hydrocarbon, L.P.	252	2014/15	$400,000,000	$30,000,000	2016/17
Enterprise Products Operating LLC	253	2014/15	$263,620,000	$30,000,000	2016/17
Enterprise Products Operating LLC	254	2014/15	$275,500,000	$30,000,000	2016/17
Exxon Mobil Corporation	264	2014/15	$1,073,800,000	$30,000,000	2016/17
Enterprise Products Operating LLC	278	2014/15	$1,078,000,000	$30,000,000	2016/17
Cedar Bayou Fractionators, L.P.	333	2014/15	$235,000,000	$30,000,000	2016/17
Lone Star NGL Asset Holdings II, LLC	339	2014/15	$237,000,000	$30,000,000	2016/17
Enterprise Products Operating LLC	349	2015/16	$97,400,000	$30,000,000	2017/18
Enterprise Products Operating LLC	363	2015/16	$304,000,000	$30,000,000	2017/18
Enterprise Products Operating LLC	364	2015/16	$98,000,000	$30,000,000	2017/18
Lone Star NGL Asset Holdings II, LLC	1016	2015/16	$285,000,000	$30,000,000	2017/18
Lone Star NGL Asset Holdings II, LLC	1034	2016/17	$285,000,000	$30,000,000	2018/19
Lone Star NGL Asset Holdings II, LLC	1035	2016/17	$285,000,000	$30,000,000	2018/19
Enterprise Products Operating LLC	1162	2018/19	$921,200,000	$80,000,000	2020/21
Enterprise Products Operating LLC	1220	2019/20	$287,006,308	$80,000,000	2021/22
Targa Downstream, LLC	1228	2018/19	$231,000,000	$80,000,000	2020/21
Oneok Hydrocarbon, L.P.	1236	2018/19	$265,000,000	$80,000,000	2020/21
Targa Downstream, LLC	1263	2019/20	$250,000,000 [4]	$80,000,000	2021/22
Targa Downstream, LLC	1264	2019/20	$250,000,000 [4]	$80,000,000	2021/22
Targa Downstream, LLC	1265	2020/21	$250,000,000 [4]	$80,000,000	2022/23
Enterprise Products Operating LLC	1272	2019/20	$789,704,850 [4]	$80,000,000	2021/22
Oneok Hydrocarbon LLC	1282	2019/20	$265,000,000 [4]	$80,000,000	2021/22
Lone Star NGL Asset Holding II, LLC	1298	2019/20	$265,000,000 [4]	$80,000,000	2021/22
Lone Star NGL Asset Holding II, LLC	1336	2020/21	$265,000,000 [4]	$80,000,000	2021/22

[1] *First year of qualifying time period as set forth in the company's application.*
[2] *Investment amount as set forth in the company's application to the District for a tax value limitation agreement.*
[3] *First year that payments in lieu of taxes was or will be remitted to the District as set forth in the company's application.*
[4] *Investment amount as set forth in the findings of the company's agreement with the District for a tax value limitation.*
The District's tax abatement applications and agreements can be viewed at the Texas Comptroller's website: https://www.comptroller.texas.gov/economy/local/ch313/agreement-docs.php. See also APPENDIX D - Audited Financial Report of the District - Note 5

EMPLOYEE BENEFIT PLANS AND OTHER POST-EMPLOYMENT BENEFITS

The District's employees participate in a retirement plan (the "Plan") with the State of Texas. The Plan is administered by the Teacher Retirement System of Texas ("TRS"). State contributions are made to cover costs of the TRS retirement plan up to certain statutory limits. The District is obligated for a portion of TRS costs relating to employee salaries that exceed the statutory limit. Aside from the District's contribution to TRS, the District has no pension fund expenditures or liabilities. For fiscal year ended June 30, 2019, the District made a contribution to TRS on a portion of its employees' salaries that exceeded the statutory minimum. For a discussion of the TRS retirement plan, see "Note 4. Other Information - C. Defined Benefit Pension Plan" to the audited financial statements of the District that are attached hereto as Appendix D (the "Financial Statements").

The District participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care). It is a multiple-employer, cost-sharing defined Other Post-Employment Benefit (OPEB) plan. The plan is administered through a trust by the TRS.

For the District's fiscal year ended June 30, 2019, the State contributed $587,936 on behalf of the District, District employees paid $311,137, and contributions from the District were $69,030. At June 30, 2019, the District reported a liability of $24,748,138 for its proportionate share of the TRS's Net OPEB Liability. See "Note 4. Other Information – D. Defined Other Post-Employment Benefit Plan" of the Financial Statements.

Detailed information about the TRS-Care is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. The TRS's Comprehensive Annual Financial Report can be accessed by visiting http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR.

During the year ended June 30, 2019, active employees of the District were covered by a fully-insured health insurance plan administered by TRS (the "Health Care Plan"). The District contributed $175 per month per employee to the Health Care Plan. Employees, at their option, authorize payroll withholdings to pay premiums for dependents. See "Note 4. Other Information - A. Risk Management - Health Care Coverage" of the Financial Statements.

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

RATINGS

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

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

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

LEGAL MATTERS

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

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

TAX MATTERS

Tax Exemption

Delivery of the Bonds is subject to the opinion of Hunton Andrews Kurth LLP, Houston, Texas, Bond Counsel, that interest on the Bonds will be (1) excludable from gross income of the owners thereof for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (2) not an item of tax preference for purposes of the federal alternative minimum income tax.

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

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

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

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

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

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations, such as the Bonds, may result in collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who are deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations, and individuals otherwise eligible for the earned income tax credit. Such prospective purchasers should consult their tax advisors as to the consequences of investing in the Bonds.

Proposed Tax Legislation

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

Tax Accounting Treatment of Original Issue Discount Bonds

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

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

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

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

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

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

Tax Accounting Treatment of Original Issue Premium Bonds

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

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

INVESTMENT POLICIES

Investments

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

Legal Investments

Under State law, the District is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks, (2) direct obligations of the State or its agencies and instrumentalities, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent, (6) bonds issued, assumed, or guaranteed by the State of Israel, (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor, or the National Credit Union Share Insurance Fund or its successor, (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this state that the investing entity selects from a list the governing body or designated investment committee of the entity adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in this state that the investing entity selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the investing entity's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the investing entity appoints as the entity's custodian of the banking deposits issued for the entity's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3, (9) certificates of deposit and share certificates (i) that are issued by an institution that has its main office or a branch office in Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and amount provided by law for District deposits; or (ii) where: (a) the funds are invested by the District through (I) a broker that has its main office or a branch office in the State and is selected form a list adopted by the District as required by law or (II) a depository institution that has a main office or branch office in the State and that is selected by the District; (b) the broker of depository institution selected by the District arranges for the deposit of funds in one or more federally insured depository institutions, wherever located, for the account of the District; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; (d) the District appoints the depository institution selected under (a) above, an entity described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 as custodian for the investing entity with respect to the certificates of deposit, (10) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1) and require the security being purchased 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 are placed through a primary government securities dealer or a financial institution doing business in the State, (11) certain bankers' acceptances with the remaining term of 270 days or less from the date of issuance, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency, (12) commercial paper with a stated maturity of 365 days or less from the date of issuance that is rated at least "A-1" or "P-1" or the equivalent by at least (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 registered with and regulated by the United States Securities and Exchange Commission provides the investing entity with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and complies with federal Securities and Exchange Commission Rule 2a-7, and (14) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, and have a duration of one year or more and are invested exclusively in obligations described in this paragraph or have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of the bond proceeds invested under such contract, other than the prohibited obligations described in the succeeding paragraph.

Entities such as the District may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, including accrued income, 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 by clauses (1) through (8) above, (b) irrevocable letters of credit issued by a bank that is organized and existing under the laws of the United States or any other state and is continuously rated by at least one nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) and (12) through (14) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer, as defined by 5 C.F.R. Section 6801.102(f), as that regulation existed on September 1, 2003, or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAAm" or an equivalent by at least one nationally recognized rating service.

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

Under State law, the District may contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term of up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance or resolution. The District has not contracted with, and has no present intention of contracting with, any such investment management firm or the State Securities Board to provide such services.

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

Investment Policies

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

State law also requires that 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.

Additional Provisions

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

Current Investments

As of August 31, 2019, the District had approximately $13,421 (unaudited) invested in government investment pools that generally have the characteristics of a money-market mutual fund; $42,357,332 (unaudited) invested in U.S. Agency Securities and municipal bonds; $2,001,020 (unaudited) invested in bank certificates of deposit; and $5,459,100 (unaudited) invested at a local bank. The market value of such investments (as determined by the District by reference to published quotations, dealer bids, and comparable information) is approximately 100% of the book value. No funds of the District are invested in derivative securities; i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

No registration statement relating to the Bonds has been filed with the 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 acts of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

FINANCIAL ADVISOR

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

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

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

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

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

The District will provide certain updated financial information and operating data annually to the MSRB. The information to be updated includes financial information and operating data with respect to the District of the general type included in this Official Statement in Appendix A (such information being the "Annual Operating Report"). The District will additionally provide financial statements of the District (the "Financial Statements"), that will be (i) prepared in accordance with the accounting principles described in Appendix D or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation and shall be in substantially the form included in Appendix D and (ii) audited, if the District commissions an audit of such Financial Statements and the audit is completed within the period during which they must be provided. The District will update and provide the Annual Operating Report and Financial Statements within six months after the end of each fiscal year, and in each case beginning with the fiscal year ending in and after 2019. If the audit of such Financial Statements is not complete within six months after any such fiscal year end, then the District shall file unaudited Financial Statements within such six month period and audited Financial Statements for the applicable fiscal year, when and if the audit report on such Financial Statements becomes available.

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

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

Notice of Certain Events

The District will also provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District, 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 District, any of which reflect financial difficulties In addition, the District will provide timely notice of any failure by the District to provide annual financial information in accordance with their agreement described above under "Annual Reports". The District will provide each notice described in this paragraph to the MSRB. Neither the Bonds nor the Bond Order make any provision for a bond trustee, debt service reserves, credit enhancement (except for the Permanent School Fund guarantee), or liquidity enhancement.

For these purposes, any event described in clause (12) of in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District. For the purposes of the above described event notices (15) and (16), the term "financial obligation" means a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) a guarantee of (i) or (ii); provided however, that a "financial obligation" shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

Availability of Information

All information and documentation filing required to be made by the District in accordance with its undertaking made for the Bonds will be filed with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB at www.emma.msrb.org.

Limitations and Amendments

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

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

Compliance with Prior Undertakings

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

LITIGATION

In the opinion of District officials, except as may be described in this Official Statement, the District is not a party to any litigation or other proceeding pending or to their knowledge threatened, in any court, agency or other administrative body (either state or federal) which, if decided adversely to the District, would have a material adverse effect on the financial condition of the District.

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

FORWARD-LOOKING STATEMENTS

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

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

UNDERWRITING

The Underwriters have agreed, subject to certain customary conditions, to purchase the Bonds at a price equal to the initial offering prices to the public, as shown on the inside cover page hereof, less an Underwriters' discount of $_______, plus accrued interest on the Bonds from the Dated Date to the date of the closing. The Underwriters' obligations are subject to certain conditions precedent, and the Underwriters will be obligated to purchase all of the Bonds, if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

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

Piper Jaffray & Co., one of the underwriters of the Bonds, has entered into a distribution agreement ("Distribution Agreement") with Charles Schwab & Co., Inc. ("CS&Co") for the retail distribution of certain securities offerings including the Bonds, at the original issue prices. Pursuant to the Distribution Agreement, CS&Co. will purchase Bonds from Piper Jaffray & Co. at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that CS&Co. sells.

FHN Financial Capital Markets is a division of First Horizon Bank and First Horizon Advisors, Inc., is a wholly owned subsidiary of First Horizon Bank. FHN Financial Capital Markets has entered into a distribution agreement with First Horizon Advisors, Inc., for the distribution of the offered Bonds at the original issue prices. Such arrangement generally provides that FHN Financial Capital Markets will share a portion of its underwriting compensation or selling concession with First Horizon Advisors, Inc.

As of close of business on October 25, 2019, FHN Financial, formerly known as FTN Financial, changed its name to FHN Financial in connection with the overall rebranding by First Horizon National Corporation (NYSE: FHN), to align the branding of all of its divisions and subsidiaries around the First Horizon name.

CONCLUDING STATEMENT

No person has been authorized to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the District. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

The information set forth herein has been obtained from the District's records, audited financial statements and other sources which the District considers to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will ever be realized. All of the summaries of the statutes, documents and the Order contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and the Order. These summaries do not purport to be complete statements of such provisions and reference is made to such summarized documents for further information. Reference is made to official documents in all respects.

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

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

/s/

Pricing Officer

APPENDIX A

FINANCIAL INFORMATION OF THE DISTRICT

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BARBERS HILL INDEPENDENT SCHOOL DISTRICT

Financial Information

ASSESSED VALUATION [1]

2019/20 Total Valuation…………………………………………………………………………………………		$	12,681,376,115
Less Exemptions & Deductions [2]:			
State Homestead Exemption	$ 147,476,180		
State Over-65 Exemption	14,602,000		
Disabled Homestead Exemption	8,521,240		
Local Over-65 Exemption	174,036,290		
Local Homestead Exemption	303,852,120		
Veterans Exemption	1,337,210		
Surviving Spouse Exemption	624,700		
Interstate Commerce Exemption	130,562,101		
Pollution Exemption	104,300,562		
Productivity Loss	179,344,960		
Prorations and Other Partial Exemptions	128,190		
Homestead Cap Loss	28,534,380		
	$ 1,093,319,933		
2019/20 Net Taxable Valuation ………………………………………………………………………………		$	11,588,056,182

(1) Source: Comptroller of Public Accounts - Property Tax Division. The tax roll figures used in Appendix A represent the tax roll on which the District levies to fund the interest and sinking fund of the District for the payment of debt service on its unlimited tax-supported bonds (the "I&S" tax). Due to the tax value limitation agreements under the provisions of Chapter 313 described under "THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT" in the Official Statement, the District has a bifurcated tax roll where abated amounts are not taxed for purposes of the District's M&O tax levy, but are taxed for purposes of the I&S tax. The 2019/20 tax roll for the District's M&O tax levy is $5,594,898,193.
(2) Excludes the values on which property taxes are frozen for persons 65 years of age or older and disabled taxpayers which totaled $18,832,391 for 2018/19.

VOTED GENERAL OBLIGATION DEBT

Unlimited Tax Bonds Outstanding		$	257,555,000
Less: The Refunded Bonds [1]			(61,190,000)
Plus: The Refunding Bonds, Taxable Series 2019 [1]			61,190,000
Plus: The School Building Bonds, Series 2019 [1]			14,000,000
Total Unlimited Tax Bonds			271,555,000
Less: Interest & Sinking Fund Balance (As of June 30, 2019) [2]			(12,324,391)
Net General Obligation Debt		$	259,230,609
Ratio of Net G.O. Debt to Net Taxable Valuation [3]	2.24%		
2019 Population Estimate	20,730		
Per Capita Net Taxable Valuation	$558,999		
Per Capita Net G.O. Debt	$12,505		

(1) Preliminary, subject to change. Reflects the Taxable Series 2019 Refunding Bonds issuing concurrently with the Tax-Exempt Series 2019 School Building Bonds and excludes the refunded bonds. See "INTRODUCTORY STATEMENT" in the Official Statement.
(2) Barbers Hill ISD Audited Financial Statements.
(3) See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement, "DEBT SERVICE REQUIREMENTS" in this Appendix and see the "Audited Financial Report Fiscal Year Ended June 30, 2019" in Appendix D for more information relative to the District's obligations. The ratio is calculated using the tax roll value used for the levy of the District's I&S tax.

PROPERTY TAX RATES AND COLLECTIONS

Fiscal Year	Net Taxable Valuation [1]	Tax Rate	% Collections [5] Current [6]	Total [6]
2006/07	$ 2,787,057,320 [2]	$ 1.6199 [7]	97.74%	100.26%
2007/08	2,900,935,170 [2]	1.3299 [7]	96.60%	99.09%
2008/09	3,249,747,280 [2]	1.3299	96.80%	99.83%
2009/10	2,874,386,720 [2]	1.3299	98.58%	102.57%
2010/11	2,793,938,060 [2]	1.3299	99.01%	100.38%
2011/12	3,266,657,573 [2]	1.3298	98.91%	99.80%
2012/13	4,087,200,674 [2]	1.3298	99.39%	100.32%
2013/14	4,394,611,854 [2]	1.3298	98.67%	99.63%
2014/15	5,796,747,171 [2]	1.3298	98.95%	100.03%
2015/16	6,507,943,390 [2][4]	1.3298	96.64%	97.61%
2016/17	7,222,124,757 [2][4]	1.3298	98.01%	102.04%
2017/18	8,892,351,117 [2][4]	1.3298	99.45%	101.44%
2018/19	9,940,278,475 [2][4]	1.3298	99.38%	99.96%
2019/20	11,588,056,182 [3][4]	1.2598 [8]		

(1) Beginning with the 2012 tax year, the District has a bifurcated tax roll. The figures shown in the table are the tax roll values used for the levy of the District's I&S tax.
(2) Source: Comptroller of Public Accounts - Property Tax Division.
(3) Source: Chambers County Appraisal District. Certified Values as of July 2019.
(4) The passage of a Texas constitutional amendment on November 3, 2015 election increased the homestead exemption from $15,000 to $25,000.
(5) Source: Barbers Hill ISD Audited Financial Statements.
(6) Excludes penalties and interest.
(7) The declines in the District's Maintenance & Operation Tax for the 2006/07 and 2007/08 fiscal years are a function of House Bill 1 adopted by the Texas Legislature in May 2006. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement.
(8) The decline in the District's Maintenance & Operation Tax from the 2018/19 fiscal year to the 2019/20 fiscal year is a function of House Bill 3 adopted by the Texas Legislature in June 2019. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM"- Local Funding for School Districts" in the Official Statement.

TAX RATE DISTRIBUTION [1]

	2015/16	2016/17	2017/18	2018/19	2019/20 [2]
Maintenance & Operations	$1.0600	$1.0600	$1.0600	$1.0600	$0.9900
Debt Service	$0.2698	$0.2698	$0.2698	$0.2698	$0.2698
Total Tax Rate	$1.3298	$1.3298	$1.3298	$1.3298	$1.2598

(1) On October 11, 2008 the District successfully held a tax ratification election.
(2) The decline in the District's Maintenance & Operations Tax from the 2018/19 fiscal year to the 2019/20 fiscal year is a function of House Bill 3 adopted by the Texas Legislature in June 2019. See "State and Local Funding of School Districts in Texas" and "TAX RATE LIMITATIONS - M&O Tax Rate Limitations" herein.

VALUATION AND FUNDED DEBT HISTORY

Fiscal Year	Net Taxable Valuation [1]	Bond Debt Outstanding [2]	Ratio Debt to A.V. [3]
2006/07	$ 2,787,057,320	$ 110,508,771	3.97%
2007/08	2,900,935,170	108,093,771	3.73%
2008/09	3,249,747,280	105,838,771	3.26%
2009/10	2,874,386,720	102,593,771	3.57%
2010/11	2,793,938,060	108,558,771	3.89%
2011/12	3,266,657,573	177,338,771	5.43%
2012/13	4,087,200,674	172,053,771	4.21%
2013/14	4,394,611,854	208,798,771	4.75%
2014/15	5,796,747,171	199,630,000	3.44%
2015/16	6,507,943,390	204,100,000	3.14%
2016/17	7,222,124,757	237,840,000	3.29%
2017/18	8,892,351,117	280,325,000	3.15%
2018/19	9,940,278,475	257,555,000	2.59%
2019/20	11,588,056,182	253,590,000 [4]	2.19%

(1) The Bonds are illustrated on the State of Texas fiscal year end of August 31st, although the District's fiscal year ends June 30th.
(2) See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement, "DEBT SERVICE REQUIREMENTS" in this Appendix and see the "Audited Financial Report Fiscal Year Ended June 30, 2019" in Appendix D for more information.
(3) Beginning with the 2012 tax year, the District has a bifurcated tax roll. The figures shown in the table are the tax roll values used for the levy of the District's I&S tax. The 2019/20 tax roll for the District's M&O tax levy is $5,594,898,193.
(4) Includes the Taxable Series 2019 Refunding Bonds issuing concurrently with the Tax-Exempt Series 2019 School Building Bonds and excludes the refunded bonds. Preliminary, subject to change.

ESTIMATED OVERLAPPING DEBT STATEMENT

Taxing Body	Amount	Percent Overlapping	Amount Overlapping
Chambers County	$ 20,465,000	67.59%	$ 13,832,294
Chambers County Improvement District #1	76,140,000	7.13%	5,428,782
Mont Belvieu, City of	71,585,000	100.00%	71,585,000
Total Overlapping Debt [1]			$ 90,846,076
Barbers Hill Independent School District [2]			259,230,609
Total Direct & Overlapping Debt			$ 350,076,685

Ratio of Net Direct & Overlapping Debt to Net Taxable Valuation	3.02%
Per Capita Direct & Overlapping Debt	$16,887

(1) Equals gross debt less self-supporting debt.
(2) Net General Obligation Debt reflects the Taxable Series 2019 Refunding Bonds issuing concurrently with the Tax-Exempt Series 2019 School Building Bonds and excludes the Refunded Bonds. Preliminary, subject to change.

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

PRINCIPAL TAXPAYERS [1]

2019/20 Top Ten Taxpayers

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Enterprise Prod. Operating LP	Petro Chemical Processing/Fractionator	$ 3,439,131,324	29.68%
Lone Star NGL Mt Belvieu LP	Petro Chemical Stored Inventory	1,799,577,642	15.53%
Exxon Mobil Corp	Petro Chemical Polyethylene Manufacturing Facility	1,126,611,053	9.72%
Oneok Hydrocarbon, LP	Petro Chemical Processing/Fractionator	565,714,422	4.88%
Cedar Bayou Fractionators LP	Petro Chemical Processing/Fractionator	564,556,910	4.87%
Enterprise EF78 LLC	Petro Chemical Processing/Fractionator	457,613,679	3.95%
Shell Trading US Company	Energy Portfolio Management	146,933,409	1.27%
Equistar Chemicals LP	Underground Petro Chemical Storage/Pipeline	126,797,499	1.09%
Targa Downstream LP	Underground Petro Chemical Storage/Pipeline	99,501,372	0.86%
MTBV Caverns LLC	Oil & Gas Wells	98,559,657	0.85%
		$ 8,424,996,967	72.70%

2018/19 Top Ten Taxpayers

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

2017/18 Top Ten Taxpayers

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

(1) Source: Chambers County Appraisal District.
Note: As shown in the tables above, the top ten taxpayers in the District currently account for approximately 72.70% of the District's tax base, with such property associated with the natural gas or other chemicals stored in the Barbers Hill Salt Dome formation that lies beneath the District or the industrial properties of the companies that operate chemical plants, pipelines and other infrastructure relating to petrochemical industry. Adverse developments in economic conditions, especially in the natural gas refining industry, could adversely impact the businesses that own properties in the District or that store chemicals in the salt domes, and the tax values in the District, resulting in less local tax revenue. Additionally, fluctuations in inventory of individual taxpayers and prices in the general industry could significantly impact the taxable assessed value of the District if any major taxpayer were to default in the payment of taxes, the ability of the District to make timely payment of debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax lien, which is a time-consuming process, or, perhaps, to sell tax anticipation notes until such amounts could be collected, if ever. See "REGISTERED OWNERS' REMEDIES" and AD VALOREM TAX PROCEDURES - District's Rights in the Event of Tax Delinquencies" in the Official Statement.

CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY

Category	2019/20 (1)	% of Total	2018/19 (2)	% of Total	2017/18 (2)	% of Total
Real, Residential, Single-Family	$ 1,802,861,070	14.22%	$ 1,648,220,490	14.92%	$ 1,537,303,940	15.50%
Real, Residential, Multi-Family	15,557,740	0.12%	10,895,480	0.10%	10,689,940	0.11%
Real, Vacant Lots/Tracts	50,871,900	0.40%	37,855,800	0.34%	33,339,970	0.34%
Real, Acreage	183,425,660	1.45%	177,883,180	1.61%	172,698,990	1.74%
Real, Farm & Ranch Improvements	136,404,570	1.08%	117,596,460	1.06%	109,390,180	1.10%
Real, Commercial & Industrial	8,721,748,995	68.78%	7,379,831,875	66.78%	6,555,567,050	66.09%
Oil & Gas	9,693,340	0.08%	11,663,096	0.11%	9,780,506	0.10%
Utilities	145,881,439	1.15%	118,796,677	1.08%	116,843,822	1.18%
Tangible Personal, Commercial & Industrial	1,589,099,213	12.53%	1,531,483,978	13.86%	1,356,786,045	13.68%
Tangible Personal, Mobile Homes & Other	4,312,430	0.03%	3,715,060	0.03%	3,418,490	0.03%
Tangible Personal, Residential Inventory	15,079,010	0.12%	8,535,680	0.08%	8,215,550	0.08%
Tangible Personal, Special Inventory	6,440,748	0.05%	4,093,180	0.04%	4,453,190	0.04%
Total Appraised Value	$ 12,681,376,115	100.00%	$ 11,050,570,956	100.00%	$ 9,918,487,673	100.00%
Less:						
Homestead Cap Adjustment	$ 28,534,380		$ 31,787,280		$ 77,393,860	
Productivity Loss	179,344,960		173,632,560		168,676,430	
Exemptions	885,440,593 (3)		904,872,641 (3)		780,066,266 (3)	
Total Exemptions/Deductions (4)	$ 1,093,319,933		$ 1,110,292,481		$ 1,026,136,556	
Net Taxable Assessed Valuation	$ 11,588,056,182		$ 9,940,278,475		$ 8,892,351,117	

Category	2016/17 (2)	% of Total	2015/16 (2)	% of Total	2014/15 (2)	% of Total
Real, Residential, Single-Family	$ 1,253,642,600	15.86%	$ 1,157,210,400	16.14%	$ 1,101,618,000	17.17%
Real, Residential, Multi-Family	10,337,800	0.13%	8,168,500	0.11%	8,169,720	0.13%
Real, Vacant Lots/Tracts	28,641,230	0.36%	30,334,300	0.42%	28,231,920	0.44%
Real, Acreage	89,999,770	1.14%	96,101,060	1.34%	97,124,300	1.51%
Real, Farm & Ranch Improvements	100,313,110	1.27%	90,358,590	1.26%	98,664,950	1.54%
Real, Commercial & Industrial	5,272,069,719	66.70%	4,244,851,487	59.22%	3,481,980,609	54.28%
Oil & Gas	10,330,075	0.13%	22,445,623	0.31%	60,375,469	0.94%
Utilities	112,058,188	1.42%	107,052,107	1.49%	89,885,877	1.40%
Tangible Personal, Commercial & Industrial	1,016,619,773	12.86%	1,400,888,372	19.54%	1,439,645,257	22.44%
Tangible Personal, Mobile Homes & Other	3,158,050	0.04%	3,401,170	0.05%	3,189,670	0.05%
Tangible Personal, Residential Inventory	1,950,670	0.02%	1,740,900	0.02%	3,240,980	0.05%
Tangible Personal, Special Inventory	5,051,090	0.06%	5,076,350	0.07%	3,219,100	0.05%
Total Appraised Value	$ 7,904,172,075	100.00%	$ 7,167,628,859	100.00%	$ 6,415,345,852	100.00%
Less:						
Homestead Cap Adjustment	$ 8,117,830		$ 4,873,780		$ 21,821,270	
Productivity Loss	86,685,430		93,317,720		94,611,470	
Exemptions	587,244,058 (3)		561,493,969 (3)		502,165,941	
Total Exemptions/Deductions (4)	$ 682,047,318		$ 659,685,469		$ 618,598,681	
Net Taxable Assessed Valuation	$ 7,222,124,757		$ 6,507,943,390		$ 5,796,747,171	

(1) Source: Chambers County Appraisal District Ceritifed Totals as of July 2018.
(2) Source: Comptroller of Public Accounts - Property Tax Division.
(3) The passage of a Texas Constitutional Amendment on November 3, 2015 increased homestead exemption from $15,000 to $25,000.
(4) Excludes values on which property taxes are frozen for persons 65 years of age or older and disabled taxpayers.

PRINCIPAL REPAYMENT SCHEDULE [1]

Fiscal Year Ending 8/31	Outstanding Bonds [2]	Less: The Refunded Bonds [3]	Plus: The Taxable Refunding Bonds [3]	Plus: The Tax-Exempt School Building Bonds [3]	Total [2] [3]	Bonds Unpaid At Year End	Percent of Principal Retired
2020	$ 13,800,000.00	$ -	$ 4,165,000.00	$ -	$ 17,965,000.00	$ 253,590,000.00	6.62%
2021	14,515,000.00	-	4,745,000.00	1,275,000.00	20,535,000.00	233,055,000.00	14.18%
2022	15,740,000.00	2,350,000.00	4,935,000.00	1,305,000.00	19,630,000.00	213,425,000.00	21.41%
2023	15,425,000.00	2,455,000.00	5,140,000.00	1,330,000.00	19,440,000.00	193,985,000.00	28.57%
2024	13,630,000.00	2,560,000.00	5,345,000.00	1,355,000.00	17,770,000.00	176,215,000.00	35.11%
2025	13,200,000.00	2,665,000.00	5,565,000.00	1,385,000.00	17,485,000.00	158,730,000.00	41.55%
2026	13,905,000.00	2,795,000.00	5,795,000.00	1,410,000.00	18,315,000.00	140,415,000.00	48.29%
2027	13,735,000.00	2,905,000.00	6,030,000.00	1,440,000.00	18,300,000.00	122,115,000.00	55.03%
2028	13,770,000.00	2,955,000.00	6,275,000.00	1,470,000.00	18,560,000.00	103,555,000.00	61.87%
2029	12,270,000.00	3,075,000.00	6,500,000.00	1,500,000.00	17,195,000.00	86,360,000.00	68.20%
2030	12,450,000.00	3,200,000.00	6,695,000.00	1,530,000.00	17,475,000.00	68,885,000.00	74.63%
2031	13,000,000.00	3,335,000.00			9,665,000.00	59,220,000.00	78.19%
2032	13,090,000.00	4,735,000.00			8,355,000.00	50,865,000.00	81.27%
2033	13,655,000.00	5,545,000.00			8,110,000.00	42,755,000.00	84.26%
2034	12,285,000.00	5,815,000.00			6,470,000.00	36,285,000.00	86.64%
2035	12,880,000.00	6,100,000.00			6,780,000.00	29,505,000.00	89.13%
2036	13,010,000.00	6,365,000.00			6,645,000.00	22,860,000.00	91.58%
2037	13,350,000.00	4,335,000.00			9,015,000.00	13,845,000.00	94.90%
2038	2,525,000.00				2,525,000.00	11,320,000.00	95.83%
2039	2,655,000.00				2,655,000.00	8,665,000.00	96.81%
2040	2,775,000.00				2,775,000.00	5,890,000.00	97.83%
2041	2,885,000.00				2,885,000.00	3,005,000.00	98.89%
2042	3,005,000.00				3,005,000.00	-	100.00%
Total	$ 257,555,000.00	$ 61,190,000.00	$ 61,190,000.00	$ 14,000,000.00	$ 271,555,000.00		

(1) The Bonds are illustrated on the State of Texas fiscal year end of August 31st, although the District's fiscal year ends June 30th.
(2) Includes annual mandatory principal and sinking fund payments on the outstanding Qualified School Construction Bonds.
(3) Includes the Taxable Series 2019 Refunding Bonds issuing concurrently with the Tax-Exempt Series 2019 School Building Bonds and excludes the refunded bonds. Preliminary, subject to change.

DEBT SERVICE REQUIREMENTS (1)

Fiscal Year Ending 8/31	Outstanding Debt Service	Less: The Refunded Debt Service (2)	Plus: The Taxable Refunding Bonds Debt Service (2)	Plus: The Tax-Exempt School Building Bonds Debt Service (2)	Combined Total (2) (3)
2020	$ 24,693,410.50	$ 2,556,462.50	$ 5,908,490.56	$ 220,888.89	$ 28,266,327.45
2021	24,758,685.50	2,556,462.50	6,799,150.00	1,542,250.00	30,543,623.00
2022	25,294,010.50	4,859,462.50	6,795,550.00	1,546,450.00	28,776,548.00
2023	24,292,860.50	4,868,362.50	6,799,050.00	1,545,100.00	27,768,648.00
2024	21,876,385.50	4,873,062.50	6,794,350.00	1,543,250.00	25,340,923.00
2025	20,905,548.00	4,873,562.50	6,796,150.00	1,545,850.00	24,373,985.50
2026	21,060,023.00	4,894,362.50	6,798,950.00	1,542,900.00	24,507,510.50
2027	20,331,335.50	4,890,362.50	6,797,450.00	1,544,400.00	23,782,823.00
2028	19,817,035.50	4,823,162.50	6,796,350.00	1,545,300.00	23,335,523.00
2029	17,648,336.50	4,822,562.50	6,798,350.00	1,545,600.00	21,169,724.00
2030	17,177,212.50	4,822,062.50	6,795,425.00	1,545,300.00	20,695,875.00
2031	17,182,412.50	4,826,362.50			12,356,050.00
2032	16,727,600.00	6,061,800.00			10,665,800.00
2033	16,731,600.00	6,640,100.00			10,091,500.00
2034	14,798,287.50	6,638,387.50			8,159,900.00
2035	14,844,443.75	6,639,543.75			8,204,900.00
2036	14,427,100.00	6,637,650.00			7,789,450.00
2037	14,228,462.50	4,410,862.50			9,817,600.00
2038	3,067,475.00				3,067,475.00
2039	3,067,975.00				3,067,975.00
2040	3,066,100.00				3,066,100.00
2041	3,062,900.00				3,062,900.00
2042	3,065,100.00				3,065,100.00
	$ 362,124,299.75	$ 90,694,593.75	$ 73,879,265.56	$ 15,667,288.89	$ 360,976,260.45

(1) The Bonds are illustrated on the State of Texas fiscal year end of August 31st, although the District's fiscal year ends June 30th.
(2) Includes the Taxable Series 2019 Refunding Bonds issuing concurrently with the Tax-Exempt Series 2019 School Building Bonds and excludes the refunded bonds. Preliminary, subject to change.
(3) Based on its wealth per student, the District does not expect to receive any Instructional Facilities Allotment nor Existing Debt Allotment state financial assistance for debt service in 2019/20. The amount of state financial assistance for debt service, if any, may differ substantially each year depending on a variety of factors, including the amount, if any, appropriated for that purpose by the state legislature and a school district's wealth per student. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement.

TAX ADEQUACY WITH RESPECT TO THE DISTRICT'S BONDS

Projected Maximum Debt Service Requirement (1)	$ 30,543,623.00
Projected State Financial Assistance for Hold Harmless of Increased Homestead Exemption (2)	102,039.00
Projected Net Debt Service Requirement	$ 30,441,584.00
$0.26535 Tax Rate @ 99% Collections Produces	$ 30,441,584.01
2019/20 Net Taxable Assessed Valuation	$ 11,588,056,182

(1) Includes the Taxable Series 2019 Refunding Bonds issuing concurrently with the Tax-Exempt Series 2019 School Building Bonds and excludes the refunded bonds. Preliminary, subject to change. Preliminary, subject to change.
(2) The amount of state financial assistance for debt service, if any, may differ substantially each year depending on a variety of factors, including the amount, if any, appropriated for that purpose by the state legislature and a school district's wealth per student. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement. The District will not receive any Instructional Facilities Allotment nor Existing Debt Allotment state aid in 2019/20, but will receive additional state aid for the increase in the homestead exemption which took effect in 2019/20.

AUTHORIZED BUT UNISSUED BONDS

Following the issuance of the Series 2019 School Building Bonds, the District will have not have any authorized but unissued unlimited ad valorem tax bonds from the May 6, 2017 bond election. The District may incur other financial obligations payable from its collection of taxes and other sources of revenue, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes.

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

	Fiscal Year Ended June 30				
	2015	**2016**	**2017 (3)**	**2018**	**2019**
Beginning Fund Balance	**$ 28,452,590**	**$ 31,748,854**	**$ 33,250,509**	**$ 37,435,557**	**$ 46,249,746**
Revenues:					
Local and Intermediate Sources	$ 58,438,327	$ 64,262,426	$ 60,530,105	$ 77,193,245	$ 76,520,973
State Sources	4,627,671	4,041,633	14,086,523	5,935,382	11,003,214
Federal Sources & Other	254,968	255,518	362,782	529,269	1,075,453
Total Revenues	**$ 63,320,966**	**$ 68,559,577**	**$ 74,979,410**	**$ 83,657,896**	**$ 88,599,640**
Expenditures:					
Instruction	$ 28,281,975	$ 30,870,519	$ 31,967,767	$ 34,223,384	$ 37,370,557
Instructional Resources & Media Services	557,890	542,191	628,788	654,905	681,156
Curriculum & Instructional Staff Development	634,879	678,909	867,450	1,069,204	1,509,188
Instructional Leadership	249,755	256,746	267,761	267,381	837,802
School Leadership	3,025,867	3,266,990	3,268,096	3,266,462	3,364,157
Guidance, Counseling & Evaluation Services	1,525,932	1,685,843	1,847,792	2,081,157	2,340,075
Social Work Services	-	74,224	76,093	79,602	83,598
Health Services	801,507	780,980	750,410	766,292	845,531
Student (Pupil) Transportation	1,515,087	1,554,371	1,300,794	1,550,973	1,978,063
Food Services	-	-	-	-	26,364
Cocurricular/Extracurricular Activities	1,885,445	2,045,690	2,418,653	2,324,448	2,318,409
General Administration	2,417,590	2,117,651	2,465,917	2,452,154	3,492,813
Plant Maintenance and Operations	6,581,596	6,667,112	6,584,232	6,743,056	7,271,924
Security and Monitoring Services	402,097	421,884	438,275	447,856	536,589
Data Processing Services	866,568	993,323	1,034,597	1,222,377	1,211,558
Community Services	33,366	31,399	32,229	8,901,851	10,256,017
Contracted Instructional Services	10,720,925	14,503,753	16,301,244	8,259,866	8,925,909
Debt Service - Principal on Long-Term Debt	-	-	-	-	3,269,499
Debt Service - Interest on Long-Term Debt	-	-	-	-	650,496
Payments to Juvenile Justice Alternative Programs	70,623	73,030	68,800	-	-
Other Intergovernmental Charges	453,600	493,307	475,464	532,739	552,481
Total Expenditures	**$ 60,024,702**	**$ 67,057,922**	**$ 70,794,362**	**$ 74,843,707**	**$ 87,522,186**
Excess (Deficiency) of Revenues					
over Expenditures	$ 3,296,264	$ 1,501,655	$ 4,185,048	$ 8,814,189	$ 1,077,454
Other Resources and (Uses):					
Operating Transfers Out	$ -	$ -	$ -	$ -	$ (25,000)
State Revenue Pursuant to Tax Refund	623,134	1,469,045	1,469,046	3,679,247	3,943,747
Tax Refund Pursuant to Texas Tax Code 313	(623,134)	(1,469,045)	(1,469,046)	(3,679,247)	(3,943,747)
Other Uses	-	-	-	-	(280,557)
Total Other Resources (Uses)	**$ -**	**$ -**	**$ -**	**$ -**	**$ (305,557)**
Excess (Deficiency) of					
Revenues and Other Sources					
over Expenditures and Other Uses	$ 3,296,264	$ 1,501,655	$ 4,185,048	$ 8,814,189	$ 771,897
Ending Fund Balance	**$ 31,748,854**	**$ 33,250,509**	**$ 37,435,557**	**$ 46,249,746**	**$ 47,021,643**

(1) See "MANAGEMENT'S DISCUSSION AND ANALYSIS - Economic Factors and Next Year's Budgets and Rates" in Appendix D hereto for a discussion of the 2019/20 budget and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Possible Effects of Wealth Transfer Provisions on the District's Financial Condition" in the Official Statement.
(2) On March 23, 2009, the Federal Emergency Management Agency (FEMA) provided the District with a $5,000,000 loan to assist in rebuilding after the Hurricane Ike natural disaster. The interest rate on the loan is 2.00%. In 2014, the maturity date of this loan was extended to April 27, 2019 and $1,730,501 in principal was forgiven. The District has designated a portion of its General Fund balance for payment of the remainder of this loan.
(3) Based on the District's audited financial statements for Fiscal Year Ended June 30, 2017, as restated on January 25, 2018. The District restated its FYE 2017 financial statements to account for a property tax refund and the resulting accrual of additional state revenue and corresponding reduction in expenditures related to recapture payments. See Note 7 in Appendix D.

CHANGE IN NET ASSETS [1]

	Fiscal Year Ended June 30				
	2015	2016	2017 [3]	2018	2019
Revenues:					
Program Revenues:					
Charges for Services	$ 2,375,583	$ 2,627,171	$ 3,002,237	$ 2,976,798	$ 3,468,216
Operating Grants and Contributions	3,754,122	6,059,457	4,798,360	(7,385,308)	7,025,869
Capital Grants and Contributions					
General Revenues:					
Property Taxes Levied for General Purposes	55,650,226	60,192,836	56,314,252	46,544,092	49,711,600
Property Taxes Levied for Debt Service	15,721,466	17,562,911	19,730,383	23,835,251	26,712,693
Grants and Contributions Not Restricted	2,826,096	2,033,094	11,951,127	29,273,387	30,179,654
Investment Earnings	791,239	1,284,757	367,955	1,117,915	3,564,964
County Available	122,666	1,242,195	-	693,832	940,705
County Equalization	1,835,507	1,866,730	2,020,122	2,093,676	2,320,989
Miscellaneous	208,092	1,292,365	373,961	359,721	615,363
Total Revenue	$ 83,284,997	$ 94,161,516	$ 98,558,397	$ 99,509,364	$ 124,540,053
Expenses:					
Instruction	$ 31,025,696	$ 38,831,349	$ 38,357,079	$ 26,363,429	$ 47,668,563
Instruction Resources & Media Services	713,004	689,426	797,110	517,751	827,520
Curriculum & Staff Development	656,596	719,710	956,442	882,201	1,701,275
Instructional Leadership	244,096	260,307	280,518	173,863	860,200
School Leadership	2,975,216	3,325,634	3,445,067	2,155,533	3,578,603
Guidance, Counseling & Evaluation Services	1,493,467	1,712,995	1,965,922	1,312,866	2,512,215
Social Work Services	-	75,985	76,759	46,705	90,226
Health Services	787,084	799,694	801,948	496,697	917,578
Student Transportation	1,698,923	2,092,600	1,786,161	1,688,729	2,535,573
Food Service	2,678,835	2,642,093	2,724,792	2,542,848	3,472,684
Cocurricular/Extracurricular Activities	2,335,646	2,831,477	3,346,098	2,590,865	3,256,610
General Administration	2,539,621	2,296,600	2,686,496	1,951,764	3,728,526
Plant Maintenance & Operations	7,671,584	7,525,017	5,341,568	7,110,877	8,849,274
Security and Monitoring Services	527,769	566,390	573,262	460,117	673,473
Data Processing Services	1,113,233	1,165,190	1,228,262	1,180,829	1,343,907
Community Services	38,329	46,705	33,189	8,911,970	10,259,838
Debt Service - Interest on Long-term Debt	7,210,083	7,147,249	7,196,106	8,878,933	9,312,248
Bond Issuance Cost and Fees	343,918	170,293	225,059	1,047,083	302,474
Facilities Repair and Maintenance	621,249	892,184	4,678,576	209,847	424,123
Contracted Instructional Services Between Schools	10,720,925	14,503,753	16,301,244	8,259,866	8,925,909
Payments to Juvenile Justice Alternative Ed. Program	70,623	73,030	68,800	-	-
Other Intergovernmental Activities	453,600	493,307	475,464	532,739	552,481
Total Expenditures	$ 75,919,497	$ 88,860,988	$ 93,345,922	$ 77,315,512	$ 111,793,300
Change in Net Assets	$ 7,365,500	$ 5,300,528	$ 5,212,475	$ 22,193,852	$ 12,746,753
Beginning Net Assets	$ 18,264,745	$ 18,411,118	$ 23,711,646	$ 28,924,121	$ 15,307,130
Prior Period Adjustment	$ (7,219,127) [2]	$ -	$ -	$ (35,810,843) [4]	$ -
Ending Net Assets	$ 18,411,118	$ 23,711,646	$ 28,924,121	$ 15,307,130	$ 28,053,883

(1) The foregoing information represents government-wide financial information provided in accordance with GASB 34, which the District adopted for the 2002 fiscal year.
(2) Prior Period Adjustment in FYE 2015 was from implementing GASB 68 and 71 and adjusting for Tax Refunded Payable.
(3) Based on the District's audited financial statements for Fiscal Year Ended June 30, 2017, as restated on January 25, 2018. The District restated its FYE 2017 financial statements to account for a property tax refund and the resulting accrual of additional state revenue and corresponding reduction in expenditures related to recapture payments.
(4) Prior Period Adjustment in FYE 2018 was from implementing GASB 75 for OPEB.

APPENDIX B

GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY

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BARBERS HILL INDEPENDENT SCHOOL DISTRICT
General and Economic Information

Barbers Hill Independent School District (the "District") is a petroleum producing area that includes the City of Mont Belvieu, a retail center located 28 miles east of the downtown Houston business district on I-10. Salt domes within the District are used by oil companies as chemical storage facilities. The District's current estimated population is 20,730. Chambers County was created in 1858 and is located in southeast Texas on Galveston Bay.

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

Enrollment Statistics

Year Ending 6/30	Enrollment
2007	3,549
2008	3,708
2009	3,901
2010	4,111
2011	4,201
2012	4,398
2013	4,533
2014	4,676
2015	4,902
2016	4,984
2017	5,224
2018	5,380
2019	5,730
Current	6,169

District Staff

Teachers	440
Auxiliary Personnel	197
Teachers' Aides & Secretaries	155
Administrators	39
Other	81
Total	912

Facilities

Campus	Grades	Present Enrollment	Capacity	Year Built	Year of Addition/ Renovation
Early Childhood Center	PK-1	1,103	1,400	2019	Multi, 2019
Elementary School North	2-5	899	1,500	2014	2014
Elementary School South	2-5	983	1,500	2006	2009, 2014
Middle School North	6-8	669	1,015	1968	Multi, 2011, 2014, 2018
Middle School South	6-8	753	955	1981	Multi, 2004, 2014, 2018
High School	9-12	1,762	2,480	2001	Multi, 2004, 2014, 2018

Principal Employers within the District

Name of Company	Type of Business	Number of Employees
Enterprise Products	Industrial	1,000
Chevron Cedar Bayou	Industrial	950
Barbers Hill ISD	Public Education	912
Exxon Mobil Chemicals	Industrial	500
Targa	Industrial	250
City of Mont Belvieu/Eagle Pointe	Government	150
Oneok	Industrial	100

Unemployment Rates

	August 2017	August 2018	August 2019
Chambers County	6.8%	5.5%	4.8%
State of Texas	4.5%	4.0%	3.6%

Source: Texas Workforce Commission

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APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

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__________, 2019

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

> BARBERS HILL INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2019, dated November 1, 2019, in the aggregate principal amount of $__________.
>
> The Bonds mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds and in the order (the "Bond Order") adopted by the Board of Trustees of the District authorizing their issuance and in the pricing certificate relating to the Bonds executed pursuant thereto (together with the Bond Order, the "Order").

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

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

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

(1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect; the Bonds constitute valid and legally binding obligations of the District enforceable in accordance with the terms and

conditions thereof, except to the extent that the rights and remedies of the owners of the Bonds may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors of political subdivisions and the exercise of judicial discretion in appropriate cases; and the Bonds have been authorized and delivered in accordance with law; and

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

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

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

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

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

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APPENDIX D

AUDITED FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2019

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Barbers Hill Independent School District

Annual Financial Report
For the Fiscal Year Ended June 30, 2019

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Barbers Hill Independent School District
Annual Financial Report
For the Fiscal Year Ended June 30, 2019
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Barbers Hill Independent School District
Annual Financial Report
For the Fiscal Year Ended June 30, 2019
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Certificate of the Board

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

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and ______ approved ______ disapproved for the fiscal year ended June 30, 2019 at a meeting of the Board of Trustees of such school district on the _____ day of ___________, 2019.

______________________________	______________________________
Signature of Board Secretary	Signature of Board President

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

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Financial Section

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Independent Auditor's Report

To the Board of Trustees of
Barbers Hill Independent School District
Mont Belvieu, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Barbers Hill Independent School District (the District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Weaver and Tidwell, L.L.P.
1406 Wilson Road, Suite 100 | Conroe, Texas 77304
Main: 936.756.8127 | Fax: 936.756.8132
CPAs AND ADVISORS | WEAVER.COM

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

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

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

The Board of Trustees of
Barbers Hill Independent School District

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas
October 22, 2019

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Management's Discussion and Analysis

As management of the Barbers Hill Independent School District (the District), we offer readers of the accompanying report this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2019. In reviewing this report, readers should be mindful that it is often necessary for management to make and use estimates in the preparation of financial statements. Examples of the use of such estimates may be found in amounts reported for depreciation, net taxes receivable, claims payable of the District's self-insured workers' compensation program, and net pension and other post-employment benefit (OPEB) liability.

Financial Highlights

- Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at year-end by $28,053,883 (net position). Of this amount, $4,680,202 (unrestricted net position) is available to meet the District's ongoing obligations in subsequent years.
- The District's total net position increased by $12,746,753.
- At the end of the year, unassigned fund balance in the general fund was $27,176,531 while total fund balance in the general fund was $47,021,643, an increase of $771,897.

Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

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

The District adopts an annual revenue and appropriations budget for its general fund, debt service fund and national school breakfast and lunch program special revenue fund. All other governmental funds adopt project length budgets. Subsequent to adoption, amendments approved by the governing body are reflected in a revised budget column. A budgetary comparison statement has been provided for the general fund, national school breakfast and lunch program special revenue fund and debt service fund to demonstrate compliance with its budget.

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

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of students. 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 accounting used for fiduciary funds is similar to the accounting used for proprietary funds.

The basic fiduciary fund financial statements can be found as noted in the table of contents of this report.

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

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

Government-wide Financial Analysis

As mentioned earlier, net position may, over time, serve as an indicator of a District's changing financial position. At the close of the District's most recent fiscal year, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $28,053,883.

Barbers Hill Independent School District's Net Position

	Governmental Activities					
	2019		2018		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Current and other assets	$ 109,486,256	30	$ 144,271,450	39	$ (34,785,194)	(24)
Capital assets, net of accumulated depreciation	259,062,374	70	227,895,830	61	31,166,544	14
Total assets	368,548,630	100	372,167,280	100	(3,618,650)	
Total deferred outflows of resources	17,780,911	100	6,201,177	100	11,579,734	187
Other liabilities	16,675,643	5	14,447,955	4	2,227,688	15
Long-term liabilities outstanding	331,462,049	95	338,198,853	96	(6,736,804)	(2)
Total liabilities	348,137,692	100	352,646,808	100	(4,509,116)	
Total deferred inflows of resources	10,137,966	100	10,414,519	100	(276,553)	(3)
Net position:						
Net investment in capital assets	14,284,337	51	4,497,556	29	9,786,781	218
Restricted	9,089,344	32	8,743,650	57	345,694	4
Unrestricted	4,680,202	17	2,065,924	14	2,614,278	127
Total net position	$ 28,053,883	100	$ 15,307,130	100	$ 12,746,753	

The largest portion of the District's net position is net investment in capital assets. Investment in capital assets (e.g., land and improvements, buildings and improvements, furniture and equipment and construction in progress), less any related debt used to acquire those assets is $14,284,337, an increase of $9.8 million from June 30, 2018. The District utilizes capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net position that is restricted for debt service and grants totals $9,089,344 or 32 percent of net position.

The remaining balance of net position, *unrestricted net position* of $4,680,202, may be used to meet future obligations to students and creditors.

Governmental Activities. Governmental activities increased the District's net position by $12,746,753 from current operations. The elements giving rise to this change may be determined from the table below.

Barbers Hill Independent School District's Changes in Net Position

	Governmental Activities					
	2019		2018		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Revenue:						
Program revenues:						
Charges for services	$ 3,468,216	3	$ 2,976,798	3	$ 491,418	17
Operating grants and contributions	7,025,869	6	(7,385,308)	(7)	14,411,177	(195)
General revenues:						
Property taxes, levied for general purpose	49,711,600	40	46,544,092	47	3,167,508	7
Property taxes, levied for debt service	26,712,693	21	23,835,251	24	2,877,442	12
Grants and contributions not restricted to specific programs	30,179,654	24	29,273,387	29	906,267	3
Investment earnings	3,564,964	3	1,117,915	1	2,447,049	219
County available	940,705	1	693,832	1	246,873	36
County equalization	2,320,989	2	2,093,676	2	227,313	11
Miscellaneous	615,363	-	359,721	-	255,642	71
Total revenues	124,540,053	100	99,509,364	100	25,030,689	
Expenses:						
Instruction	47,668,563	43	26,363,429	34	21,305,134	81
Instructional resources and media services	827,520	1	517,751	1	309,769	60
Curriculum and instructional staff development	1,701,275	2	882,201	1	819,074	93
Instructional leadership	860,200	1	173,863	-	686,337	395
School leadership	3,578,603	3	2,155,533	3	1,423,070	66
Guidance, counseling, and evaluation services	2,512,215	2	1,312,866	2	1,199,349	91
Social work services	90,226	-	46,705	-	43,521	93
Health services	917,578	1	496,697	1	420,881	85
Student transportation	2,535,573	2	1,688,729	2	846,844	50
Food services	3,472,684	3	2,542,848	3	929,836	37
Extracurricular activities	3,256,610	3	2,590,865	3	665,745	26
General administration	3,728,526	3	1,951,764	3	1,776,762	91
Plant maintenance and operations	8,849,274	8	7,110,877	9	1,738,397	24
Security and monitoring services	673,473	1	460,117	1	213,356	46
Data processing services	1,343,907	1	1,180,829	2	163,078	14
Community services	10,259,838	9	8,911,970	12	1,347,868	15
Interest on long-term debt	9,312,248	9	8,878,933	11	433,315	5
Issuance costs and fees	302,474	-	1,047,083	1	(744,609)	(71)
Facilities repair and maintenance	424,123	-	209,847	-	214,276	102
Contracted instructional services between schools	8,925,909	- 8	8,259,866	11	666,043	8
Other intergovernmental charges	552,481	-	532,739	-	19,742	4
Total expenses	111,793,300	100	77,315,512	100	34,477,788	
Change in net position	12,746,753		22,193,852		(9,447,099)	
Net position - beginning, as originally reported	15,307,130		28,924,121		(13,616,991)	
Prior period adjustment - implement GASB 75 for OPEB (a)	-		(35,810,843)		35,810,843	
Net position - beginning, as restated	15,307,130		(6,886,722)		22,193,852	
Net position - ending	$ 28,053,883		$ 15,307,130		$ 12,746,753	

(a) The restatement of the beginning net position is the result of the Distict implementing GASB Statement No. 75 in fiscal year 2018.
The implementation is discussed previously in MD&A.

The current period increase in net position primarily resulted from an increase in property tax collections of $6,044,950 and grants and contributions of $14,411,177.

Revenues, aggregating $124,540,053, were generated primarily from two sources. Property taxes totaling $76,424,293 represent 61 percent of total revenues; while grants and contributions, including those not restricted for program-specific use as well as for general operations, totaling $30,179,654, represent 24 percent of total revenues. The remaining revenue is generated from investment earnings, charges for services, county equalization and miscellaneous revenues.

The primary functional expenses of the District are instruction $47,668,563, which represents 43 percent of total expenses, community services $10,259,838 which represents 9 percent of total expenses, interest on long-term debt $9,312,248 which represents 9 percent of total expenses, contracted instructional services between public schools $8,925,909 which represents 8 percent of total expenses, and plant maintenance and operations $8,849,274 which represents 8 percent of total expenses. The remaining functional expense categories are 8 percent or less of total expenses.

Financial Analysis of the Government's Funds

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

Governmental Funds. At the end of the fiscal year, the District's governmental funds had combined ending fund balances of $95,484,902, a decrease of $37,505,980 from the preceding year. Comments as to each major individual fund's change in fund balance follows.

The general fund is the primary operating fund of the District. At year-end, unassigned fund balance of the general fund was $27,176,531, while total fund balance was $47,021,643. To evaluate the general fund's liquidity, it may be helpful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 31 percent of total general fund expenditures, while total fund balance represents 54 percent of that same total. The fund balance of the general fund increased $771,897 during the year.

The debt service fund ended the year with a total fund balance of $12,324,391, all of which is reserved for the payment of principal and interest on debt. The debt service fund balance increased by $526,643 during the year.

The capital projects fund ended the year with a total fund balance of $35,427,235, all of which is reserved for capital acquisition program and contractual obligations. The capital projects fund balance decreased by $38,743,992 primarily due to funds used for construction projects.

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

General Fund Budgetary Highlights

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

There were no significant differences between budget and actual.

Capital Assets and Long-term Liabilities

Capital Assets. The District's investment in capital assets for its governmental activities as of June 30, 2019 was $259,062,374 (net of accumulated depreciation). This investment in capital assets includes land and improvements, buildings and improvements, furniture and equipment, and construction in progress. The increase in total capital assets, net of accumulated depreciation, for the current fiscal year was $31,166,544.

Major capital asset activity during the year included the following:

- $28.7 million on early childhood center building
- $3.1 million on high school additions and renovations
- $1.7 million on middle school north additions and renovations
- $3.9 million on middle school south additions and renovations

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

	Governmental Activities					
	2019		2018		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Land and improvements	$ 4,528,055	2	$ 4,751,708	2	$ (223,653)	(5)
Buildings and improvements	213,972,359	83	156,490,602	69	57,481,757	37
Furniture and equipment	6,261,151	2	6,963,486	3	(702,335)	(10)
Construction in progress	34,300,809	13	59,690,034	26	(25,389,225)	(43)
Totals	$ 259,062,374	100	$ 227,895,830	100	$ 31,166,544	

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

Construction Commitments. At the end of the current fiscal year, the District's commitments with construction contractors, including purchase orders, totaled $7,512,480.

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

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

	Governmental Activities					
	2019		2018		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
General obligation bonds (net)	$ 283,401,309	86	$ 302,076,217	89	$ (18,674,908)	(6)
Note payable	-	-	3,269,499	1	(3,269,499)	(100)
Workers' compensation	41,902	-	116,496	-	(74,594)	(64)
Compensated absences	33,111	-	32,757	-	354	1
Net pension liability	23,237,589	7	12,307,296	4	10,930,293	89
Net OPEB liability*	24,748,138	7	20,396,588	6	4,351,550	21
Totals	$ 331,462,049	100	$ 338,198,853	100	$ (6,736,804)	

*Per GASB Statement No. 75, beginning balance for net OPEB liability includes the restatement of net OPEB liability as of July 1, 2017.

The District's total long-term liabilities decreased by $6,736,804. The key factor was the retirement of $13,145,000 of general obligation bonds.

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

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

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

Additional information on the District's OPEB liability can be found in Note 4.D. to the financial statements as indicated in the table of contents of this report.

Economic Factors and Next Year's Budgets and Rates

- Student enrollment is 5,730 compared to 5,375 in the prior year.
- District staff totals 842 employees in 2018-19, which includes 403 teachers and 147 teacher aids and secretaries.
- Certified property values of the District increased by 18% for maintenance and operations and increased by 17% for interest and sinking for the 2019-20 year.
- A maintenance and operations tax rate of $0.99 and a debt service tax rate of $.2698, a total rate of $1.2598, was adopted for 2019-20, which is a decrease from fiscal year 2019.
- Unemployment rates for the State and County were 3.4% and 4.7%, respectively.

All of these factors and others were considered in preparing the District's budget for the 2018-19 fiscal year.

During the current fiscal year, unassigned fund balance in the general fund increased to $27,176,531. The District plans to utilize unassigned fund balance to fund current period expenditures prior to collecting the current year tax levy.

Requests for Information

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

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Basic Financial Statements

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Barbers Hill Independent School District

Exhibit A-1

Statement of Net Position
June 30, 2019

Data Control Codes		1 Primary Government Governmental Activities	Component Unit Barbers Hill ISD Education Foundation
	ASSETS		
1110	Cash and cash equivalents	$ 39,839,408	$ 10,755
1120	Investments	61,691,216	51,275,603
1220	Property taxes receivable	1,656,338	-
1230	Allowance for uncollectable taxes	(99,380)	-
1240	Due from other governments	5,151,054	-
1250	Accrued interest	392,442	132,851
1290	Other receivables	10,066	-
1300	Inventories	173,130	-
1410	Prepaid items	671,982	-
	Capital assets:		
1510	Land and improvements	4,528,055	-
1520	Buildings and improvements (net)	213,972,359	-
1530	Furniture and equipment (net)	6,261,151	-
1580	Construction in progress	34,300,809	-
1000	Total assets	368,548,630	51,419,209
	DEFERRED OUTFLOWS OF RESOURCES		
1705	Deferred outflows - pension	12,314,295	-
1706	Deferred outflow - OPEB	3,500,212	-
1710	Deferred charge on refunding	1,966,404	-
1700	Total deferred outflows of resources	17,780,911	-
	LIABILITIES		
2110	Accounts payable	4,974,505	56,750
2140	Interest payable	4,231,247	-
2150	Payroll deductions and withholdings	219,078	-
2160	Accrued wages payable	4,707,645	-
2180	Due to other governments	2,504,525	-
2200	Accrued liabilities	35,539	-
2300	Unearned revenue	3,104	-
	Noncurrent liabilities:		
2501	Due within one year	13,405,013	-
2502	Due in more than one year	270,071,309	-
2540	Net pension liabilities	23,237,589	-
2545	Net OPEB liability	24,748,138	-
2000	Total liabilities	348,137,692	56,750
	DEFERRED INFLOWS OF RESOURCES		
2605	Deferred inflows - pension	1,273,558	-
2606	Deferred inflows - OPEB	7,825,958	-
2610	Deferred gain on refunding	1,038,450	-
2600	Total deferred inflows of resources	10,137,966	-
	NET POSITION		
3200	Net investment in capital assets	14,284,337	-
3820	Restricted for grants	711,633	-
3850	Restricted for debt service	8,377,711	-
3900	Unrestricted	4,680,202	51,362,459
3000	**TOTAL NET POSITION**	$ 28,053,883	$ 51,362,459

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

Barbers Hill Independent School District
Statement of Activities
For the Fiscal Year Ended June 30, 2019

		1	3	4
			Program Revenues	
Data Control Codes	Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions
	PRIMARY GOVERNMENT			
	Governmental activities:			
0011	Instruction	$ 47,668,563	$ 578,838	$ 4,710,658
0012	Instructional resources and media services	827,520	-	58,987
0013	Curriculum and instructional staff development	1,701,275	-	206,042
0021	Instructional leadership	860,200	-	50,561
0023	School leadership	3,578,603	-	254,996
0031	Guidance, counseling, & evaluation services	2,512,215	-	194,228
0032	Social work services	90,226	-	7,418
0033	Health services	917,578	-	65,639
0034	Student transportation	2,535,573	-	90,059
0035	Food services	3,472,684	2,627,655	712,566
0036	Extracurricular activities	3,256,610	261,723	138,365
0041	General administration	3,728,526	-	144,753
0051	Plant maintenance and operations	8,849,274	-	189,096
0052	Security and monitoring services	673,473	-	27,761
0053	Data processing services	1,343,907	-	46,266
0061	Community services	10,259,838	-	2,636
0072	Interest on long-term debt	9,312,248	-	109,448
0073	Issuance costs and fees	302,474	-	-
0081	Facilities repair and maintenance	424,123	-	16,390
0091	Contracted instructional services between schools	8,925,909	-	-
0099	Other intergovernmental charges	552,481	-	-
TG	Total governmental activities	111,793,300	3,468,216	7,025,869
TP	**TOTAL PRIMARY GOVERNMENT**	$ 111,793,300	$ 3,468,216	$ 7,025,869
	COMPONENT UNIT			
1C	Barbers Hill ISD Education Foundation	$ 491,737	$ -	$ -
	General revenues:			
MT	Property taxes, levied for general purposes			
DT	Property taxes, levied for debt service			
GC	Grants and contributions not restricted to specific programs			
IE	Investment earnings			
CA	County available			
CE	County equalization			
MI	Miscellaneous			
TR	Total general revenues			
CN	Change in net position			
NB	Net position - beginning, as originally reported			
NE	**NET POSITION - ENDING**			

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

Exhibit B-1

Net (Expense) Revenue and Changes in Net Position	Component Unit
Governmental Activities	Barbers Hill ISD Education Foundation
$ (42,379,067)	$ -
(768,533)	-
(1,495,233)	-
(809,639)	-
(3,323,607)	-
(2,317,987)	-
(82,808)	-
(851,939)	-
(2,445,514)	-
(132,463)	-
(2,856,522)	-
(3,583,773)	(350,633)
(8,660,178)	-
(645,712)	-
(1,297,641)	-
(10,257,202)	(141,104)
(9,202,800)	-
(302,474)	-
(407,733)	-
(8,925,909)	-
(552,481)	-
(101,299,215)	(491,737)
(101,299,215)	-
-	(491,737)
49,711,600	-
26,712,693	-
30,179,654	15,446,109
3,564,964	4,564,564
940,705	-
2,320,989	-
615,363	-
114,045,968	20,010,673
12,746,753	19,518,936
15,307,130	31,843,523
$ 28,053,883	$ 51,362,459

Barbers Hill Independent School District
Balance Sheet
Governmental Funds
June 30, 2019

Data Control Codes		199 General Fund	599 Debt Service Fund
	ASSETS		
1110	Cash and cash equivalents	$ 19,704,144	$ 983,052
1120	Investments	28,852,200	11,280,559
1220	Property taxes receivable	1,353,607	302,731
1230	Allowance for uncollectable taxes	(81,216)	(18,164)
1240	Due from other governments	4,867,781	7,443
1250	Accrued interest	314,047	53,337
1260	Due from other funds	198,891	-
1290	Other receivables	10,066	-
1300	Inventories	173,130	-
1410	Prepaid items	671,982	-
1000	Total assets	$ 56,064,632	$ 12,608,958
	LIABILITIES		
2110	Accounts payable	$ 523,652	$ -
2150	Payroll deductions and withholdings	208,968	-
2160	Accrued wages payable	4,495,551	-
2170	Due to other funds	-	-
2180	Due to other governments	2,503,784	-
2200	Accrued liabilities	35,539	-
2300	Unearned revenue	3,104	-
2000	Total liabilities	7,770,598	-
	DEFERRED INFLOWS OF RESOURCES		
2600	Unavailable revenue - property taxes	1,272,391	284,567
	Total deferred inflows of resources	1,272,391	284,567
	FUND BALANCES		
3410	Nonspendable - inventories	173,130	-
3430	Nonspendable - prepaid items	671,982	-
3450	Restricted - grants	-	-
3470	Restricted - capital acquisitions and contractual obligations	-	-
3480	Restricted - debt service	-	12,324,391
3520	Committed - claims and judgements	5,000,000	-
3545	Committed - other	14,000,000	-
3600	Unassigned	27,176,531	-
3000	Total fund balances	47,021,643	12,324,391
4000	**TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES**	$ 56,064,632	$ 12,608,958

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

699 Capital Projects Fund	Total Nonmajor Funds	98 Total Governmental Funds
$ 18,292,842	$ 859,370	$ 39,839,408
21,558,457	-	61,691,216
-	-	1,656,338
-	-	(99,380)
-	275,830	5,151,054
25,058	-	392,442
-	-	198,891
-	-	10,066
-	-	173,130
-	-	671,982
$ 39,876,357	$ 1,135,200	$ 109,685,147
$ 4,449,122	$ 1,731	$ 4,974,505
-	10,110	219,078
-	212,094	4,707,645
-	198,891	198,891
-	741	2,504,525
-	-	35,539
-	-	3,104
4,449,122	423,567	12,643,287
-	-	1,556,958
-	-	1,556,958
-	-	173,130
-	-	671,982
-	711,633	711,633
35,427,235	-	35,427,235
-	-	12,324,391
-	-	5,000,000
-	-	14,000,000
-	-	27,176,531
35,427,235	711,633	95,484,902
$ 39,876,357	$ 1,135,200	$ 109,685,147

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Barbers Hill Independent School District

Exhibit C-1R

Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2019

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS (EXHIBIT C-1)		$ 95,484,902
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The governmental capital assets at year-end consist of:		
Governmental capital assets costs	$ 342,244,312	
Accumulated depreciation of governmental capital assets	(83,181,938)	259,062,374
Property taxes receivable, which will be collected subsequent to year-end, but are not available soon enough to pay expenditures and, therefore, are deferred in the funds.		1,556,958
Long-term liabilities and the respective accrued interest payable, including bonds payable, note payable, workers compensation, compensated absences, and net pension and OPEB liability, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Liabilities at year-end related to such items consist of:		
Bonds payable, at original par	$(259,905,000)	
Premium on bonds payable	(23,526,209)	
Discount on bonds payable	29,900	
Accrued interest on the bonds	(4,231,247)	
Workers' compensation	(41,902)	
Compensated absences	(33,111)	
Net pension liability	(23,237,589)	
Net OPEB liability	(24,748,138)	(335,693,296)
Deferred charge on refunding is reported as a deferred outflow of resources in the statement of net position and it is not reported in the governmental funds as it is not a current financial resource available to pay for current expenditures.		1,966,404
Deferred gain on refunding is reported as a deferred inflow of resources in the statement of net position and it is not reported in the governmental funds as it is not a current financial resource available to recognize as revenue.		(1,038,450)
Deferred outflows of resources for pension represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenses/expenditures) until then.		12,314,295
Deferred inflows of resources for pension represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.		(1,273,558)
Deferred outflows of resources for OPEB represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenses/expenditures) until then.		3,500,212
Deferred inflows of resources for OPEB represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.		(7,825,958)
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES (EXHIBIT A-1)		$ 28,053,883

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

Barbers Hill Independent School District

Statement of Revenues, Expenditures, and Changes
in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2019

Data Control Codes		199 General Fund	599 Debt Service Fund
	REVENUES		
5700	Local and intermediate revenues	$ 76,520,973	$ 27,261,628
5800	State program revenues	11,003,214	109,448
5900	Federal program revenues	1,075,453	-
5020	Total revenues	88,599,640	27,371,076
	EXPENDITURES:		
	Current:		
0011	Instruction	37,370,557	-
0012	Instructional resources and media services	681,156	-
0013	Curriculum and instructional staff development	1,509,188	-
0021	Instructional leadership	837,802	-
0023	School leadership	3,364,157	-
0031	Guidance, counseling, and evaluation services	2,340,075	-
0032	Social work services	83,598	-
0033	Health services	845,531	-
0034	Student transportation	1,978,063	-
0035	Food services	26,364	-
0036	Extracurricular activities	2,318,409	-
0041	General administration	3,492,813	-
0051	Plant maintenance and operations	7,271,924	-
0052	Security and monitoring services	536,589	-
0053	Data processing services	1,211,558	-
0061	Community services	10,256,017	-
	Debt service:		
0071	Principal on long-term debt	3,269,499	13,145,000
0072	Interest on long-term debt	650,496	11,193,173
0073	Issuance costs and fees	-	2,802,474
	Capital outlay:		
0081	Facilities aquisition and construction	-	-
	Intergovernmental:		
0091	Contracted instructional services between schools	8,925,909	-
0099	Other intergovernmental charges	552,481	-
6030	Total expenditures	87,522,186	27,140,647
1100	Excess (deficiency) of revenues over (under) expenditures	1,077,454	230,429
	OTHER FINANCING SOURCES (USES)		
7901	Issuance of refunding bonds	-	26,075,000
7912	Sale of real and personal property	-	-
7915	Transfers in	-	-
7916	Premium or (discount) on issuance of bonds	-	2,211,997
7949	State revenue pursuant to tax refund	3,943,747	-
8911	Transfers out	(25,000)	-
8940	Payment to refunded bonds escrow agent	-	(27,990,783)
8948	Tax refund pursuant to Texas Tax Code 313	(3,943,747)	-
8949	Other uses	(280,557)	-
7080	Total other financing sources (uses)	(305,557)	296,214
1200	Net change in fund balances	771,897	526,643
0100	Fund balances - beginning	46,249,746	11,797,748
3000	**FUND BALANCES - ENDING**	$ 47,021,643	$ 12,324,391

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

Exhibit C-2

699 Capital Projects Fund	Total Nonmajor Funds	98 Total Governmental Funds
$ 1,695,657	$ 2,627,772	$ 108,106,030
16,651	418,484	11,547,797
-	1,713,474	2,788,927
1,712,308	4,759,730	122,442,754
1,320,132	1,357,699	40,048,388
74,733	-	755,889
22,177	123,888	1,655,253
-	-	837,802
25,349	-	3,389,506
1,338	-	2,341,413
-	-	83,598
12,992	-	858,523
645,367	-	2,623,430
-	3,335,347	3,361,711
220,200	3,324	2,541,933
14,568	-	3,507,381
312,949	-	7,584,873
42,937	-	579,526
62,880	-	1,274,438
-	-	10,256,017
-	-	16,414,499
-	-	11,843,669
-	-	2,802,474
38,507,614	-	38,507,614
-	-	8,925,909
-	-	552,481
41,263,236	4,820,258	160,746,327
(39,550,928)	(60,528)	(38,303,573)
-	-	26,075,000
781,936	-	781,936
25,000	-	25,000
-	-	2,211,997
-	-	3,943,747
-	-	(25,000)
-	-	(27,990,783)
-	-	(3,943,747)
-	-	(280,557)
806,936	-	797,593
(38,743,992)	(60,528)	(37,505,980)
74,171,227	772,161	132,990,882
$ 35,427,235	$ 711,633	$ 95,484,902

Barbers Hill Independent School District

Exhibit C-3

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2019

TOTAL NET CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS (EXHIBIT C-2)		$ (37,505,980)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is capitalized allocated over their estimated useful lives as depreciation expense.		
Capital assets *increased*	$ 38,995,153	
Depreciation expense	(7,504,596)	31,490,557
The net effect of miscellaneous transactions involving capital assets (transfers, adjustments and dispositions) is an increase (decrease) to net position.		(324,013)
Because some property taxes will not be collected for several months after the District's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues increased (decreased) by this amount this year.		26,585
Issuance of bonds provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.		
Par value	$ (26,075,000)	
(Premium) discount	(2,211,997)	(28,286,997)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		13,145,000
Repayment of FEMA community disaster loan		3,269,499
Payment to escrow agent to refund bonds from refunding proceeds and District contribution.		30,490,783
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due, and includes amortization of related long-term debt accounts. The (increase) decrease in interest expense reported in the statement of activities consist of the following:		
Accrued interest on current interest bonds payable *(increased) decreased*	$ (130,328)	
Accrued interest on notes payable *(increased) decreased*	596,841	
Amortization of bond premium and discount	2,089,872	
Amortization of deferred charge and gain on refunding	(24,964)	2,531,421
The (increase) decrease in workers' compensation is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds.		74,594
The (increase) decrease in compensated absences is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds.		(354)
The net change in net pension liability, deferred outflows, and deferred inflows is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. The net change consists of the following:		
Deferred outflows increased (decreased)	$ 8,589,108	
Deferred inflows (increased) decreased	609,030	
Net pension liability (increased) decreased	(10,930,293)	(1,732,155)
The net change in net OPEB liability, deferred outflows, and deferred inflows is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. The net change consists of the following:		
Deferred outflows increased (decreased)	$ 3,213,390	
Deferred inflows (increased) decreased	705,973	
Net OPEB liability (increased) decreased	(4,351,550)	(432,187)
CHANGE IN NET POSITION FOR GOVERNMENTAL ACTIVITIES (EXHIBIT B-1)		$ 12,746,753

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

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

Statement of Assets and Liabilities

Fiduciary Fund

June 30, 2019

Data Control Codes		865 Agency Fund Student Activity
	ASSETS	
1110	Cash and cash equivalents	$ 569,187
1120	Investments	1,106
1290	Other receivables	7
1000	**TOTAL ASSETS**	$ 570,300
	LIABILITIES	
2110	Accounts payable	$ 7,201
2190	Due to student groups	563,099
2000	**TOTAL LIABILITIES**	$ 570,300

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Note 1. Summary of Significant Accounting Policies

A. Description of Government-wide Financial Statements

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

B. Reporting Entity

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

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

C. Basis of Presentation – Government-wide Financial Statements

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

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

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

D. Basis of Presentation – Fund Financial Statements

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

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those accounted for in another fund.

The *debt service fund* is used to account for the accumulation of resources that are restricted, committed, or assigned for the payment of principal and interest on long-term obligations of governmental funds.

The *capital projects fund* accounts for the acquisition and construction of the District's major capital facilities, other than those financed by proprietary funds.

Additionally, the District reports the following fund types:

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

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

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

E. Measurement Focus and Basis of Accounting

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

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

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

Interest associated with the current fiscal period is considered to be susceptible to accrual and has been recognized as revenues in the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 120 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 120 days of year end). All other revenue items, including property taxes, are considered to be measurable and available only when cash is received by the District.

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

1. Cash and Cash Equivalents

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

2. Investments

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

3. Inventories and Prepaid Items

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

Food service commodities and food service supplies are recorded as expenditures when received or purchased at their estimated market value or costs, respectively.

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

4. Capital Assets

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

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

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

Capital Asset Classes	Lives
Buildings and improvements	5-50
Furniture and equipment	3-50

5. Deferred Outflows/Inflows of Resources

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

Deferred outflows/inflows of resources are amortized as follows:

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

6. Compensated Absences

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

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

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

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

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

7. Net Position Flow Assumption

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

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

8. 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.

9. Fund Balance Policies

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

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

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

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

10. Pension

The fiduciary net position of the Teacher Retirement System of Texas (TRS) Pension 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 pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS's Pension Plan 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.

11. Other Postemployment Benefits (OPEB)

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 OPEB liability, deferred outflows of resources and deferred inflows of resources related to other postemployment benefits, 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 that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property Taxes

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

H. Use of Estimates

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

I. Data Control Codes

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

Note 2. Stewardship, Compliance, and Accountability

A. Budgetary Information

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

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

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

B. Encumbrances

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

Significant encumbrances included in governmental fund balances are as follows:

	Encumbrances Included in: Restricted Fund Balance
Capital projects fund	$ 7,512,480
Total encumbrances	$ 7,512,480

Note 3. Detailed Notes on All Funds

A. Deposits and Investments

Cash Deposits
The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Texas School Depository Act. The depository bank pledges securities which comply with state law and these securities are held for safekeeping and trust with the District's and the depository banks' agent bank. The pledged securities shall be in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

Investments
The District's investment policy is in accordance with the Public Funds Investment Act, the Public Funds Collateral Act, and federal and state laws. State law and District policy limits credit risk by allowing investing in 1) Obligations of the United States or its agencies which are backed by the full faith and credit of the United States, obligations of the State of Texas or its agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized statistical rating organization (NRSRO) not less than A or its equivalent; 2) Certificates of deposit issued by a broker or depository located in Texas which is insured by the FDIC or purchased through a broker who has an office located in Texas; 3) Fully collateralized repurchase agreements secured by obligations of the United States or its agencies not to exceed 90 days to maturity from the date of purchase; 4) Securities lending program as permitted by Government Code 2256.0015; 5) Bankers acceptances with a stated maturity of 270 days or fewer which are eligible for collateral for borrowing from a Federal Reserve Bank; 6) Commercial paper if it has a stated maturity of 270 days or fewer from the date of its issuance and is rated not less than A-1 or P-1 or an equivalent rating by at least: two nationally recognized credit rating agencies or one nationally recognized agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state; 7) No-load money market mutual funds which shall be registered with the Securities and Exchange Commission and have a dollar-weighted average stated maturity of 90 days or fewer; 8) No-load mutual funds which shall be registered with the Securities and Exchange Commission, have an average weighted maturity of less than two years, include investments that comply with the Public Funds Investment Act and are continuously rated not less than AAA by at least one NRSRO; 9) A guaranteed investment contract (for bond proceeds only) which meets the criteria and eligibility requirements established by the Public Funds Investment Act; 10) Public funds investment pools which meet the requirements of the Public Funds Investment Act.

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

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

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

The District's governmental and fiduciary funds investment balances, recurring fair value measurements weighted average maturity of such investments, and investment ratings are presented in the following tables:

			Fair Value Measurements Using				
Governmental Funds' Investment Type	S&P Rating	June 30, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Percentage of Total Investments	Weighted Average Maturity (Days)
Investments measured at amortized costs, not subject to level reporting							
Investment pools:							
TexPool	AAAm	$ 5,085	$ -	$ -	$ -	0%	35
Lone Star - Corporate Overnight	AAAm	4,477	-	-	-	0%	39
TexStar	AAAm	2,702	-	-	-	0%	38
Investments measured at fair value, subject to level reporting:							
U.S. government agencies	AA to AA+	4,472,786	-	4,472,786	-	7%	104
Municipal government securities	BBB+ to AAA	23,686,831	-	23,686,831	-	39%	2237
Commerical Paper	A-1	32,290,915	-	32,290,915	-	52%	72
Certificates of Deposit	BBB to A+	1,228,420	-	1,228,420	-	2%	260
Total value		$ 61,691,216	$ -	$ 61,678,952	$ -	100%	
Portfolio weighted average maturity							909

			Fair Value Measurements Using				
Fiduciary Funds' Investment Type	S&P Rating	June 30, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Percentage of Total Investments	Weighted Average Maturity (Days)
Investments measured at amortized costs, not subject to level reporting							
Investment pools:							
Lone Star - Corporate Overnight	AAAm	$ 1,106	$ -	$ -	$ -	100%	39
Total value		$ 1,106	$ -	$ -	$ -	100%	
Portfolio weighted average maturity							39

Investment pools are measured at amortized cost. Such investments are not required to be reported in the fair value hierarchy.

U.S. Government Agency Securities, Municipal Government Securities, commercial paper and brokered Certificates of Deposit are classified in Level 2 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

TexPool is duly chartered and overseen by the State Comptroller's Office, administered and managed by Federated Investors, Inc. State Street Bank serves as the custodial bank. The portfolio consists of U.S. Government securities; collateralized repurchase and reverse repurchase agreements; and AAA rated money market mutual funds.

Lone Star is duly chartered by the State of Texas Interlocal Cooperation Act, is administered by First Public, LLC, a subsidiary of the Texas Association of School Boards, and managed by Standish Mellon Asset Management and American Beacon Advisors. State Street Bank and Trust Company is the custodial bank.

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

TexSTAR is duly chartered by the State of Texas Interlocal Cooperation Act, is administered by Hilltop Securities, Inc. and J.P. Morgan Investment Management, Inc. (JPMIM), and managed by JPMIM, who provides custody and investment management.

The primary objectives of TexSTAR are, in order of priority, preservation and protection of principal, maintenance of sufficient liquidity to meet Participants' needs, and yield. The portfolio will maintain a dollar-weighted average maturity that does not exceed 60 days and seeks to maintain a net asset value of $1.00 per share. TexSTAR may invest in securities including: obligations of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; other obligations which are unconditionally guaranteed or insured by the U.S.; fully collateralized repurchase agreements with a defined termination date and unconditionally guaranteed or insured by the U.S. or its agencies and instrumentalities; and SEC-registered no-load money-market fund which meet the requirements of the Public Funds Investment Act. The investment pool has a redemption notice period of one day and no maximum transaction amounts. The investment pools' authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities market, general banking moratorium or national or state emergency that affects the pools' liquidity.

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

Interest Rate Risk

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

Concentration of Credit Risk

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

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. On June 30, 2019, the District's banks' balances of $36,246,219 were not exposed to custodial credit risk because it was insured and collateralized with securities held by the District's agent in the District's name.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investments are held by the District's agent in the District's name for the benefit of the District.

As of June 30, 2019, the Barbers Hill Independent School District Education Foundation had investments as follows:

			Fair Value Measurements Using				
Barbers Hill ISD Education Foundation	S&P Rating	June 30, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Percentage of Total Investments	Weighted Average Maturity (Days)
Investments measured at amortized costs, not subject to level reporting							
Money market funds	Not Rated	$ 150,701	$ -	$ -	$ -	0%	1
Investments measured at fair value, subject to level reporting:							
Fixed income funds	BBB- to AAA	14,789,318	-	14,789,318	-	29%	1354
Equity securities	Not Rated	36,335,584	36,335,584	-	-	71%	N/A
Total value		$ 51,275,603	$ 36,335,584	$ 14,789,318	$ -	100%	
Portfolio weighted average maturity							390

The Foundation follows the investment policy approved by the Foundation's Board of Trustees.

Money Market Funds are measured at amortized cost. Such investments are not required to be reported in the fair value hierarchy.

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

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

B. Receivables

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

Change in uncollectibles related to general fund property taxes	$	(1,064)
Change in uncollectibles related to debt service property taxes		(633)
Total change in uncollectibles of the current fiscal year	$	(1,697)

Approximately 73% of the outstanding balance of property taxes is not anticipated to be collected within the next year.

A concentration of risk exists for local revenue sources since approximately 29% of the District's taxable property value is attributed to two taxpayers. Similarly, the District's ten largest taxpayers approximate 66% of the total taxable value of the District.

C. Interfund Receivables, Payables, and Transfers

1. Receivables/Payables

The composition of interfund receivable/payable balances as of June 30, 2019, is as follows:

Due From/To Other Funds		Interfund Receivables		Interfund Payables
General fund	$	198,891	$	-
Nonmajor governmental funds		-		198,891
Totals	$	198,891	$	198,891

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

2. Transfers

The composition of interfund transfers between the various funds at June 30, 2019, is as follows:

Transfer Out	Transfers In		Amount
General fund	Capital projects fund	$	25,000
Total		$	25,000

The transfer was made to supplement construction projects.

D. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2019 was as follows:

	Beginning Balance	Additions	Reductions	Transfers & Adjustments	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land and improvements	$ 4,751,708	$ 100,360	$ (324,013)	$ -	$ 4,528,055
Construction in progress	59,690,034	29,211,141	-	(54,600,366)	34,300,809
Total capital assets, not being depreciated	64,441,742	29,311,501	(324,013)	(54,600,366)	38,828,864
Capital assets, being depreciated:					
Buildings and improvements	216,409,492	8,809,742	-	54,600,366	279,819,600
Furniture and equipment	23,043,689	873,910	(321,751)	-	23,595,848
Total capital assets, being depreciated	239,453,181	9,683,652	(321,751)	54,600,366	303,415,448
Less accumulated depreciation for:					
Buildings and improvements	(59,918,890)	(5,928,351)	-	-	(65,847,241)
Furniture and equipment	(16,080,203)	(1,576,245)	321,751	-	(17,334,697)
Total accumulated depreciation	(75,999,093)	(7,504,596)	321,751	-	(83,181,938)
Total capital assets, being depreciated, net	163,454,088	2,179,056	-	54,600,366	220,233,510
Governmental activities capital assets, net	$ 227,895,830	$ 31,490,557	$ (324,013)	$ -	$ 259,062,374

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

Governmental activities:	
11 Instruction	$ 4,645,816
12 Instructional resources and media services	24,259
13 Curriculum and instructional staff development	723
23 School leadership	176
33 Health services	750
34 Student transportation	523,969
35 Food services	51,471
36 Extracurricular activities	683,568
41 General administration	105,559
51 Plant maintenance and operations	1,277,364
52 Security and monitoring services	125,531
53 Data processing services	64,631
61 Community services	779
Total depreciation expense-governmental activities	$ 7,504,596

Construction Commitments

The District has active construction projects as of June 30, 2019. The projects include the construction and equipment of school facilities. At year-end, the District's commitments with contractors are as follows:

Project		Remaining Commitment
High school additions and renovations	$	54,894
Middle school north additions and renovations		27,095
Middle school south additions and renovations		15,331
Early childhood center		7,415,160
Totals	$	7,512,480

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

E. Long-term Liabilities

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

Changes in Long-term Liabilities

Long-term liability activity for the fiscal year ended June 30, 2019, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	$ 276,870,000	$ 26,075,000	$ (43,040,000)	$ 259,905,000	$ 13,330,000
Issuance premiums (CIB's)	25,239,189	2,211,997	(3,924,977)	23,526,209	-
Issuance discounts (CIB's)	(32,972)	-	3,072	(29,900)	-
Total bonds payable, net	302,076,217	28,286,997	(46,961,905)	283,401,309	13,330,000
Note payable	3,269,499	-	(3,269,499)	-	-
Workers' compensation	116,496	-	(74,594)	41,902	41,902
Compensated absences	32,757	354	-	33,111	33,111
Net pension liability	12,307,296	12,352,497	(1,422,204)	23,237,589	-
Net OPEB liability	20,396,588	4,693,476	(341,926)	24,748,138	-
Governmental activities long-term liabilities	$ 338,198,853	$ 45,333,324	$ (52,070,128)	$ 331,462,049	$ 13,405,013

General Obligation Bonds

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

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

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

Series	Interest Rate	Original Issue	Maturit Date	Beginning Balance	Additions	Reductions	Ending Balance
2007 BLDG	4.00-5.50%	$ 9,660,000	2025	$ 2,515,000	$ -	$ (2,515,000)	$ -
2010 REF	3.00-4.00%	2,340,000	2027	1,405,000	-	(135,000)	1,270,000
2011 BLDG	4.25-4.50%	9,450,000	2036	9,450,000	-	-	9,450,000
2012 BLDG	2.00-5.00%	65,395,000	2037	58,120,000	-	(2,010,000)	56,110,000
2012 QSCB	3.88%	7,085,000	2029	7,085,000	-	-	7,085,000
2012 REF	2.00-5.00%	7,220,000	2022	3,400,000	-	(805,000)	2,595,000
2013 REF	2.00-3.00%	9,375,000	2029	7,370,000	-	-	7,370,000
2014 BLDG	2.00-5.00%	42,895,000	2025	32,575,000	-	(32,575,000)	-
2014 REF	2.00-5.00%	21,195,000	2030	17,250,000	-	(1,375,000)	15,875,000
2014A REF	2.00-5.00%	28,885,000	2027	22,620,000	-	(2,045,000)	20,575,000
2015 REF	2.00-4.00%	8,845,000	2032	8,740,000	-	-	8,740,000
2016 BLDG	2.00-4.00%	13,860,000	2037	10,170,000	-	(355,000)	9,815,000
2017 BLDG	2.00-5.00%	45,620,000	2042	45,505,000	-	(210,000)	45,295,000
2018 BLDG	3.00-5.00%	50,665,000	2037	50,665,000	-	(465,000)	50,200,000
2018 REF	3.00-5.00%	26,075,000	2025	-	26,075,000	(550,000)	25,525,000
Totals				$ 276,870,000	$ 26,075,000	$ (43,040,000)	$ 259,905,000

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

Year Ending June 30,	Principal	Interest	Total Requirements
2020	$ 13,330,000	$ 11,200,361	$ 24,530,361
2021	14,045,000	10,586,461	24,631,461
2022	15,270,000	9,900,911	25,170,911
2023	14,950,000	9,207,111	24,157,111
2024	13,155,000	8,528,611	21,683,611
2025	12,725,000	7,964,161	20,689,161
2026	13,430,000	7,446,936	20,876,936
2027	13,260,000	6,863,111	20,123,111
2028	13,295,000	6,329,561	19,624,561
2029	18,880,000	5,764,511	24,644,511
2030	12,450,000	4,992,163	17,442,163
2031	13,000,000	4,462,263	17,462,263
2032	13,090,000	3,902,563	16,992,563
2033	13,655,000	3,372,638	17,027,638
2034	12,285,000	2,780,563	15,065,563
2035	12,880,000	2,246,013	15,126,013
2036	13,010,000	1,682,875	14,692,875
2037	13,350,000	1,151,325	14,501,325
2038	2,525,000	605,600	3,130,600
2039	2,655,000	479,350	3,134,350
2040	2,775,000	346,600	3,121,600
2041	2,885,000	235,600	3,120,600
2042	3,005,000	120,192	3,125,192
Totals	$ 259,905,000	$ 110,169,480	$ 370,074,480

As of June 30, 2019, the District has $14,000,000 of authorized but unissued bonds from the May 2017 bond election or any other election.

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

In October 2018, the District issued $26,075,000 of unlimited tax refunding bonds. The proceeds of the refunding bonds were used to legally defease $29,895,000 of previously issued District bonds in order to lower its overall debt service requirements. The net carrying value of the old debt exceeded the reacquisition price by $1,236,250. The amount is netted against the new debt and amortized over the life of the new debt. The refunding resulted in a debt service savings of $4,089,636 and an economic gain of $1,221,584.

In prior and current fiscal years, the District defeased certain previously issued and outstanding bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2019, the District had no outstanding defeased bonds.

Note Payable

On March 23, 2009, the District received a community disaster loan from the Federal Emergency Management Agency (FEMA) in the amount of $5,000,000. The interest rate on the loan is 2.00%. The District submitted a cancellation application to FEMA on January 27, 2014 as a result of the major disaster declaration on September 13, 2008 for the State of Texas. The application was approved by FEMA for a partial cancellation in the amount of $1,730,501. Principal and interest on the original loan was due on April 27, 2014. A time extension was granted by FEMA to extend the loan due date until April 27, 2019. The District paid off the note during the fiscal year 2019 including $3,269,499 in principal and $650,496 in interest.

F. Fund Balance

Other committed fund balance includes the following commitments of funds:

General fund:	
Potential property value decline	$ 5,000,000
Future Expansion	9,000,000
Total other committed fund balance	$ 14,000,000

G. Revenues from Local and Intermediate Sources

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

	General Fund	Debt Service Fund	Capital Projects Fund	Total Nonmajor Funds	Totals
Property taxes	$ 49,694,922	$ 26,702,786	$ -	$ -	$ 76,397,708
Payments in lieu of taxes	20,741,890	-	-	-	20,741,890
Charges for services	840,561	-	-	2,627,655	3,468,216
County equalization	2,320,989	-	-	-	2,320,989
County available	940,705	-	-	-	940,705
Investment earnings	1,568,289	558,842	1,437,716	117	3,564,964
Other	413,617	-	257,941	-	671,558
Totals	$ 76,520,973	$ 27,261,628	$ 1,695,657	$ 2,627,772	$ 108,106,030

Note 4. Other Information

A. Risk Management

General

Like all public school districts, the District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the fiscal year 2019, the District purchased commercial insurance or participated in risk pools in which the District transfers the risk for claims related to property and liability risks.

Health Care Coverage

During the year ended June 30, 2019, employees of the District were covered by TRS-Active Care (the Plan) a statewide health coverage program for Texas public education employees, implemented by the Teacher Retirement System of Texas (TRS). The District paid premiums of $175 per month, per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to the TRS. The legislature created the Plan for public school employee group health coverage in 2002-03, requiring all Districts with fewer than 500 employees to participate in the Plan.

Workers' Compensation

During the year ended June 30, 2019, the District met its statutory workers' compensation obligations through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Workers' Compensation Program is authorized by Chapter 504, Texas Labor Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members and their injured employees.

Barbers Hill ISD participates in the Fund's reimbursable aggregate deductible program. As such, the member is responsible for a certain amount of claims liability as outlined on the member's Contribution and Coverage Summary document. After the member's deductible has been met, the Fund is responsible for additional claims liability.

The Fund and its members are protected against higher than expected claims costs through the purchase of stop loss coverage for any claim in excess of the Fund's self-insured retention of $2 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2018, the Fund carries a discounted reserve of $48,977,531 for future development on reported claims and claims that have been incurred but not yet reported. For the fiscal year ended June 30, 2019, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contributions and reimbursable aggregate deductibles.

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

	Year Ended 6/30/2019	Year Ended 6/30/2018
Unpaid claims, beginning of fiscal year	$ 116,496	$ 101,156
Incurred claims (including IBNR's and changes in provisions)	(53,917)	77,902
Claim payments	(20,677)	(62,562)
Unpaid claims, end of fiscal year	$ 41,902	$ 116,496

The Fund engages the services of independent auditors to conduct a financial audit after the close of each plan year on August 31. The audit is approved by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2018, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

B. Litigation and Contingencies

The District is a defendant in a legal claim arising principally in the normal course of operations. In the opinion of the District's management, the District does not expect a loss and such matter will not have a material effect on the District's financial position, results of operations or liquidity.

The District participates in a number of federal and state financial assistance programs. Although the District's grant programs have been audited in accordance with the provisions of the Single Audit Act through June 30, 2019, these programs are subject to financial and compliance audits by the grantor agencies. The District is also subject to audit by the TEA of the attendance data upon which payments from the agency are based. These audits could result in questioned costs or refunds to be paid back to the granting agencies.

C. Defined Benefit Pension Plan

Plan Description

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

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

Pension Plan Fiduciary Net Position

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

Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic postemployment benefit changes; including automatic cost of living adjustments. Ad hoc postemployment benefit changes, including ad hoc cost of living adjustments 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 85th Texas Legislature, General Appropriations Act (GAA) affirmed that the employer contribution rates for plan fiscal years 2018 and 2019 would remain the same. Rates for such plan fiscal years are as follows:

	2019	2018	2017
Member	7.7%	7.7%	7.7%
Non-employer contributing entity (State)	6.8%	6.8%	6.8%
Employers (District)	6.8%	6.8%	6.8%

The contribution amounts for the District's fiscal year 2019 are as follows:

District contributions	$	1,562,159
Member contributions		3,685,773
NECE on-behalf contributions (State)		2,218,816

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.

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

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

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

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

Actuarial Assumptions

The total pension liability in the August 31, 2017 actuarial valuation rolled forward to August 31, 2018 was determined using the following actuarial assumptions:

Valuation date	August 31, 2017 rolled forward to August 31, 2018
Actuarial cost method	Individual Entry Age Normal
Asset valuation method	Market Value
Single discount rate	6.907%
Long-term expected rate	7.25%
Municipal bond rate as of August 2018	3.69%. Source for the rate is the Fixed Income Market Data/Yield Curve/Data 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."
Last year ending August 31 in the 2017 to 2116 projection period (100 years)	2116
Inflation	2.30%
Salary increases	3.05% to 9.05% including inflation
Ad hoc postemployment benefit changes	None

The actuarial methods and assumptions are based primarily on a study of actual experience for the three year period ending August 31, 2017 and adopted in July 2018.

Discount Rate

The single discount rate used to measure the total pension liability was 6.907%. The single discount rate was based on the expected rate of return on pension plan investments of 7.25% and a municipal bond rate of 3.69%. 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 sufficient to finance the benefit payments until the year 2069. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2069, and the municipal bond rate was applied to all benefit payments after that date. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in TRS's target asset allocation as of August 31, 2018 are summarized below:

Asset Class	Target Allocation*	Long-term Expected Geometric Real Rate of Return**	Expected Contribution to Long-term Portfolio Returns
Global equity:			
U.S.	18.0%	5.7%	1.0%
Non-U.S. developed	13.0%	6.9%	0.9%
Emerging markets	9.0%	8.9%	0.8%
Directional hedge funds	4.0%	3.5%	0.1%
Private equity	13.0%	10.2%	1.3%
Stable value:			
U.S. treasuries	11.0%	1.1%	0.1%
Absolute return	-	-	-
Stable value hedge funds	4.0%	3.1%	0.1%
Cash	1.0%	(0.3%)	-
Real return:			
Global inflation linked bonds	3.0%	0.7%	-
Real assets	14.0%	5.2%	0.7%
Energy and natural resources	5.0%	7.5%	0.4%
Commodities	-	-	-
Risk parity:			
Risk parity	5.0%	3.7%	0.2%
Inflation expectation			2.3%
Volatility drag***			(0.8%)
Totals	100.0%		7.2%

* Target allocations are based on the FY2016 policy model.
** Capital market assumptions come from Aon Hewitt (2017 Q4).
*** The volatility drag resulting from the conversion between arithmetic and geometric mean returns.

Discount Rate Sensitivity Analysis

The following table presents the District's proportionate share of net pension liability for TRS calculated using the discount rate of 6.907%, as well as the District's proportionate share of the respective net pension liability if it was calculated using a discount rate that is 1% lower or 1% higher than the current rate:

1% Decrease (5.907%)	Current Discount Rate (6.907%)	1% Increase (7.907%)
$ 35,071,095	$ 23,237,589	$ 13,657,665

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

At June 30, 2019, the District reported a liability of $23,237,589 for its proportionate share of the TRS's Net Pension Liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District are as follows:

District's proportionate share of the collective net pension liability	$ 23,237,589
State's proportionate share of the net pension liability associated with the District	33,097,397
Total	$ 56,334,986

The Net Pension Liability was measured as of August 31, 2017 and rolled forward to August 31, 2018 and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as August 31, 2017 rolled forward to August 31, 2018. 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, 2017 through August 31, 2018.

At August 31, 2018, the employer's proportion of the collective net pension liability was 0.0422176%, which was an increase of 0.0037268% from its proportion measured as of August 31, 2017.

Changes since the Prior Actuarial Valuation

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

- The total pension liability as of August 31, 2018 was developed using a roll-forward method from the August 31, 2017 valuation.
- Demographic assumptions including post-retirement mortality, termination rates, and rates of retirement were updated based on the experience study performed for TRS for the period ending August 31, 2017.
- Economic assumptions including rates of salary increase for individual participants was updated based on the same experience study.
- The discount rate changed from 8.0% as of August 31, 2017 to 6.907% as of August 31, 2018.
- The long-term assumed rate of return changed from 8.0% to 7.25%.
- The change in the long-term assumed rate of return combined with the change in the single discount rate was the primary reason for the increase in the net pension liability.

There were no changes of benefit terms that affected measurement of the Total Pension Liability during the measurement period.

For the fiscal year ended June 30, 2019, the District recognized pension expense of $6,570,074 and on-behalf revenue of $3,275,760 for support provided by the State.

At June 30, 2019, the District reported deferred outflows of resources for contributions made after the measurement date and its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 144,844	$ 570,159
Changes in actuarial assumptions	8,378,270	261,821
Net difference between projected and actual earnings on pension plan investments	-	440,917
Changes in proportion and differences between District contributions and proportionate share of contributions (cost-sharing plan)	2,473,161	661
District contributions paid after measurement date	1,318,020	-
Totals	$ 12,314,295	$ 1,273,558

$1,318,020 reported as deferred outflows of resources related to pensions resulting from District contributions paid subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources (deferred inflows of resources) related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	
2020	$ 2,483,177
2021	1,555,304
2022	1,317,059
2023	1,706,778
2024	1,613,867
Thereafter	1,046,532
Total	$ 9,722,717

D. Defined Other Postemployment Benefit Plan

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 Other Postemployment Benefit (OPEB) plan that has a special funding situation. The plan is administered through a trust by the TRS Board of Trustees. 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 http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR; by writing to TRS at 1000 Red River Street, Austin, Texas, 78701-2698; or by calling (512) 542-6592.

Benefits Provided

TRS-Care provides a basic health insurance coverage (TRS-Care 1), 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). 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 10 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 postemployment 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 a retiree with and without Medicare coverage.

TRS-Care Monthly Premium Rates
Effective January 1, 2018-December 31, 2018

	Medicare	Non - Medicare
Retiree*	$ 135	$ 200
Retiree and spouse	529	689
Retiree* and children	468	408
Retiree and family	1,020	999

* or surviving spouse

Contributions

Contribution rates for the TRS-Care plan are established in state statute by the Texas Legislature, and there is no continuing obligation to provide benefits beyond each fiscal year. The TRS-Care plan 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 of trustees does not have the authority to set or amend contribution rates.

Texas Insurance Code, section 1575.202 establishes the State's contribution rate which is 1.25% of the employee's salary. Section 1575.203 establishes the active employee's rate which is 0.65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25% or not more than 0.75% of the salary of each active employee of the District. The actual employer contribution rate is prescribed by the Legislature in the GAA.

The following table shows contributions to the TRS-Care plan by type of contributor.

	2019	2018	2017
Active Employee	0.65%	0.65%	0.65%
Non-employer contribution entity (State)	1.25%	1.25%	1.00%
Employers (District)	0.75%	0.75%	0.55%
Federal/private funding remitted by Employers	1.25%	1.25%	1.00%

The contribution amounts for the District's fiscal year 2019 are as follows:

District contributions	$	369,030
Member contributions		311,137
NECE on-behalf contributions (State)		587,936

The State of Texas also contributed $141,126, $134,155, and $129,771 in 2019, 2018, and 2017, respectively, for on-behalf payments for Medicare Part D.

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

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of $182.6 million in fiscal year 2018. The 85th Texas Legislature, House Bill 30 provided an additional $212 million in one-time, supplemental funding for the fiscal year 2018-19 biennium to continue to support the program. This was also received in fiscal year 2018 bringing the total appropriations received in fiscal year 2018 to $394.6 million.

Actuarial Assumptions

A change was made in the measurement date of the Total OPEB Liability for this fiscal year. The actuarial valuation was performed as of August 31, 2017. Update procedures were used to roll forward the total OPEB liability to August 31, 2018. This is the first year using the roll forward procedures.

The actuarial valuation of TRS-Care is similar to the actuarial valuations performed for the pension plan, except that the OPEB valuation is more complex. All of the demographic assumptions, including mortality and most of the economic assumptions used in this OPEB valuation were identical to those used in the respective TRS pension valuation.

The active mortality rates were based on 90% of the RP-2014 Employee Mortality Tables for males and females, with full generational mortality using Scale BB. The Post-retirement mortality rates were based on the 2018 TRS of Texas Healthy Pensioner Mortality Tables, with full generational projection using the ultimate improvement rates from the most recently published scale.

The Total OPEB Liability in the August 31, 2017 actuarial valuation rolled forward to August 31, 2018 was determined using the following actuarial assumptions:

Valuation date	August 31, 2017, rolled forward to August 31, 2018
Actuarial cost method	Individual Entry Age Normal
Inflation	2.30%
Discount rate	3.69%. Sourced from 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, 2018.
Aging factors	Based on plan specific experience
Election rates	Normal Retirement: 70% participation prior to age 65 and 75% after age 65.
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Projected annual salary increases	3.05% to 9.05%, including inflation
Healthcare trend rates	Initial medical trend rates of 107.74% and 9.00% for Medicare retirees and an initial medical trend rate of 6.75% for non-Medicare retirees. Initial prescription drug trend rate of 11.00% for all retirees. The first year trend increase for the Medicare Advantage premiums reflects the anticipated return of the Health Insurer Fee in 2020.
Ad hoc postemployment benefit changes	None

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 annually 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.

Discount Rate

A single discount rate of 3.69% was used to measure the total OPEB liability. There was an increase of 0.27% in the discount rate since the previous year. Because the plan 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, the OPEB plan'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.

Sensitivity of the Net OPEB Liability

Discount Rate
The following table presents the District's proportionate share of net OPEB liability for TRS-Care if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.69%).

Sensitivity of the Net OPEB Liability
to the Single Discount Rate Assumptions

1% Decrease (2.69%)	Current Single Discount Rate (3.69%)	1% Increase (4.69%)
$ 29,458,788	$ 24,748,138	$ 21,021,711

Healthcare Cost Trend Rates
The following table presents the District's proportionate share of net OPEB liability 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 1% lower or 1% higher than the assumed health-care cost trend rate:

Sensitivity of the Net OPEB Liability to
the Healthcare Cost Trend Rate Assumptions

1% Decrease (7.5%)	Current Healthcare Cost Trend Rate (8.5%)	1% Increase (9.5%)
$ 20,553,732	$ 24,748,138	$ 30,272,262

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB
At June 30, 2019, the District reported a liability of $24,748,138 for its proportionate share of the TRS'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 net OPEB liability	$ 24,748,138
State's proportionate share of the net OPEB liability associated with the District	39,080,884
Total	$ 63,829,022

The net OPEB liability was measured as of August 31, 2017 and rolled forward to August 31, 2018 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The employer's proportion of the net OPEB liability was based on the employer's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2017 through August 31, 2018.

At August 31, 2018, the employer's proportion of the collective net OPEB liability was 0.0495648% which was an increase of 0.0026612% from its proportion measured as of August 31, 2017.

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:

- Adjustments were made for retirees that were known to have discontinued their health care coverage in fiscal year 2018. This change increased the total OPEB liability.
- The health care trend rate assumption was updated to reflect the anticipated return of the Health Insurer Fee (HIF) in 2020. This change increased the total OPEB liability.
- Demographic and economic assumptions were updated based on the experience study performed for TRS for the period ending August 31, 2017. This changed increased the total OPEB liability.
- The discount rate was changed from 3.42% as of August 31, 2017 to 3.69% as of August 31, 2018. This change lowered the total OPEB liability $2.3 billion.
- Change of benefit terms since the prior measurement date made effective September 1. 2017 by the 85th Texas Legislature.

For the fiscal year ended June 30, 2019, the District recognized OPEB expense of $2,222,745 and revenue of $1,421,528 for support provided by the State.

At June 30, 2019, the District reported the District's contributions paid after the measurement date and its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to other postemployment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 1,313,292	$ 390,562
Changes of assumptions	412,979	7,435,396
Net difference between projected and actual earnings on OPEB investments	4,328	-
Changes in proportion and differences between District contributions and proportionate share of contributions (cost-sharing plan)	1,458,881	-
District contributions paid after measurement date	310,732	-
Totals	$ 3,500,212	$ 7,825,958

$310,732 reported as deferred outflows of resources related to OPEB resulting from District contributions paid subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,		
2020	$	(792,543)
2021		(792,543)
2022		(792,543)
2023		(793,361)
2024		(793,830)
Thereafter		(671,658)
Total	$	(4,636,478)

Note 5. Tax Abatements

The District entered into property tax abatement agreements with local businesses under Texas Tax Code, Title 3. Subtitle B. Chapter 313. Texas Economic Development Act (the Act) beginning December 14, 2009 through June 25, 2018. Under the Act, Texas school districts may grant property tax abatements according to the category of taxable value of property in the District for the preceding tax year. Barbers Hill Independent School District is a Category II district, which limits the minimum amount per qualified investment to $80 million. The qualified property is limited only from maintenance and operation (M&O) property tax. The tax abatements, which are approved by the Texas Comptroller's office and the District's Board, are granted for the purpose of enhancing the local community; improving the public education system; creating high-paying jobs; and advancing economic development goals.

The agreements were for local businesses to invest a minimum capital investment totaling $1,320,000,000 within the District's boundaries during a qualifying period and to create jobs. Such investments would be limited to taxable value of the lesser of qualified appraised value or the agreements that range individually from $30,000,000 to $80,000,000. The District's tax abatements expire in increments beginning in December 31, 2020 through December 31, 2031.

For the fiscal year ended June 30, 2019, the District foregoes collecting property taxes totaling $55,233,858 resulting from the M&O tax rate of $1.06 per $100 of taxable value. The qualified property per the agreements had a taxable value of $5,810,741,338 and was limited to a taxable value of $600,000,000. However, in foregoing the property tax revenue, the District receives state funding through the Foundation School Program funding formula to offset the loss of property tax revenues. In addition, the local businesses receiving such property tax abatements have committed to compensate the District for the loss of M&O revenue, reimburse the District for all non-reimbursed costs for extraordinary education related expenses not funded by state aid, and compensate the District for the greater of $100 per student per average daily attendance (ADA) or $50,000 during the term of the agreement.

Required Supplementary Information

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Barbers Hill Independent School District

Exhibit G-1

Schedule of Revenues, Expenditures, and Changes in
Fund Balance - Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2019

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance with Final Budget Positive (Negative)
	REVENUES				
5700	Local and intermediate revenues	$ 72,587,431	$ 76,863,431	$ 76,520,973	$ (342,458)
5800	State program revenues	6,813,568	7,505,568	11,003,214	3,497,646
5900	Federal program revenues	405,000	1,102,000	1,075,453	(26,547)
5020	Total revenues	79,805,999	85,470,999	88,599,640	3,128,641
	EXPENDITURES				
	Current:				
0011	Instruction	37,497,935	37,497,935	37,370,557	127,378
0012	Instructional resources and media services	681,553	683,553	681,156	2,397
0013	Curriculum and instructional staff development	1,468,756	1,511,756	1,509,188	2,568
0021	Instructional leadership	924,719	924,719	837,802	86,917
0023	School leadership	3,378,394	3,406,394	3,364,157	42,237
0031	Guidance, counseling, and evaluation services	2,337,223	2,352,223	2,340,075	12,148
0032	Social work services	83,106	84,106	83,598	508
0033	Health services	837,068	864,068	845,531	18,537
0034	Student transportation	2,268,265	2,268,265	1,978,063	290,202
0035	Food services	-	27,000	26,364	636
0036	Extracurricular activities	2,263,379	2,339,380	2,318,409	20,971
0041	General administration	2,453,379	3,628,379	3,492,813	135,566
0051	Plant maintenance and operations	7,619,433	7,619,433	7,271,924	347,509
0052	Security and monitoring services	538,175	553,175	536,589	16,586
0053	Data processing services	1,202,035	1,222,035	1,211,558	10,477
0061	Community services	27,835	10,256,835	10,256,017	818
	Debt service:				
0071	Principal on long-term debt	3,269,499	3,269,499	3,269,499	-
0072	Interest on long-term debt	652,000	652,000	650,496	1,504
	Intergovernmental:				
0091	Contracted instructional services between schools	11,300,000	11,300,000	8,925,909	2,374,091
0099	Other intergovernmental charges	639,000	639,000	552,481	86,519
6030	Total expenditures	79,441,754	91,099,755	87,522,186	3,577,569
1100	Excess (deficiency) of revenues over (under) expenditures	364,245	(5,628,756)	1,077,454	6,706,210
	OTHER FINANCING SOURCES (USES)				
7949	State revenue pursuant to tax refund	3,906,008	3,944,008	3,943,747	(261)
8911	Transfers out	-	(363,000)	(25,000)	338,000
8948	Tax refund pursuant to Texas Tax Code 313	(3,906,008)	(3,906,008)	(3,943,747)	(37,739)
8949	Other uses	-	-	(280,557)	(280,557)
7080	Total other financing sources (uses)	-	(325,000)	(305,557)	19,443
1200	Net change in fund balance	364,245	(5,953,756)	771,897	6,725,653
0100	Fund balance - beginning	46,249,746	46,249,746	46,249,746	-
3000	**FUND BALANCE - ENDING**	$ 46,613,991	$ 40,295,990	$ 47,021,643	$ 6,725,653

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

Barbers Hill Independent School District
Schedule of the District's Proportionate Share of the Net Pension Liability
of a Cost-Sharing Multiple-Employer Pension Plan
Teacher Retirement System of Texas
For the Last Five Fiscal Years*

	2019
District's proportion of the net pension liability	0.0422176%
District's proportionate share of the net pension liability	$ 23,237,589
State's proportionate share of the net pension liability associated with the District	33,097,397
TOTALS	$ 56,334,986
District's covered payroll	$ 44,041,414
District's proportionate share of the net pension liability as a percentage of its covered payroll	52.76%
Plan fiduciary net position as a percentage of the total pension liability	73.74%

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

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

Exhibit G-2

2018	2017	2016	2015
0.0384908%	0.0377107%	0.0379358%	0.0289778%
$ 12,307,296	$ 14,250,308	$ 13,409,800	$ 7,740,371
20,767,188	23,482,791	21,228,484	17,284,882
$ 33,074,484	$ 37,733,099	$ 34,638,284	$ 25,025,253
$ 42,876,104	$ 39,867,733	$ 36,566,914	$ 34,374,026
28.70%	35.74%	36.67%	22.52%
82.17%	78.00%	78.43%	83.25%

Barbers Hill Independent School District
Schedule of the District's Contributions to the
Teacher Retirement System of Texas Pension Plan
For the Last Five Fiscal Years*

	2019
TRS	
Contractually required contributions	$ 1,562,159
Contributions in relation to the contractually required contributions	(1,562,159)
CONTRIBUTION DEFICIENCY (EXCESS)	$ -
District's covered payroll	$ 47,867,176
Contributions as a percentage of covered payroll	3.26%

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

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

Exhibit G-3

2018	2017	2016	2015
$ 1,427,277	$ 1,011,809	$ 1,185,438	$ 1,062,115
(1,427,277)	(1,011,809)	(1,185,438)	(1,062,115)
$ -	$ -	$ -	$ -
$ 44,684,592	$ 41,232,770	$ 39,298,947	$ 36,325,507
3.19%	2.45%	3.02%	2.92%

Barbers Hill Independent School District **Exhibit G-4**

Schedule of the District's Proportionate Share of the Net OPEB
Liability of a Cost-Sharing Multiple-Employer OPEB Plan
Teacher Retirement System of Texas
Last Two Fiscal Years*

	2019	2018
District's proportion of the net OPEB liability	0.0495648%	0.0469035%
District's proportionate share of the net OPEB liability	$ 24,748,138	$ 20,396,588
State's proportionate share of the net OPEB liability associated with the District	$ 39,080,884	34,999,204
TOTALS	$ 63,829,022	$ 55,395,792
District's covered payroll	$ 44,041,414	$ 42,876,104
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	56.19%	47.57%
Plan fiduciary net position as a percentage of the total OPEB liability	1.57%	0.91%

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

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

Barbers Hill Independent School District **Exhibit G-5**

Schedule of the District's Contributions to the
Teacher Retirement System of Texas OPEB Plan
Last Two Fiscal Years*

	2019	2018
TRS		
Contractually required contributions	$ 369,030	$ 329,178
Contributions in relation to the contractually required contributions	(369,030)	(329,178)
CONTRIBUTION DEFICIENCY (EXCESS)	$ -	$ -
District's covered payroll	$ 47,867,176	$ 44,684,592
Contributions as a percentage of covered payroll	0.77%	0.74%

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

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

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Note 1. Budget

Each school district in Texas is required by law to prepare annually a budget of anticipated revenues and expenditures for the general fund, debt service fund, and the National School Breakfast and Lunch Program special revenue fund. The Texas Education Code requires the budget to be prepared no later than June 19 and adopted by June 30 of each year. The budgets are prepared on a basis of accounting that is used for reporting in accordance with generally accepted accounting principles.

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

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

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

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Supplementary Information

Barbers Hill Independent School District
Combining Balance Sheet
Nonmajor Governmental Funds
Special Revenue Funds
June 30, 2019

Data Control Codes		211 ESSA Title I, Part A - Improving Basic Programs	224 IDEA-Part B Formula
	ASSETS		
1110	Cash and cash equivalents	$ -	$ -
1240	Due from other governments	63,402	155,833
1000	**TOTAL ASSETS**	$ 63,402	$ 155,833
	LIABILITIES		
2110	Accounts payable	$ -	$ 865
2150	Payroll deductions and withholdings	636	925
2160	Accrued wages payable	30,344	42,098
2170	Due to other funds	32,422	111,945
2180	Due to other governments	-	-
2000	Total liabilities	63,402	155,833
	FUND BALANCES		
3450	Restricted - grants	-	-
3000	Total fund balances	-	-
	TOTAL LIABILITIES AND FUND BALANCES	$ 63,402	$ 155,833

225	240	244	255	263
IDEA-Part B Preschool	National School Breakfast/Lunch Program	Career and Technical Basic Grant	ESSA Title II, Part A,: Teacher & Principal Training & Recruiting	Title III, Part A English Language Acquisition and Enhancement
$ -	$ 856,437	$ -	$ -	$ -
4,236	-	-	36,754	7,554
$ 4,236	$ 856,437	$ -	$ 36,754	$ 7,554
$ -	$ 866	$ -	$ -	$ -
51	8,498	-	-	-
2,531	137,121	-	-	-
1,654	-	-	36,013	7,554
-	-	-	741	-
4,236	146,485	-	36,754	7,554
-	709,952	-	-	-
-	709,952	-	-	-
$ 4,236	$ 856,437	$ -	$ 36,754	$ 7,554

Barbers Hill Independent School District
Combining Balance Sheet
Nonmajor Governmental Funds
Special Revenue Funds – Continued
June 30, 2019

Data Control Codes		288 Summer School LEP	289 Federally Funded Special Revenue Funds
	ASSETS		
1110	Cash and cash equivalents	$ 1,252	$ -
1240	Due from other governments	-	132
1000	**TOTAL ASSETS**	$ 1,252	$ 132
	LIABILITIES		
2110	Accounts payable	$ -	$ -
2150	Payroll deductions and withholdings	-	-
2160	Accrued wages payable	-	-
2170	Due to other funds	1,252	132
2180	Due to other governments	-	-
2000	Total liabilities	1,252	132
	FUND BALANCES		
3450	Restricted - grants	-	-
3000	Total fund balances	-	-
	TOTAL LIABILITIES AND FUND BALANCES	$ 1,252	$ 132

397	404	410	
Advanced Placement Incentives	**Student Success Initiatives**	**State Textbook Fund**	**Total Nonmajor Funds (See Exhibit C-1)**
$ 1,600	$ 81	$ -	$ 859,370
-	-	7,919	275,830
$ 1,600	$ 81	$ 7,919	$ 1,135,200
$ -	$ -	$ -	$ 1,731
-	-	-	10,110
-	-	-	212,094
-	-	7,919	198,891
-	-	-	741
-	-	7,919	423,567
1,600	81	-	711,633
1,600	81	-	711,633
$ 1,600	$ 81	$ 7,919	$ 1,135,200

Barbers Hill Independent School District
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
Special Revenue Funds
For the Fiscal Year Ended June 30, 2019

Data Control Codes		211 ESSA Title I, Part A - Improving Basic Programs	224 IDEA-Part B Formula
	REVENUES		
5700	Local and intermediate revenues	$ -	$ -
5800	State program revenues	-	-
5900	Federal program revenues	288,618	681,832
5020	Total revenues	288,618	681,832
	EXPENDITURES		
	Current:		
0011	Instruction	274,122	681,832
0013	Curriculum and instructional staff development	14,496	-
0035	Food services	-	-
0036	Extracurricular activities	-	-
6030	Total expenditures	288,618	681,832
1200	Net change in fund balances	-	-
0100	Fund balances - beginning	-	-
3000	**FUND BALANCES - ENDING**	$ -	$ -

225	240	244	255	263
IDEA-Part B Preschool	National School Breakfast/Lunch Program	Career and Technical Basic Grant	ESSA Title II, Part A,: Teacher & Principal Training & Recruiting	Title III, Part A English Language Acquisition and Enhancement
$ -	$ 2,627,772	$ -	$ -	$ -
-	59,882	-	-	-
17,830	585,565	17,596	80,900	21,370
17,830	3,273,219	17,596	80,900	21,370
17,830	-	17,596	-	11,265
-	-	-	80,900	10,105
-	3,335,347	-	-	-
-	-	-	-	-
17,830	3,335,347	17,596	80,900	21,370
-	(62,128)	-	-	-
-	772,080	-	-	-
$ -	$ 709,952	$ -	$ -	$ -

Barbers Hill Independent School District
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
Special Revenue Funds – Continued
For the Fiscal Year Ended June 30, 2019

Data Control Codes		288 Summer School LEP	289 Federally Funded Special Revenue Funds
	REVENUES		
5700	Local and intermediate revenues	$ -	$ -
5800	State program revenues	-	-
5900	Federal program revenues	1,252	18,511
5020	Total revenues	1,252	18,511
	EXPENDITURES		
	Current:		
0011	Instruction	1,252	-
0013	Curriculum and instructional staff development	-	15,187
0035	Food services	-	-
0036	Extracurricular activities	-	3,324
6030	Total expenditures	1,252	18,511
1200	Net change in fund balances	-	-
0100	Fund balances - beginning	-	-
3000	**FUND BALANCES - ENDING**	$ -	$ -

397	404	410	
Advanced Placement Incentives	**Student Success Initiatives**	**State Textbook Fund**	**Total Nonmajor Funds (See Exhibit C-2)**
$ -	$ -	$ -	$ 2,627,772
4,800	-	353,802	418,484
-	-	-	1,713,474
4,800	-	353,802	4,759,730
-	-	353,802	1,357,699
3,200	-	-	123,888
-	-	-	3,335,347
-	-	-	3,324
3,200	-	353,802	4,820,258
1,600	-	-	(60,528)
-	81	-	772,161
$ 1,600	$ 81	$ -	$ 711,633

Barbers Hill Independent School District
Schedule of Delinquent Taxes Receivable
For the Fiscal Year Ended June 30, 2019

	1	2	3
Year Ended June 30,	Tax Rates Maintenance	Tax Rates Debt Service	Assessed/Appraised Value For School Tax Purposes
2010 and prior years	$ Various	$ Various	$ Various
2011	1.0601	.2698	2,788,955,260
2012	1.0600	.2698	3,262,025,643
2013	1.0600	.2698	3,947,441,269
2014	1.0600	.2698	4,055,523,537
2015	1.0600	.2698	4,805,775,079
2016	1.0600	.2698	5,586,723,191
2017	1.0600	.2698	4,874,789,592
2018	1.0600	.2698	5,336,109,490
2019	1.0600	.2698	5,774,458,189
1000 TOTALS			
9000 - Portion of Row 1000 for Taxes Paid into Tax Increment Zone Under Chapter 311, Tax Code			

Exhibit J-1

10 Beginning Balance 7/1/18	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 6/30/19
$ 923,293	$ -	$ 16,142	$ 3,121	$ (91,871)	$ 812,159
37,436	-	826	210	(233)	36,167
31,611	-	1,026	261	(235)	30,089
30,383	-	2,506	638	(236)	27,003
34,263	-	2,896	737	(2,146)	28,484
36,520	-	1,816	462	(1,705)	32,537
61,162	-	5,925	1,508	(1,729)	52,000
83,516	-	(30,620)	(7,794)	(63,621)	58,309
389,872	-	111,524	28,386	(141,387)	108,575
-	76,788,745	49,414,726	26,636,026	(266,978)	471,015
$ 1,628,056	$ 76,788,745	$ 49,526,767	$ 26,663,555	$ (570,141)	$ 1,656,338
		$ -	$ -		

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

Schedule of Revenues, Expenditures, and Changes
in Fund Balance – Budget and Actual
National School Breakfast and Lunch Program
For the Fiscal Year Ended June 30, 2019

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance with Final Budget Positive (Negative)
	REVENUES				
5700	Local and intermediate revenues	$ 2,443,000	$ 2,638,000	$ 2,627,772	$ (10,228)
5800	State program revenues	6,000	62,000	59,882	(2,118)
5900	Federal program revenues	507,000	596,000	585,565	(10,435)
5020	Total revenues	2,956,000	3,296,000	3,273,219	(22,781)
	EXPENDITURES				
	Current:				
0035	Food services	3,022,478	3,353,478	3,335,347	18,131
6030	Total expenditures	3,022,478	3,353,478	3,335,347	18,131
1200	Net change in fund balance	(66,478)	(57,478)	(62,128)	(4,650)
0100	Fund balance - beginning	772,080	772,080	772,080	-
3000	**FUND BALANCE - ENDING**	$ 705,602	$ 714,602	$ 709,952	$ (4,650)

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

Schedule of Revenues, Expenditures, and Changes
in Fund Balance – Budget and Actual
Debt Service Fund
For the Fiscal Year Ended June 30, 2019

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance with Final Budget Positive (Negative)
	REVENUES				
5700	Local and intermediate revenues	$ 25,385,124	$ 27,403,124	$ 27,261,628	$ (141,496)
5800	State program revenues	106,976	112,976	109,448	(3,528)
5020	Total revenues	25,492,100	27,516,100	27,371,076	(145,024)
	EXPENDITURES				
	Debt service:				
0071	Principal on long-term debt	13,395,000	13,245,000	13,145,000	100,000
0072	Interest on long-term debt	11,440,243	11,290,243	11,193,173	97,070
0073	Issuance costs and fees	20,000	2,820,000	2,802,474	17,526
6030	Total expenditures	24,855,243	27,355,243	27,140,647	214,596
1100	Excess (deficiency) of revenues over (under) expenditures	636,857	160,857	230,429	69,572
	OTHER FINANCING SOURCES (USES)				
7901	Issuance of refunding bonds	-	26,075,000	26,075,000	-
7916	Premium or (discount) on issuance of bonds	-	2,212,000	2,211,997	(3)
8940	Payment to refunded bonds escrow agent	-	(27,991,000)	(27,990,783)	217
7080	Total other financing sources (uses)	-	296,000	296,214	214
1200	Net change in fund balance	636,857	456,857	526,643	69,786
0100	Fund balance - beginning	11,797,748	11,797,748	11,797,748	-
3000	**FUND BALANCE - ENDING**	$ 12,434,605	$ 12,254,605	$ 12,324,391	$ 69,786

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Overall Compliance, Internal Control Section and Federal Awards

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

To the Board of Trustees of
Barbers Hill Independent School District
Mont Belvieu, Texas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Barbers Hill Independent School District (the District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated [insert date of report].

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Weaver and Tidwell, L.L.P.
1406 Wilson Road, Suite 100 | Conroe, Texas 77304
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The Board of Trustees of
Barbers Hill Independent School District

Purpose of this Report

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

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas
October 22, 2019

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

To the Board of Trustees of
Barbers Hill Independent School District
Mont Belvieu, Texas

Report on Compliance for Each Major Federal Program

We have audited Barbers Hill Independent School District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2019. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

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The Board of Trustees of
Barbers Hill Independent School District

Report on Internal Control over Compliance

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

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

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

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

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas
October 22, 2019

Barbers Hill Independent School District
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2019

Section 1. Summary of Auditor's Results

Financial Statements

1.	Type of auditor's report issued	Unmodified
2.	Internal Control over financial reporting:	
	a. Material weakness(es) identified?	No
	b. Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
3.	Noncompliance material to financial statements noted?	No

Federal Awards

4.	Internal control over major programs:	
	a. Material weakness(es) identified?	No
	b. Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
5.	Type of auditor's report issued on compliance with major programs	Unmodified
6.	Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?	No
7.	Identification of major programs	Child Nutrition Cluster 10.553 and 10.555
8.	Dollar threshold used to distinguish between Type A and Type B federal programs	$750,000
9.	Auditee qualified as a low-risk auditee?	Yes

Section 2. Financial Statement Findings

None reported

Section 3. Federal Award Findings and Questioned Costs

None reported

Barbers Hill Independent School District
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2019

Prior Year Findings

None reported

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

Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

(1) Federal Grantor/ Pass-Through Grantor/ Program Title	(2) Federal CFDA Number	(2A) Pass-Through Entity Identifying Number		(3) Federal Expenditures
U.S. DEPARTMENT OF EDUCATION:				
Passed Through Texas Department of Education:				
ESEA Title I Part A - Improving Basic Programs	84.010A	19610101036902	$	281,547
ESEA Title I Part A - Improving Basic Programs	84.010A	18610101036902		7,071
Total Program 84.010A				288,618
Special Education Cluster (IDEA):				
IDEA - Part B Formula	84.027A	196600010369026000		603,244
IDEA - Part B Formula	84.027A	186600010369026000		78,588
IDEA - Part B Preschool	84.173A	196610010369026000		13,571
IDEA - Part B Preschool	84.173A	186610010369026000		4,259
Total Special Education Cluster (IDEA)				699,662
Carl D. Perkins Basic Formula Grant	84.048A	19420006036902		17,096
Carl D. Perkins Basic Formula Grant	84.048A	18420006036902		500
Total Program 84.048A				17,596
Title III Part A English Language Acquisition and Language Enhancement	84.365A	19671001036902		16,996
Title III Part A English Language Acquisition and Language Enhancement	84.365A	18671001036902		4,374
Total Program 84.365A				21,370
ESEA Title II Part A - Teacher & Principal Training & Recruiting	84.367A	19694501036902		56,157
ESEA Title II Part A - Teacher & Principal Training & Recruiting	84.367A	18694501036902		24,743
Total Program 84.367A				80,900
Title VI, Part A, Summer School LEP	84.369A	69551802		1,252
Title IV, Part A, Subpart 1	84.424A	19680101036902		15,893
Texas Hurricane Homeless Youth	84.938B	19513701036902		2,618
TOTAL U.S. DEPARTMENT OF EDUCATION				1,127,909
U.S. DEPARTMENT OF AGRICULTURE				
Child Nutrition Cluster:				
Passed Through Texas Department of Agriculture - Non Cash Assistance:				
National School Lunch Program	10.555	00174		88,186
Passed Through Texas Department of Education - Cash Assistance:				
School Breakfast Program	10.553	71401901		131,820
National School Lunch Program	10.555	71301901		365,559
Total Child Nutrition Cluster				585,565
TOTAL U.S. DEPARTMENT OF AGRICULTURE				585,565
TOTAL EXPENDITURES OF FEDERAL AWARDS			$	1,713,474

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

Note 1. Basis of Presentation

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

National School Lunch Program non-cash commodities are recorded at their estimated market value at the time of donation.

Note 2. De Minimis Cost Rate

The District has elected not to use the 10% de minimis indirect cost rate as allowed under Uniform Guidance.

Note 3. Reconciliation to Basic Financial Statements

Presented below is a reconciliation of federal revenues:

Total expenditures of federal awards per Exhibit K-1	$ 1,713,474
General fund - federal revenue:	
Interest subsidy on QSCB	257,375
SHARS	818,078
Total federal revenues per Exhibit C-2	$ 2,788,927

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

Schedule of Required Responses to Selected
School FIRST Indicators (Unaudited)
For the Fiscal Year Ended June 30, 2019

Data Control Codes		Responses
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8	Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end?	$ -
SF11	Net pension assets (1920) at fiscal year-end.	$ -
SF12	Net pension liabilities (2540) at fiscal year-end.	$ 23,237,589

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Financial Advisory Services
Provided By:

SAMCO Capital