

**OFFICIAL STATEMENT**  
**Dated: February 27, 2018**

**NEW ISSUE: BOOK-ENTRY-ONLY**

*In the opinion of Bracewell LLP, Special Tax Counsel, under existing law, interest on the Bonds will be excludable from gross income for federal income tax purposes and the Bonds are not "private activity bonds." See "TAX MATTERS" herein for a discussion of the opinion of Special Tax Counsel.*

**\$47,445,000**

**NAVASOTA INDEPENDENT SCHOOL DISTRICT**  
**(A political subdivision of the State of Texas located in Brazos and Grimes Counties, Texas)**  
**Unlimited Tax School Building Bonds, Series 2018**

**Dated: March 20, 2018**

**Due: February 15, as shown on the inside cover page**

**Interest accrues from date of initial delivery**

The Navasota Independent School District Unlimited Tax School Building Bonds, Series 2018 (the "Bonds") are being issued pursuant to the Constitution and general laws of the State of Texas, including particularly Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, an election held in the Navasota Independent School District (the "District") on November 7, 2017, and an order (the "Order") authorizing the issuance of the Bonds adopted on February 27, 2018 by the Board of Trustees (the "Board") of the District. The Bonds are payable as to principal and interest from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, against all taxable property located within the District. The District has applied to the Texas Education Agency for the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined). (See "THE BONDS – Permanent School Fund Guarantee" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

Interest on the Bonds will accrue from the date of initial delivery to the initial purchasers thereof named below (the "Underwriters") and will be payable on February 15 and August 15 of each year, commencing February 15, 2019 until stated maturity or prior redemption. The Bonds will be issued in fully registered form in principal denominations of \$5,000 or any integral multiple thereof within a stated maturity. Principal and interest of the Bonds will be payable by the Paying Agent/Registrar, which initially is UMB Bank, N.A., Austin, 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 close of business as of the last business day of the month next preceding each interest payment date.

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

Proceeds from the sale of the Bonds will be used (i) for the construction, acquisition, renovation and equipment of school buildings in the District, (ii) to fund capitalized interest, and (iii) to pay the costs of issuing the Bonds. (See "THE BONDS – Authorization and Purpose").

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**MATURITY SCHEDULE**  
(On Inside Cover)

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*The Bonds are offered for delivery when, as and if issued, and received by the initial Underwriters (the "Underwriters") subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Powell & Leon, LLP, Austin, Texas, Bond Counsel and Bracewell LLP, Austin, Texas, Special Tax Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas. The Bonds are expected to be available for initial delivery through the services of DTC on or about March 20, 2018.*

**Oppenheimer & Co.**  
**Raymond James**

**FTN Financial Capital Markets**  
**Baird**

**\$47,445,000**  
**NAVASOTA INDEPENDENT SCHOOL DISTRICT**  
**(A political subdivision of the State of Texas located in Brazos and Grimes Counties, Texas)**  
**UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018**

**MATURITY SCHEDULE**

Base CUSIP No.: 639319<sup>(1)</sup>

**\$20,380,000 Serial Bonds**

<b>Maturity Date 2/15</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Initial Yield</b>	<b>CUSIP Suffix No.<sup>(1)</sup></b>
2028	\$745,000	5.00%	2.65% <sup>(2)</sup>	MS8
2029	780,000	5.00%	2.70% <sup>(2)</sup>	MT6
2030	825,000	5.00%	2.74% <sup>(2)</sup>	MU3
2031	885,000	5.00%	2.78% <sup>(2)</sup>	MV1
2032	920,000	5.00%	2.83% <sup>(2)</sup>	MW9
2033	945,000	5.00%	2.90% <sup>(2)</sup>	MX7
2034	1,020,000	5.00%	2.95% <sup>(2)</sup>	MY5
2035	2,090,000	5.00%	2.99% <sup>(2)</sup>	MZ2
2036	2,195,000	5.00%	3.02% <sup>(2)</sup>	NA6
2037	2,310,000	5.00%	3.05% <sup>(2)</sup>	NB4
2038	2,430,000	5.00%	3.07% <sup>(2)</sup>	NC2
2039	2,550,000	5.00%	3.09% <sup>(2)</sup>	ND0
2040	2,685,000	5.00%	3.11% <sup>(2)</sup>	NE8

**\$8,905,000 5.00% Term Bonds due February 15, 2043, Priced to Yield 3.18%<sup>(2)</sup> CUSIP Suffix No. NF5<sup>(1)</sup>**

**\$18,160,000 5.00% Term Bonds due February 15, 2048, Priced to Yield 3.26%<sup>(2)</sup> CUSIP Suffix No. NG3<sup>(1)</sup>**

(Interest to accrue from the date of initial delivery)

The Bonds are subject to redemption at the option of the District, in whole or in part before their respective scheduled maturity dates, on February 15, 2025, or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption. (See “THE BONDS - Optional Redemption”). Additionally, Term Bonds maturing on February 15 in the years 2043 and 2048 are subject to mandatory sinking fund redemption. (See “THE BONDS - Mandatory Sinking Fund Redemption”).

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- (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 Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the District, the Financial Advisor, or the Underwriters are responsible for the selection or correctness of the CUSIP numbers set forth herein.
- (2) Yield calculated based on the assumption that the Bonds denoted and sold at a premium will be redeemed on February 15, 2025, the first date of optional redemption of such Bonds, at the price of par plus accrued interest to such redemption date.

## NAVASOTA INDEPENDENT SCHOOL DISTRICT

### BOARD OF TRUSTEES

#### Name

Greg Mock, President  
Jennifer Ramirez, Vice President  
Amy Jarvis, Secretary  
Trisha Harris, Board Member  
Valerie Jefferson, Board Member  
Paul Malek, Board Member  
Tim Harris, Board Member

### APPOINTED OFFICIALS

#### Name

#### Position

Dr. Stu Musick	Superintendent
Valerie Moore	Business Manager

### CONSULTANTS AND ADVISORS

Powell & Leon, LLP, Austin, Texas	Bond Counsel
Bracewell LLP, Austin, Texas	Special Tax Counsel
Live Oak Public Finance, LLC, Austin, Texas	Financial Advisor
Belt, Harris, Pechacek LLLP, Houston, Texas	Certified Public Accountants

For additional information, contact:

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Navasota Independent School District  
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Navasota, Texas 77868  
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Live Oak Public Finance, LLC  
915 W. Annie Street  
Austin, Texas 78704  
(512) 726-5547

## USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in the 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.

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 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.

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 MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM DESCRIBED UNDER “BOOK-ENTRY-ONLY SYSTEM” OR THE AFFAIRS OF THE TEXAS EDUCATION AGENCY DESCRIBED UNDER “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”, AS SUCH INFORMATION WAS PROVIDED BY THE DEPOSITORY TRUST COMPANY AND THE TEXAS EDUCATION AGENCY, 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 THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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**OFFICIAL STATEMENT**  
**relating to**  
**NAVASOTA INDEPENDENT SCHOOL DISTRICT**

**\$47,445,000**  
**UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018**

**INTRODUCTORY STATEMENT**

This Official Statement (the “Official Statement”), which includes the cover page and the Appendices attached hereto, has been prepared by the Navasota Independent School District (the “District”), a political subdivision of the State of Texas (the “State”) located in Brazos and Grimes Counties, Texas, in connection with the offering by the District of its Unlimited Tax School Building Bonds, Series 2018 (the “Bonds”) identified on page ii hereof.

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

There follows in this Official Statement descriptions of the Bonds and the Order (defined below) adopted by the Board of Trustees of the District (the “Board”) on February 27, 2018 authorizing the issuance of the Bonds and certain other information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained upon request by writing the Navasota Independent School District, 705 E. Washington Ave. Navasota, Texas 77868 and, during the offering period, from the Financial Advisor, Live Oak Public Finance, LLC, 915 W. Annie Street, Austin, Texas 78704 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 in the principal amount of \$47,445,000 pursuant to the Constitution and general laws of the State, including Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, an election held in the District on November 7, 2017, and an order (the “Order”) authorizing the issuance of the Bonds adopted on February 27, 2018 by the Board of Trustees (the “Board”) of the District. Proceeds from the sale of the Bonds will be used (i) for the construction, acquisition, renovation and equipment of school buildings in the District, (ii) to fund capitalized interest, and (iii) to pay the costs of issuing the Bonds.

**General Description**

The Bonds will be dated March 20, 2018. The Bonds will bear interest from the date of initial delivery to the Underwriters. The Bonds will mature on the dates and in the principal amounts set forth on the inside cover page of this Official Statement. Interest on the Bonds is payable initially on February 15, 2019, and on each August 15 and February 15 thereafter until stated maturity or prior redemption.

The Bonds will be issued only as fully registered bonds in the denominations of \$5,000 of principal amount or any integral multiple thereof within a stated maturity. Interest on the Bonds is payable by check mailed on or before each interest payment date by the Paying Agent/Registrar, initially, UMB Bank, N.A., Austin, Texas, to the

registered owner at the last known address as it appears on the Paying Agent/Registrar's books on the Record Date (as defined herein) or by such other customary banking arrangement acceptable to the Paying Agent/Registrar and the registered owner to whom interest is to be paid; provided, however, that such person shall bear all risk and expense of such other arrangements. The record date (the "Record Date") for determining the party to whom the interest is payable on any interest payment date is the last business day of the month next preceding such interest payment date (see "REGISTRATION, TRANSFER AND EXCHANGE - Record Date for Interest Payment" herein). Principal of the Bonds will be payable only upon presentation of such Bonds at the corporate trust office of the Paying Agent/Registrar at maturity or prior redemption. So long as the Bonds are registered in the name of CEDE & CO. or other nominee for The Depository Trust Company ("DTC"), payments of principal and interest of the Bonds will be made as described in "BOOK-ENTRY-ONLY SYSTEM" herein.

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

### **Optional Redemption**

The District reserves the right, at its option, to redeem the Bonds in whole or in part before their respective scheduled maturity dates, on February 15, 2025, or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the District may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal amount thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

### **Mandatory Sinking Fund Redemption**

The Bonds maturing on February 15 in the years 2043 and 2048 (the "Term Bonds") are also subject to mandatory sinking fund redemption on the dates and in the amounts set forth in the following schedule:

Bonds Maturing February 15, 2043		Bonds Maturing February 15, 2048	
Mandatory Redemption	Principal Amount	Mandatory Redemption	Principal Amount
February 15, 2041	\$2,820,000	February 15, 2044	\$3,280,000
February 15, 2042	2,965,000	February 15, 2045	3,445,000
February 15, 2043*	3,120,000	February 15, 2046	3,620,000
		February 15, 2047	3,810,000
		February 15, 2048*	4,005,000

\*Final maturity.

Prior to each scheduled mandatory redemption date, the Paying Agent/Registrar shall select for redemption by lot, or by any other customary method that results in a random selection, a principal amount of Term Bonds equal to the aggregate principal amount of such Term Bonds to be redeemed, shall call such Term Bonds for redemption on such scheduled mandatory redemption date, and shall give notice of such redemption, as provided in the Bond Order.

The principal amount of the Term Bonds required to be redeemed on any redemption date pursuant to the preceding paragraph shall be reduced, at the option of the District, by the principal amount of any Term Bonds which, at least 45 days prior to the mandatory sinking fund redemption date (i) shall have been acquired by the District at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, or (ii) shall have been redeemed pursuant to the optional redemption provisions hereof and not previously credited to a mandatory sinking fund redemption

### **Notice of Redemption**

Not less than 30 days prior to a redemption date for the Bonds, a notice of redemption will be sent by U.S. mail, first class postage prepaid, in the name of the District to each registered owner of a Bond to be redeemed in whole or in part at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing.

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

With respect to any optional redemption of the Bonds, unless certain prerequisites to such redemption required by the Order have been met and money sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed will have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice will state that said redemption may, at the option of the District, be conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent/Registrar on or prior to the date fixed for such redemption or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not fulfilled, such notice will be of no force and effect, the District will not redeem such Bonds, and the Paying Agent/Registrar will give notice in a manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

### **DTC Redemption Provisions**

The Paying Agent/Registrar and the District, so long as a book-entry-only system is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Order or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC Participant, or of any Direct Participant (defined below) or Indirect Participant (defined below) to notify the beneficial owner, shall not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its book-entry-only system, a redemption of such Bonds held for the account of DTC Participants in accordance with its rules or other agreements with DTC Participants and then Direct Participants and Indirect Participants may implement a redemption of such Bonds and such redemption will not be conducted by the District or the Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to DTC Participants, Indirect Participants or the persons for whom DTC Participants act as nominees with respect to the payments on the Bonds or the providing of notice to Direct Participants, Indirect Participants, or beneficial owners of the selection of portions of the Bonds for redemption. See "BOOK-ENTRY-ONLY SYSTEM" herein.

### **Security**

The Bonds are direct obligations of the District and are payable as to both principal and interest from an annual ad valorem tax levied, without legal limit as to rate or amount, on all taxable property within the District. (See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM").

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 "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

### **Permanent School Fund Guarantee**

In connection with the sale of the Bonds, the District has applied for approval from the Commissioner of Education of the TEA for the guarantee of the Bonds under the State of Texas Permanent School Fund Guarantee Program

(Chapter 45, Subchapter C, of the Texas Education Code, as amended). Subject to approval and 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 of Texas and the approval of certain legal matters by Powell & Leon, LLP, Austin, Texas, Bond Counsel and Bracewell LLP, Special Tax Counsel. (See “LEGAL MATTERS,” “Appendix C - Forms of Legal Opinions of the Bond Counsel” and “Appendix D - Forms of Legal Opinions of Special Tax Counsel”).

### **Payment Record**

The District has never defaulted in the payment its tax-supported debt.

### **Amendments**

In the Order, the District has reserved the right to, without the consent of or notice to any owners of the Bonds, from time to time and at any time, amend the Order in any manner not detrimental to the interests of the owners of the Bonds, including the curing of any ambiguity, inconsistency, or formal defect or omission herein.

The Order further provides that, the District may, with the consent of owners of the Bonds who own a majority of the aggregate principal amount of the Bonds then outstanding affected thereby, amend, add to, or rescind any of the provisions of the Order; provided that, without the consent of all owners of the Bonds affected, no such amendment, addition, or rescission shall (i) extend the time or times of payment of the principal of, premium, if any, and interest on the Bonds, reduce the principal amount thereof, the redemption price, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of, premium, if any, or interest on the Bonds, (ii) give any preference to any Bond over any other Bond, or (iii) reduce the aggregate principal amount of Bonds required to be held by owners of the Bonds for consent to any such amendment, addition, or rescission.

### **Defeasance**

The Order provides for the defeasance of the Bonds in any manner now or hereafter permitted by law. 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:

<b>Sources</b>	
Par Amount of Bonds	\$ 47,445,000.00
Original Issue Reoffering Premium	5,484,702.10
<b>Total Sources of Funds</b>	<b>\$ 52,929,702.10</b>
<b>Uses</b>	
Deposit to Construction Fund	\$ 51,720,000.00
Capitalized Interest	685,316.67
Costs of Issuance	189,699.52
Underwriters' Discount	334,008.57
Deposit to Interest and Sinking Fund	677.34
<b>Total Uses of Funds</b>	<b>\$ 52,929,702.10</b>

## REGISTERED OWNERS' REMEDIES

The Order does not provide for the appointment of a trustee to represent the interests of the Bond holders 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 of the Bonds 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"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bond holders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, including rights afforded to creditors under the Bankruptcy Code. 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 payment on the Bonds when due.

## 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 cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption on the Bonds or any other 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 redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with 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 Standard & Poor's rating of "AA+". The DTC Rules applicable to its Participants are on file with the United States Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual underwriter 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, redemption, 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.

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 UMB Bank, N.A., Austin, Texas. In the Order, the District covenants to maintain a Paying Agent/Registrar at all times while any Bonds are outstanding.

#### **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 State law, or any entity duly qualified and legally authorized to serve as and perform such duties and services. Promptly upon the appointment of any successor Paying Agent/Registrar, the new Paying Agent/Registrar shall notify each registered owner of the Bonds, by United States mail, first class postage prepaid, of such change and of 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 seventy-two (72) hours after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in authorized denominations and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer.

### **Record Date For Interest Payment**

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

### **Limitation on Transfer of Bonds**

The Paying Agent/Registrar shall not be required to make any such transfer, conversion or exchange (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date or (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date.

### **Replacement Bonds**

The Order provides that if any Bond is lost, apparently destroyed or wrongfully taken, the District, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, shall execute and the Paying Agent/Registrar shall authenticate and deliver a replacement Bond of like maturity, interest rate and principal amount or maturity amount, bearing a number not contemporaneously outstanding. The District or the Paying Agent/Registrar may require the Bond owner of a lost, apparently destroyed or wrongfully taken Bond, before any replacement Bond is issued, to: (a) furnish to the District and the Paying Agent/Registrar satisfactory evidence of the ownership of and the circumstances of the loss, destruction or theft of such Bond; (b) furnish such security or indemnity as may be required by the Paying Agent/Registrar and the District to save them harmless; (c) pay all expenses and charges in connection therewith, including, but not limited to, printing costs, legal fees, fees of the Paying Agent/Registrar and any tax or other governmental charge that may be imposed; and (d) meet any other reasonable requirements of the District and the Paying Agent/Registrar. In the case of a damaged or mutilated Bond, such new Bond will be delivered only upon the presentation and surrender to the Paying Agent/Registrar of such damaged or mutilated Bond.

## **AD VALOREM TAX PROCEDURES**

### **Property Tax Code and County Wide Appraisal District**

The Texas Property Tax Code (the "Tax Code") provides for county-wide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board responsible for appraising property for all taxable units within the county. The Brazos County and Grimes County Appraisal Districts (collectively, the "Appraisal District") are responsible for appraising property within the District as of January 1 of each year. The appraisal values set by the Appraisal District are subject to review and change by

the Appraisal Review Board for each respective Appraisal District (collectively, the “Appraisal Review Board”) which is appointed by the Appraisal District’s Board of Directors. Such appraisal rolls, as approved by the Appraisal Review Board, are used by the District in establishing its tax roll and tax rate.

### **Property Subject to Taxation by the District**

Except for certain exemptions provided by State law, all real and certain tangible personal property with a tax situs in the District is subject to taxation by the District. Principal categories of exempt property (including certain exemptions which are subject to local option by the District) include property owned by the State or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain improvements to real property and certain tangible personal property located in designated reinvestment zones on which the District has agreed to abate ad valorem taxes, certain household goods, family supplies and personal effects; farm products owned by the producers; certain property of a nonprofit corporation used in scientific research and educational activities benefiting a college or university; and designated historic sites. Other principal categories of exempt property include tangible personal property not held or used for production of income; solar and windpowered energy devices; most individually owned automobiles; \$10,000 State mandated exemption to residential homesteads of persons ages 65 or over or disabled; a State mandated exemption up to a maximum of \$12,000 for real or personal property of disabled veterans or the surviving spouse or children of an individual who died while on active duty in the armed forces; a State mandated \$25,000 in market value exemption for all residential homesteads (see “Residential Homestead Exemptions” below); and certain classes of intangible property. Furthermore, the surviving spouse of a deceased veteran who had received a disability rating of 100% is entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries. In addition, except for increases attributable to certain improvements, the District is prohibited by State law from increasing the total ad valorem tax on the residence homestead of persons 65 years of age or older or of disabled persons above the amount of tax imposed in the year such residence qualified for an exemption based on the age or disability of the owner. The freeze on ad valorem taxes on the homesteads of persons 65 years of age or older and the disabled is also transferable to a different residence homestead. Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was 55 or older when the deceased spouse died and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse. Pursuant to a constitutional amendment approved by the voters on May 12, 2007, legislation was enacted to reduce the school property tax limitation imposed by the freeze on taxes paid on residence homesteads of persons 65 years of age or over or of disabled persons to correspond to reductions in local school district tax rates from the 2005 tax year to the 2006 tax year and from the 2006 tax year to the 2007 tax year (see “CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Overview” herein). The school property tax limitation provided by the constitutional amendment and enabling legislation apply to the 2007 and subsequent tax years. Owners of agricultural and open space land, under certain circumstances, may request valuation of such land on the basis of productive capacity rather than market value. Article VIII, Section 1-j of the Texas Constitution provides for an exemption from ad valorem taxation for “freeport property,” which is defined as goods detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Taxing units that took action prior to April 1, 1990 may continue to tax freeport property and decisions to continue to tax freeport property may be reversed in the future. However, decisions to exempt freeport property are not subject to reversal. Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of “goods-in-transit.” “Goods-in-transit”, defined by the Tax Code as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. The Tax Code provision permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods-in-transit during the following tax year. A taxpayer may receive only one of the freeport or goods-in-transit exemptions for tangible personal property. Senate Bill 1, passed by the 82nd Texas Legislature, 1st Called Session, requires again that the governmental entities take affirmative action prior to January 1 of the first tax year in which the governing body proposes to tax good-in-transit to continue its taxation of good-in-transit in the 2012 tax year and beyond. See “THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT” and “APPENDIX A – FINANCIAL INFORMATION OF THE DISTRICT - ASSESSED VALUATION” for a schedule of the amount of exemptions granted by the District.

A city or county may create a tax increment financing zone (“TIF”) within the city or county with defined boundaries and establish a base value of taxable property in the TIF at the time of its creation. Overlapping taxing units, including school districts, may agree with the city or county to contribute all or part of future ad valorem taxes levied and collected against the “incremental value” (taxable value in excess of the base value) of taxable real property in the TIF to pay or finance the costs of certain public improvements in the TIF, and such taxes levied and collected for and on behalf of the TIF are not available for general use by such contributing taxing units. Prior to September 1, 2001, school districts were allowed to enter into tax abatement agreements to encourage economic development. Under such agreements, a property owner agrees to construct certain improvements on its property. The school district in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years. Effective September 1, 2001, school districts may not enter into tax abatement agreements under the general statute that permits cities and counties to initiate tax abatement agreements. In addition, credit will not be given by the Commissioner of Education in determining a district’s property value wealth per student for (1) the appraisal value, in excess of the “frozen” value, of property that is located in a TIF created after May 31, 1999 (except in certain limited circumstances where the city creating the TIF gave notice prior to May 31, 1999 to all other taxing units that levy ad valorem taxes in the TIF of its intention to create the TIF and the TIF was created and had its final project and financing plan approved by the municipality prior to August 31, 1999) or (2) for the loss of value of abated property under any abatement agreement entered into after May 31, 1993.

Notwithstanding the foregoing, in 2001 the Legislature enacted legislation known as the Texas Economic Development Act, which provides incentives for certain school districts to grant limitations on appraised property values and provide ad valorem tax credits to certain corporations and limited liability companies to encourage economic development within the district. Generally, during the last eight years of the ten-year term of a tax limitation agreement, the school district may only levy and collect ad valorem taxes for maintenance and operation purposes on the agreed-to limited appraised property value. The taxpayer is entitled to a tax credit from the school district for the amount of taxes imposed during the first two years of the tax limitation agreement on the appraised value of the property above the agreed-to limited value. Additional State funding is provided to a school district for each year of such tax limitation in the amount of the tax credit provided to the taxpayer. During the first two years of a tax limitation agreement, the school district may not adopt a tax rate that exceeds the district’s rollback tax rate (see “AD VALOREM TAX PROCEDURES – Public Hearing and Rollback Tax Rate”).

### **Valuation of Property for Taxation**

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. In determining the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Tax Code are based on one hundred percent (100%) of market value, except as described below, and no assessment ratio can be applied.

State law requires the appraised value of a residence homestead to be based solely on the property’s value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount that would not exceed the lesser of (1) the property’s market value in the most recent tax year in which the market value was determined by the appraisal district or (2) the sum of (a) 10% of the property’s appraised value in the preceding tax year, plus (b) the property’s appraised value the preceding tax year, plus (c) the market value of all new improvements to the property. In determining the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method considered most appropriate by the chief appraiser is to be used. State law further requires the appraised value of a residence homestead to be assessed solely on the property’s value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property.

Article VII of the Texas Constitution and the Tax Code permit land designated for agricultural use, open space or timberland to be appraised at its value based on the land’s capacity to produce agricultural or timber products rather than at its fair market value. Landowners wishing to avail themselves of the agricultural use designation must apply for the designation, and the appraiser is required by the Tax Code to act on each claimant’s right to the designation

individually. If a claimant receives the designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes for previous years based on the new value, including three years for agricultural use and five years for agricultural open-space land and timberland prior to the loss of the designation.

The Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three years. The District, at its expense, has the right to obtain from the Appraisal District current estimates of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimates of appraisal values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the Appraisal District chooses to formally include such values on its appraisal rolls.

### **Residential Homestead Exemptions**

Under Section 1-b, Article VIII of the Texas Constitution and State law, the governing body of a political subdivision, at its option, may grant an exemption of not less than \$3,000 of the market value of the residence homestead of persons 65 years of age or older or the disabled from all ad valorem taxes thereafter levied by the political subdivision.

Once authorized, such exemption may be repealed or decreased or increased in amount (i) by the governing body of the political subdivision or (ii) by a favorable vote of a majority of the qualified voters at an election called by the governing body of the political subdivision, which election must be called upon receipt of a petition signed by at least 20% of the number of qualified voters who voted in the preceding election of the political subdivision. In the case of a decrease, the amount of the exemption may not be reduced to less than \$3,000 of the market value.

The surviving spouse of an individual who qualifies for the foregoing exemption for the residence homestead of a person 65 or older (but not the disabled) is entitled to an exemption for the same property in an amount equal to that of the exemption for which the deceased spouse qualified if (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was at least 55 years of age at the time of the death of the individual's spouse and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse.

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

In addition to any other exemptions provided by the Tax Code, the governing body of a political subdivision, at its option, may grant an exemption of up to 20% of the market value of residence homesteads, with a minimum exemption of \$5,000.

In the case of residence homestead exemptions granted under Section 1-b, Article VIII, ad valorem taxes may continue to be levied against the value of homesteads exempted where ad valorem taxes have previously been pledged for the payment of debt if cessation of the levy would impair the obligation of the contract by which the debt was created. Voters in the State approved a constitutional amendment on November 3, 2015 increasing the mandatory homestead exemption for school districts from \$15,000 to \$25,000, and requiring that the tax limitation for taxpayers who are age 65 and older or disabled be reduced to reflect the additional exemption.

### **District and Taxpayer Remedies**

Under certain circumstances, taxpayers and taxing units, including the District, may appeal orders of the Appraisal Review Board by filing a petition for review in district court within 45 days after notice is received that a final order has been entered. In such event, the property value in question may be determined by the court, or by a jury, if

requested by any party, or through binding arbitration, if requested by the taxpayer. Additionally, taxing units may bring suit against the Appraisal District to compel compliance with the Tax Code.

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

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

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

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

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

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

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

## **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. Before the later of September 30 or the 60th day after the date that the certified appraisal role is received by the District, the rate of taxation must be set by the Board of Trustees of the District based upon the valuation of property within the District as of the preceding January 1 and the amount required to be raised for debt service, maintenance purpose and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty from six percent (6%) to twelve percent (12%) of the amount of the tax, depending on the time of payment, and accrues interest at the rate of one percent (1%) per month. If the tax is not paid by the following July 1, an additional penalty of up to twenty percent (20%) may under certain circumstances be imposed by the District. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances.

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

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

Except with respect to taxpayers who are 65 years of age or older, at any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights, or by bankruptcy proceedings which restrict the collection of taxpayer debts.

## **District Application of Tax Code**

The District grants the state mandated residential homestead exemptions of \$25,000 to all homestead property. The District has granted an additional local exemption of 20% to the market value of residence homesteads. In addition, varying state mandated exemptions for disabled veterans depending on the severity of their disability are granted by the District. The District has no current tax abatement agreements.

## **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, et.al v. The Texas Taxpayer and Student Fairness Coalition, et al.*, No. 14-0776 (Tex. May 13, 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 Litigation and Changes in Law on District Bonds**

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

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

## **CURRENT PUBLIC SCHOOL FINANCE SYSTEM**

### **Overview**

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

Funding for school districts in the State is provided primarily from State and local sources. State funding for all school districts is provided through a set of funding formulas comprising the “Foundation School Program,” as well as two facilities funding programs. Generally, the Finance System is designed to promote wealth equalization among school districts by balancing State and local sources of funds available to school districts. In particular, because districts with relatively high levels of property wealth per student can raise more local funding, such districts receive less State aid, and in some cases, are required to disburse local funds to equalize their overall funding relative to other school districts. Conversely, because districts with relatively low levels of property wealth per student have limited access to local funding, the Finance System is designed to provide more State funding to such districts. Thus, as a school district’s property wealth per student increases, State funding to the school district is reduced. As a school district’s property wealth per student declines, the Finance System is designed to increase that district’s State funding. The Finance System provides a similar equalization system for facilities funding wherein districts with the same tax rate for debt service raise the same amount of combined State and local funding.

Facilities funding for debt incurred in prior years is expected to continue in future years; however, State funding for new school facilities has not been consistently appropriated by the Texas Legislature, as further described below.

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

### **Local Funding for School Districts**

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

### **State Funding for School Districts**

State funding for school districts is provided through the Foundation School Program, which provides each school district with a minimum level of funding (a "Basic Allotment") for each student in average daily attendance ("ADA"). The Basic Allotment is calculated for each school district using various weights and adjustments based on the number of students in average daily attendance and also varies depending on each district's compressed tax rate. This Basic Allotment formula determines most of the allotments making up a district's basic level of funding, referred to as "Tier One" of the Foundation School Program. The basic level of funding is then "enriched" with additional funds known as "Tier Two" of the Foundation School Program. Tier Two provides a guaranteed level of funding for each cent of local tax effort that exceeds the compressed tax rate (for most districts, M&O tax rates above \$1.00 per \$100 of taxable value). The Finance System also provides an Existing Debt Allotment ("EDA") to subsidize debt service on eligible outstanding school district bonds, an Instructional Facilities Allotment ("IFA") to subsidize debt service on newly issued bonds, and a New Instructional Facilities Allotment ("NIFA") to subsidize operational expenses associated with the opening of a new instructional facility. IFA primarily addresses the debt service needs of property-poor school districts. In 2017, the 85th Texas Legislature, regular session, appropriated funds in the amount of \$1,211,000,000 for the 2018-19 State fiscal biennium for the Basic Allotment, EDA and NIFA.

Tier One and Tier Two allotments represent the State's share of the cost of M&O expenses of school districts, with local M&O taxes representing the district's local share. EDA and IFA allotments supplement a school district's local I&S taxes levied for debt service on eligible bonds issued to construct, acquire and improve facilities. Tier One and Tier Two allotments and existing EDA and IFA allotments are generally required to be funded each year by

the Texas Legislature. Since future-year IFA awards were not funded by the Texas Legislature for the 2018–19 State fiscal biennium and debt service assistance on school district bonds that are not yet eligible for EDA is not available, debt service on new bonds issued by districts to construct, acquire and improve facilities must be funded solely from local I&S taxes.

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

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

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

A district with a compressed tax rate below \$1.00 per \$100 of taxable value (known as a “fractionally funded district”) receives a Basic Allotment that is reduced proportionately to the degree that the district’s compressed tax rate falls short of \$1.00. Beginning in the 2017-2018 fiscal year, the compressed tax rate of a fractionally funded district now includes the portion of such district’s current M&O tax rate in excess of the first six cents above the district’s compressed tax rate until the district’s compressed tax rate is equal to the state maximum compressed tax rate of \$1.00. Thus, for fractionally funded districts, each eligible one cent of M&O tax levy above the district’s compressed tax rate plus six cents will have a guaranteed yield based on Tier One funding instead of the \$31.95 Tier Two yield, thereby reducing the penalty against the Basic Allotment.

In addition to the operations funding components of the Foundation School Program discussed above, the Foundation School Program provides a facilities funding component consisting of the Instructional Facilities Allotment (IFA) program and the Existing Debt Allotment (EDA) program. These programs assist school districts in funding facilities by, generally, equalizing a district’s I&S tax effort. The IFA guarantees each awarded school district a specified amount per student (the “IFA Guaranteed Yield”) in State and local funds for each cent of tax effort to pay the principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. The guaranteed yield per cent of local tax effort per student in ADA has been \$35 since this program first began in 1997. The 85th State Legislature did not appropriate any funds for new IFA awards for the 2018-2019 State fiscal biennium; however, awards previously granted in years the State Legislature did appropriate funds for new IFA awards will continue to be funded. State financial assistance is provided for certain existing eligible debt issued by school districts through the EDA program. The EDA guaranteed yield (the “EDA Yield”) was the same as the IFA Guaranteed Yield (\$35 per cent of local tax effort per student in ADA). The 85th Texas Legislature changed the EDA Yield to the lesser of (i) \$40 or a greater amount for any year provided by appropriation; or (ii) the amount that would result in a total additional EDA of \$60 million more than the EDA to which districts would have been entitled to if the EDA Yield were \$35. The yield for the 2017-2018 fiscal year is

estimated to be less than \$37. The portion of a district's local debt service rate that qualifies for EDA assistance is limited to the first 29 cents of debt service tax (or a greater amount for any year provided by appropriation by the Texas Legislature). In general, a district's bonds are eligible for EDA assistance if (i) the district made payments on the bonds during the final fiscal year of the preceding State fiscal biennium, or (ii) the district levied taxes to pay the principal of and interest on the bonds for that fiscal year. Each biennium, access to EDA funding is determined by the debt service taxes collected in the final year of the preceding biennium. A district may not receive EDA funding for the principal and interest on a series of otherwise eligible bonds for which the district receives IFA funding.

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

## **2006 Legislation**

Since the enactment of the Reform Legislation in 2006, most school districts in the State have operated with a "target" funding level per student ("Target Revenue") that is based upon the "hold harmless" principles embodied in the Reform Legislation. This system of Target Revenue was superimposed on the Foundation School Program and made existing funding formulas substantially less important for most school districts. The Reform Legislation was intended to lower M&O tax rates in order to give school districts "meaningful discretion" in setting their M&O tax rates, while holding school districts harmless by providing them with the same level of overall funding they received prior to the enactment of the Reform Legislation. To make up for this shortfall, the Reform Legislation authorized Additional State Aid for Tax Reduction ("ASATR") for each school district in an amount equal to the difference between the amount that each district would receive under the Foundation School Program and the amount of each district's Target Revenue funding level. However, in subsequent legislative sessions, the Texas Legislature has gradually reduced the reliance on ASATR by increasing the funding formulas. This phase-out of ASATR began with actions adopted by the 83rd Texas Legislature, and beginning with the 2017-18 school year, the statutes authorizing ASATR are repealed (eliminating revenue targets and ASATR funding).

## **2017 Legislation**

The 85th Texas Legislature, including the regular session which concluded on May 29, 2017 and the special session which concluded on August 15, 2017, did not enact substantive changes to the Finance System. However, certain bills during the regular session and House Bill 21, which was passed during the special session and signed by the Governor on August 16, 2017, revised certain aspects of the formulas used to determine school district entitlements under the Finance System. The District has not made a comprehensive review of such legislation to determine what, if any, impact such changes would have on the District's finances.

The Governor may call additional special sessions pertaining to the 85th Texas Legislature. During this time, the Texas Legislature may enact laws that materially change school district finance, appropriations, or statutory authority related thereto. The District can make no representation regarding the actions the Texas Legislature may take.

## **Wealth Transfer Provisions**

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

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

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

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

The District's wealth per student for the 2017-18 school year is greater than the equalized wealth value. Accordingly, the District has been required to exercise one of the permitted wealth equalization options and has elected to purchase attendance credits from the State. (See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Wealth Transfer Provisions").

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

### **THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM**

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

This disclosure statement provides information relating to the program (the "Guarantee Program") administered by the Texas Education Agency (the "TEA") with respect to the Texas Permanent School Fund guarantee of tax-

supported bonds issued by Texas school districts and the guarantee of revenue bonds issued by or for the benefit of Texas charter districts. The Guarantee Program was authorized by an amendment to the Texas Constitution in 1983 and by Subchapter C of Chapter 45 of the Texas Education Code, as amended (the “Act”). While the Guarantee Program applies to bonds issued by or for both school districts and charter districts, as described below, the Act and the program rules for the two types of districts have some distinctions. For convenience of description and reference, those aspects of the Guarantee Program that are applicable to school district bonds and to charter district bonds are referred to herein as the “School District Bond Guarantee Program” and the “Charter District Bond Guarantee Program,” respectively.

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

### **History and Purpose**

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

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

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

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

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

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

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

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

### **The Total Return Constitutional Amendment**

The Total Return Constitutional Amendment approved a fundamental change in the way that distributions are made to the ASF from the PSF. The Total Return Constitutional Amendment requires that PSF distributions to the ASF be determined using a total-return-based formula instead of the current-income-based formula, which was used from 1964 to the end of the 2003 fiscal year. The Total Return Constitutional Amendment provides that the total amount distributed from the Fund to the ASF: (1) in each year of a State fiscal biennium must be an amount that is not more than 6% of the average of the market value of the Fund, excluding real property (the “Distribution Rate”), on the last

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

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

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

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

With respect to the management of the Fund’s financial assets portfolio, the single most significant change made to date as a result of the Total Return Constitutional Amendment has been new asset allocation policies adopted from time to time by the SBOE. The SBOE generally reviews the asset allocations during its summer meeting in even numbered years. The first asset allocation policy adopted by the SBOE following the Total Return Constitutional Amendment was in February 2004, and the policy was reviewed and modified or reaffirmed in the summers of 2006, 2008, 2010, 2012, 2014 and 2016. The Fund’s investment policy provides for minimum and maximum ranges among the components of each of the asset classifications: equities, fixed income and alternative asset investments. The 2004 asset allocation policy decreased the fixed income target from 45% to 25% of Fund investment assets and increased the allocation for equities from 55% to 75% of investment assets. Subsequent asset allocation policies have continued to diversify Fund assets, and have added an alternative asset allocation to the fixed income and equity allocations. The alternative asset allocation category includes real estate, real return, absolute return and private equity components. Alternative asset classes diversify the SBOE-managed assets and are not as correlated to traditional asset classes, which is intended to increase investment returns over the long run while reducing risk and return volatility of the portfolio. The most recent asset allocation, from 2016, is as follows: (i) an equity allocation

of 35% (consisting of U.S. large cap equities targeted at 13%, emerging and international equities at 17% and U.S. small/mid cap equities at 5%), (ii) a fixed income allocation of 19% (consisting of a 12% allocation for core bonds and a 7% allocation for emerging market debt in local currency) and (iii) an alternative asset allocation of 46% (consisting of a private equity allocation of 13%, a real estate allocation of 10%, an absolute return allocation of 10%, a risk parity allocation of 7% and a real return allocation of 6%). The 2016 asset allocation decreased U.S. large cap equities and international equities by 3% and 2%, respectively, and increased the allocations for private equity and real estate by 3% and 2%, respectively.

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

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

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

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

## **Management and Administration of the Fund**

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

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

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

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

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

## **Capacity Limits for the Guarantee Program**

The capacity of the Fund to guarantee bonds under the Guarantee Program is limited in two ways: by State law (the "State Capacity Limit") and by regulations and a notice issued by the IRS (the "IRS Limit"). Prior to May 20, 2003, the State Capacity Limit was equal to two times the lower of cost or fair market value of the Fund's assets, exclusive

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

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

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

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

At its September 2015 meeting, the SBOE voted to modify the SDBGP Rules and the CDBGP Rules to increase the State Law Capacity from 3 times the cost value multiplier to 3.25 times. At that meeting, the SBOE also approved a new 5% capacity reserve for the Charter District Bond Guarantee Program. The change to the State Law Capacity became effective on February 1, 2016. At its November 2016 meeting, the SBOE again voted to increase the State Law Capacity and, in accordance with applicable requirements for the modification of SDBGP and CDBGP Rules, a second and final vote to approve the increase in the State Law Capacity occurred on February 3, 2017. As a result, the State Law Capacity increased from 3.25 times the cost value multiplier to 3.50 times effective March 1, 2017 and increased again to 3.75 times effective September 1, 2017; however, as described under "2017 Legislative Changes to the Charter District Bond Guarantee Program," the SBOE took action at its Winter 2018 meeting to rollback of a portion of the multiplier increase. The regulatory change effecting the rollback will be effective 20

days after filing as adopted with the Texas Register, which is expected to make the change effective in late-March 2018. Based upon the cost basis of the Fund at August 31, 2017, the State Law Capacity increased from \$97,933,360,905 on August 31, 2016 to \$111,568,711,072 on August 31, 2017.

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

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

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

### **The School District Bond Guarantee Program**

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

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

guaranteed bonds, and provides certain enforcement mechanisms to the Commissioner, including the appointment of a board of managers or annexation of a defaulting school district to another school district.

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

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

Generally, the SDBG 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 SDBG 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#33.6>.

### **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 "CDBG Rules"). The CDBG Rules are codified at 19 TAC section 33.67, and are available at <http://ritter.tea.state.tx.us/rules/tac/chapter033/ch033a.html#33.67>.

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

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

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

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

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

The CDBG 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 CDBG 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 CDBG Rules. Such financial investigation must establish that an applying charter district has a historical debt service coverage ratio, based on annual debt service, of at least 1.1 for the most recently completed fiscal year, and a projected debt service

coverage ratio, based on projected revenues and expenses and maximum annual debt service, of at least 1.2. The failure of an open-enrollment charter holder to comply with the Act or the applicable regulations, including by making any material misrepresentations in the charter holder's application for charter district designation or guarantee under the Charter District Bond Guarantee Program, constitutes a material violation of the open-enrollment charter holder's charter.

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

### **2017 Legislative Changes to the Charter District Bond Guarantee Program**

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

SB 1480 provides that the implementation of the new method of calculating the CDBGP Capacity will begin with the State fiscal year that commences September 1, 2021 (the State's fiscal year 2022). However, for the intervening four fiscal years, beginning with fiscal year 2018, SB 1480 provides that the SBOE may establish a CDBGP Capacity that increases the amount of charter district bonds that may be guaranteed by up to a cumulative 20% in each fiscal year (for a total maximum increase of 80% in fiscal year 2021) as compared to the capacity figure calculated under the Act as of January 1, 2017. However, SB 1480 provides that in making its annual determination

of the magnitude of an increase for any year, the SBOE may establish a lower (or no) increase if the SBOE determines that an increase in the CDBG 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 CDBG 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 CDBG Capacity for any year may not exceed the limit provided in the schedule set forth in SB 1480. In September 2017, the SBOE voted to authorize the full 20% increase in the amount of charter district bonds that may be guaranteed for fiscal year 2018, which increases the relative capacity of the Charter District Bond Guarantee Program to the School District Bond Guarantee Program for that fiscal year.

Taking into account the enactment of SB 1480 and the increase in the CDBG Capacity effected thereby, at Winter 2018 meeting the SBOE approved the second of two required readings amending the SDBG Rules to rollback the multiplier from 3.75 times market value to 3.50 times (to ensure compliance with State administrative law requirements, the rollback is expected to be effective in late March 2018).

In addition to modifying the manner of determining the CDBG 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 CDBG Rules previously required the Commissioner to make an investigation of the accreditation status and certain financial criteria for a charter district applying for a bond guarantee, which remain in place.

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

### **Charter District Risk Factors**

Open-enrollment charter schools in the State may not charge tuition and, unlike school districts, charter districts have no taxing power. Funding for charter district operations is largely from amounts appropriated by the

Legislature. The amount of such State payments a charter district receives is based on a variety of factors, including the enrollment at the schools operated by a charter district. The overall amount of education aid provided by the State for charter schools in any year is also subject to appropriation by the Legislature. The Legislature may base its decisions about appropriations for charter schools on many factors, including the State's economic performance. Further, because some public officials, their constituents, commentators and others have viewed charter schools as controversial, political factors may also come to bear on charter school funding, and such factors are subject to change.

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

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

As described above, the Act includes a funding "intercept" function that applies to both the School District Bond Guarantee Program and the Charter District Bond Guarantee Program. However, school districts are viewed as the "educator of last resort" for students residing in the geographical territory of the district, which makes it unlikely that State funding for those school districts would be discontinued, although the TEA can require the dissolution and merger into another school district if necessary to ensure sound education and financial management of a school district. That is not the case with a charter district, however, and open-enrollment charter schools in the State have been dissolved by TEA from time to time. If a charter district that has bonds outstanding that are guaranteed by the Charter District Bond Guarantee Program should be dissolved, debt service on guaranteed bonds of the district would continue to be paid to bondholders in accordance with the Charter District Bond Guarantee Program, but there would be no funding available for reimbursement of the PSF by the Comptroller for such payments. As described under "The Charter District Bond Guarantee Program," the Act establishes a Charter District Reserve Fund, which could in the future be a significant reimbursement resource for the PSF. At January 31, 2018, the Charter District Reserve Fund contained \$4,729,390.

### **Potential Impact of Hurricane Harvey on the PSF**

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

The TEA, members of the Legislature and the Governor, among others, have stated that they are developing programs to provide financial assistance to affected school districts and charter districts, particularly with regard to funding assistance for facility repairs and construction and to offset tax base and/or revenue loss to affected districts. The composition of any final programs that may be implemented cannot be predicted, and are likely to be subject to future State legislative and administrative actions, available amounts of federal and private disaster relief for affected schools, and other factors. In early October, the TEA initiated programs designed to hold school districts and charter districts harmless for the loss of State funding associated with declines in average daily attendance for the remainder of fiscal year 2018. In the past, storm damage has caused multiple year impacts to affected schools with respect to both attendance figures and tax base (for school districts), and the damage caused by Harvey could be well in excess of previous storm damage. TEA conducted a survey of districts affected by the hurricane with respect to the collection of fiscal year 2017 taxes. In general, tax revenues of affected districts appear to have increased for fiscal 2017, but at a somewhat lower rate than had been anticipated. It should be noted that most of the fiscal year 2017 taxes had been collected when the hurricane hit the Texas coast in late August. TEA has not conducted any surveys with respect to fiscal year 2018 taxes, but notes that as of late February 2018 the negative effect of the hurricane on the average daily attendance of districts in the affected area appears to have been less than TEA had initially anticipated.

Most school district and charter district bonds that are guaranteed by the PSF are fixed rate bonds that pay principal on an annual basis and interest on a semiannual basis, in February and August of each year. The hurricane hit the Texas coast after the August 2017 payment dates, so the first payment cycle that could have been affected by the storm was the February 2018 payment date. TEA notes that no district has applied for financial exigency or failed to timely pay bond payments as a result of the hurricane or otherwise. The PSF is managed to maintain liquidity for any draws on the program. Moreover, as described under “The School District Bond Guarantee Program” and “The Charter District Bond Guarantee Program,” both parts of the Bond Guarantee Program operate in accordance with the Act as “intercept” programs, providing liquidity for guaranteed bonds, and draws on the PSF are required to be restored from the first State money payable to a school district or a charter district that fails to make a guaranteed payment on its bonds.

### **Ratings of Bonds Guaranteed Under the Guarantee Program**

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

### **Valuation of the PSF and Guaranteed Bonds**

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

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

<sup>(2)</sup> At August 31, 2017, mineral assets, sovereign and other lands and internally managed discretionary real estate, external discretionary real estate investments, domestic equities, and cash managed by the SLB had book values of approximately \$13.43 million, \$247.64 million, \$2,797.05 million, \$4.71 million, and \$3,399.05 million, respectively, and market values of approximately \$1,870.22 million, \$651.40 million, \$2,788.02 million, \$2.09 million, and \$3,399.05 million, respectively. At January 31, 2018, the PSF had a book value of \$32,415,438,326 and a market value of \$43,741,388,620. January 31, 2018 values are based on unaudited data, which is subject to adjustment.

<b>Permanent School Fund Guaranteed Bonds</b>	
<u>At 8/31</u>	<u>Principal Amount<sup>(1)</sup></u>
2013	\$55,218,889,156
2014	58,364,350,783
2015	63,955,449,047
2016	68,303,328,445
2017	74,266,090,023 <sup>(2)</sup>

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

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

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

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

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

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

<sup>(3)</sup> At January 31, 2018 (based on unaudited data, which is subject to adjustment), there were \$76,112,811,568 of bonds guaranteed under the Guarantee Program, representing 3,354 school district issues, aggregating \$74,700,936,568 in principal amount and 43 charter district issues, aggregating \$1,411,875,000 in principal amount. At January 31, 2018, the capacity allocation of the Charter District Bond Guarantee Program was \$2,013,789,828 (based on the then effective capacity multiplier of 3.75 times and on unaudited data, which is subject to adjustment).

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

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

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

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

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

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

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

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

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

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

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

## **2011 Constitutional Amendment**

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

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

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

The Distribution Rates for the Fund were set at 3.5%, 2.5%, 4.2%, 3.3% and 3.5% for each of two year periods 2008-2009, 2010-2011, 2012-2013, 2014-2015 and 2016-2017, respectively. In September 2017, the SBOE approved a \$2.5 billion distribution to the ASF for State fiscal biennium 2018-2019, to be made in equal monthly

increments of \$102.99 million, which represents a 3.7% Distribution Rate for the biennium and a per student distribution of \$248.58, based on 2017 preliminary student average daily attendance of 4,971,656.277.

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

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

### **Other Events and Disclosures**

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

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

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

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

## **PSF Continuing Disclosure Undertaking**

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

The MSRB has established the Electronic Municipal Market Access (“EMMA”) system, and the TEA is required to file its continuing disclosure information using the EMMA system. Investors may access continuing disclosure information filed with the MSRB at [www.emma.msrb.org](http://www.emma.msrb.org), and the continuing disclosure filings of the TEA with respect to the PSF can be found at <http://emma.msrb.org/IssueView/NonCUSIP9IssueDetails.aspx?id=ER355077> or by searching for “Texas Permanent School Fund Bond Guarantee Program” on EMMA.

## **Annual Reports**

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

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

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

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

## **Material Event Notices**

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

## **Availability of Information**

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

## **Limitations and Amendments**

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

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

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

### **Compliance with Prior Undertakings**

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

### **SEC Exemptive Relief**

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

## **TAX RATE LIMITATIONS**

A school district is authorized to levy maintenance and operation (“M&O”) taxes subject to approval of a proposition submitted to district voters. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the next two succeeding paragraphs. The maximum voted M&O tax rate for the District is \$1.50 per \$100 of assessed valuation as approved by the voters at an election held on December 2, 1972, pursuant to Chapter 20, as amended, Texas Education Code (now codified as Section 45.003, Texas Education Code.)

The maximum M&O tax rate per \$100 of assessed valuation that may be adopted by the District may not exceed the lesser of (A) \$1.50, or such lower rate as described in the preceding paragraph, and (B) the sum of (1) the rate of \$0.17, and (2) the product of the “State Compression Percentage” multiplied by \$1.50. The State Compression Percentage has been set, and will remain, at 66.67% for fiscal years 2007–08 through 2017–18. The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. For a more detailed description of the State Compression Percentage, see “CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Local Funding for School Districts”. Furthermore, a school district cannot annually increase its tax rate in excess of the district’s “rollback tax rate” without submitting such tax rate to a referendum election and a majority of the voters voting at such election approving the adopted rate. See “AD VALOREM TAX PROCEDURES – Public Hearing and Rollback Tax Rate.”

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

Section 45.0031, Texas Education Code, as amended (“Section 45.0031”), requires a district to demonstrate to the Texas Attorney General that it has the prospective ability to pay its maximum annual debt service on a proposed

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

## **DEBT LIMITATIONS**

Under State law, there is no explicit bonded indebtedness limitation, although the tax rate limits described above under “TAX RATE LIMITATIONS” effectively impose a limit on the incurrence of debt. Such tax rate limits require school districts to demonstrate the ability to pay new debt secured by the district’s debt service tax from a tax rate of \$0.50, and to pay all debt and operating expenses which must be paid from receipts of the district’s maintenance tax from a tax not to exceed the maintenance tax limit described under the caption “TAX RATE LIMITATIONS.”

## **RATING**

The Bonds are expected to be rated “AAA” by Moody’s based upon the guaranteed repayment thereof under the Permanent School Fund Guarantee Program of the Texas Education Agency. The District’s unenhanced underlying rating, which includes the Bonds is “A1” by Moody’s without regard to credit enhancement. The District also has issues outstanding which are rated “Aaa” by Moody’s by virtue of the guarantee of the Permanent School Fund of the State of Texas. (See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” and “RATING” herein.)

An explanation of the significance of such rating may be obtained from Moody’s. The rating of the Bonds by Moody’s reflects only the view of said company at the time the rating is given, and the District makes no representations as to the appropriateness of the rating. The rating of the Bonds is not a recommendation to buy, sell or hold the Bonds, and there is no assurance that the rating will continue for any given period of time, or that the rating will not be revised downward or withdrawn entirely by Moody’s, if, in the judgment of Moody’s, circumstances so warrant. Any such downward revision or withdrawal of any rating of the Bonds may have an adverse effect on the market price of the Bonds.

## LEGAL MATTERS

The District will furnish to the Underwriters a transcript of certain certified proceedings incident to the issuance and authorization of the Bonds, including a certified copy of the approving legal opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Attorney General has examined a transcript of proceedings authorizing the issuance of the Bonds, and that based upon such examination, the Bonds are valid and binding obligations of the District payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. The District will also furnish the approving legal opinion of Bond Counsel, to the effect that, based upon an examination of such transcript, the Bonds are valid and binding obligations of the District under the Constitution and laws of the State of Texas, except to the extent that enforcement of the rights and remedies of the Registered Owners of the Bonds may be limited by laws relating to bankruptcy, reorganization, or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. The legal opinion of Bond Counsel will further state that the Bonds are payable, both as to principal and interest, from the levy of ad valorem taxes, without legal limitation as to rate or amount, upon all taxable property within the District. Bracewell LLP, Special Tax Counsel, will also render an opinion to the effect that under existing law (i) interest on the Bonds is excludable from gross income of the holders for federal tax purposes; and (ii) the Bonds are not “private activity bonds” under the Internal Revenue Code of 1986, as amended (the “Code”) and, as such, interest on the Bonds will not be subject to the alternative minimum tax on individuals and corporations, except as described in the “TAX EXEMPTION” section below in the discussion regarding the adjusted current earnings adjustments for corporations. Bond Counsel will not be responsible in any manner for matters addressed in the opinion of Special Tax Counsel and, likewise, Special Tax Counsel will not be responsible in any manner for matters addressed in the opinion of Bond Counsel. Moreover, Bond Counsel and Special Tax Counsel have no joint responsibility with respect to the Bonds or the proceedings relating to the Bonds. Bond Counsel will be solely responsible its opinion and Special Tax Counsel will be solely responsible for its opinion.

Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the captions and subcaptions “THE BONDS” (excluding the information under the subcaptions “DTC Redemption Provisions”, “Permanent School Fund Guarantee”, and “Sources and Uses”), “REGISTERED OWNERS’ REMEDIES”, “BOOK-ENTRY-ONLY SYSTEM”, “REGISTRATION, TRANSFER AND EXCHANGE”, “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS”, “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” (excluding the information under the subcaption “Possible Effects of Wealth Transfer Provisions on the District’s Financial Condition”), “TAX RATE LIMITATIONS” (first paragraph only), “LEGAL MATTERS” (excluding the second paragraph thereof), “REGISTRATION AND QUALIFICATION OF BONDS FOR SALE”, “LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS” and “CONTINUING DISCLOSURE OF INFORMATION” (excluding the information under the subcaption “Compliance with Prior Undertakings”) solely to determine whether such information fairly summarizes the law and documents referred to therein and Special Tax Counsel has reviewed the information appearing under “LEGAL MATTERS” (insofar as such section relates to the legal opinion of special tax counsel), “TAX MATTERS” and “ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS” herein solely to determine whether such information fairly summarizes the procedures and documents referred to therein and is in accordance with applicable state law with regard to the sale of the Bonds. Bond Counsel and Special Tax Counsel have not independently verified factual information contained in this Official Statement, nor have such firms conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firms’ limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to the accuracy or completeness of any of the other information contained herein.

The legal fees to be paid to Bond Counsel and Special Tax Counsel are contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas. The legal fee to be paid to counsel to the Underwriters for services rendered in connection with the issuance of the Bonds 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**

In the opinion of Bracewell LLP, Austin, Texas, Special Tax Counsel, under existing law, (i) interest on the Bonds will be excludable from gross income for federal income tax purposes and (ii) the Bonds are not “private activity bonds” under the Code and, as such, interest on the Bonds is not subject to the alternative minimum tax.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the “Service”). The District has covenanted in the Resolution that it will comply with these requirements.

Special Tax Counsel’s opinion will assume continuing compliance with the covenants of the Resolution pertaining to those sections of the Code that affect the excludability of interest on the Bonds from gross income for federal income tax purposes and, in addition, will rely on representations by the District, the District’s Financial Advisor and the Underwriters with respect to matters solely within the knowledge of the District, the District’s Financial Advisor and the Underwriters, respectively, which Special Tax Counsel has not independently verified. If the District should fail to comply with the covenants in the Resolution or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the Bonds could become includable in gross income from the date of delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs. Special Tax Counsel’s opinion will also rely on the opinions of the Attorney General of the State of Texas and Bond Counsel as to the validity of the Bonds.

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

Special Tax Counsel’s opinions are based on existing law, which is subject to change. Such opinions are further based on Special Tax Counsel’s knowledge of facts as of the date thereof. Special Tax Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Special Tax Counsel’s attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Special Tax Counsel’s opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Special Tax Counsel’s legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the District as the taxpayer and the Owners may not have a right to participate in such audit. 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 the ultimate outcome of the audit.

## **ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS**

### **Collateral Tax Consequences**

Prospective purchasers of the Bonds should be aware that the ownership of tax exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty

insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income tax credit. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Bonds should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

### **Tax Accounting Treatment of Original Issue Premium**

The issue price of all of the Bonds exceeds the stated redemption price payable at maturity of such Bonds. Such Bonds (the “Premium Bonds”) are considered for federal income tax purposes to have “bond premium” equal to the amount of such excess. The basis of a Premium Bond in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Bond in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Premium Bond.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Premium Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of amortized bond premium upon the redemption, sale or other disposition of a Premium Bond and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption or other disposition of such Premium Bonds.

### **Tax Legislative Changes**

Public Law No. 115-97 (i.e., Tax Cuts and Jobs Act), which makes significant changes to the Code, including changing certain provisions affecting tax-exempt obligations, such as the Bonds, was signed into law on December 22, 2017. The changes include, among others, changes to the federal income tax rates for individuals and corporations and the alternative minimum tax for tax years beginning after December 31, 2017. Further, current law may change so as to directly or indirectly reduce or eliminate the benefit of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could also affect the value and liquidity of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any recently-enacted, proposed, pending or future legislation.

## **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 of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, 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) certificates of deposit and share certificates (i) issued by or through an institution that either has its main office or a branch office in the State of Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Insurance Fund, or are secured as to principal by obligations described in the clauses (1) through (7) 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 of Texas and is selected from a list adopted by the District as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the District; (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit; (9) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a contribution of cash and obligations described in clause (1) which are pledged to the District, and in the District’s name and deposited at the time the investment made with the District or with a third party selected and approved by the District and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (10) certain bankers’ acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least “A-1” or “P- 1” or the equivalent by at least one nationally recognized credit rating agency; (11) commercial paper with a stated maturity of 270 days or less that is rated at least “A-1” or “P-1” or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (12) no-load money market mutual funds registered with and regulated by the SEC and complies with SEC Rule 2a-7 (17 C.F.R. Section 270.2a-7); and (13) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and either (a) a duration of one year or more and invest exclusively in obligations described in under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

A political subdivision such as the District may enter into securities lending programs if (i) the value of the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (7) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than “A” or its equivalent or (c) cash invested in obligations described in clauses (1) through (7) above, clauses (11) through (13) 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 or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

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 may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution.

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

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.

### **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 December 31, 2017, the District's investable funds were invested in the following categories:

	<u>Percent</u>	<u>Book Value</u>	<u>Market Value</u>
Cash and Cash Equivalents	10.32%	\$919,069	\$919,069
Investment Pools	89.68%	\$7,983,898	\$7,983,898
<b>Total</b>	<b>100.00%</b>	<b>\$8,902,966</b>	<b>\$8,902,966</b>

*Source: Navasota ISD Audited Financial Statements.*

As of such date, the market value of such investments (as determined by the District by reference to published quotations, dealer bids, and comparable information) was approximately 100% of their book value. No funds of the District are invested in derivative securities; i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

### **REGISTRATION AND QUALIFICATION OF BONDS FOR SALE**

No registration statement relating to the Bonds has been filed with the SEC under the United States Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2). The Bonds have not been approved or disapproved by the 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**

Live Oak Public Finance, LLC 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 “RATING” herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. The 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 an “obligated person” with respect to the Bonds, within the meaning of the Securities and Exchange Commission’s Rule 15c2-12 (the “Rule”). Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the Municipal Securities Rulemaking Board (the “MSRB”) through its Electronic Municipal Market Access (“EMMA”) system. For a description of the continuing disclosure obligations of the TEA, see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.”

#### **Annual Reports**

The District will provide certain updated financial information and operating data to the MSRB on an annual basis. The information to be updated includes financial information and operating data regarding the District of the type included in this Official Statement in APPENDIX A, except for that information under “Estimated Overlapping Debt Statement,” and in APPENDIX E, which is the annual audited financial statement. The District will update and provide this information in APPENDIX A within six months after the end of each fiscal year ending in and after 2017 and, if not submitted as part of such annual financial information, the District will provide audited financial statements when and if available, and in any event, within 12 months after the end of each fiscal year. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the District will file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX E or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB’s Internet Web site identified above or filed with the United States Securities and Exchange Commission (the “SEC”), as permitted by SEC Rule 15c2-12 (the “Rule”).

The District’s current fiscal year end is August 31. Accordingly, the required information must be provided by the last day of February in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

#### **Notice of Certain Events**

The District will also provide timely notices of certain events to the MSRB. The District will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or

determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. Neither the Bonds nor the Order make any provision for redemption of the CABs, for debt service reserves, credit enhancement (except for the Permanent School Fund guarantee), or liquidity enhancement. The District will provide each notice described in this paragraph to the MSRB.

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

#### **Availability of Information**

All information and documentation filing required to be made by the District in accordance with its continuing disclosure 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.

#### **Format, Identifying Information, and Incorporation by Reference**

All financial information, operating data, financial statements, and notices required to be provided to the MSRB shall be provided in an electronic format and be accompanied by identifying information prescribed by the MSRB.

Financial information and operating data to be provided as set forth above under the subcaption “Annual Reports” may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document) available to the public on the MSRB’s internet web site or filed with the SEC.

#### **Limitations and Amendments**

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

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

with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and operating data so provided.

### **Compliance with Prior Undertakings**

On July 2, 2014, the District filed material event notices for various rating changes which were not previously filed in a timely manner. Additionally, the District filed a notice of Failure to File Information as required by the Rule. Moody’s implemented a change in scale on April 23, 2010 which changed the District’s underlying rating from A3 to A1. The Series 2005 Bonds are insured by FGIC which was downgraded by Moody’s Investors Service, Inc. on February 14, 2008, March 31, 2008, June 20, 2008, December 19, 2008, March 24, 2009 and April 14, 2009 and then upgraded on August 19, 2013 to Baa1 and May 21, 2014 to A3. The Series 2007 Notes are insured by AMBAC which was downgraded by Moody’s Investor’s Service, Inc. on June 19, 2008, November 5, 2008, April 13, 2009, July 29, 2009 and withdrew the rating April 7, 2011. See “RATINGS” herein.

Other than stated above, for the past five years, the District has complied in all material respects with its previous continuing disclosure agreements in accordance with the Rule.

### **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.

### **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 \$334,008.57 plus no accrued interest. 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.

FTN Financial Capital Markets is a division of First Tennessee Bank National Association and FTB Advisors, Inc. is a wholly owned subsidiary of First Tennessee Bank National Association. FTN Financial Capital Markets has entered into a distribution agreement with FTB Advisors, Inc. for the distribution of the Bonds at the original issue

prices. Such arrangement generally provides that FTN Financial Capital Markets will share a portion of its underwriting compensation or selling concession with FTB Advisors, Inc.

#### CONCLUDING STATEMENT

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

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

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 authorizing the issuance of the Bonds approved the form and content of this Official Statement for distribution in accordance with the provisions of the Securities and Exchange Commission's rule codified at 17 C.F.R. §240.15c2 12, as amended.

NAVASOTA INDEPENDENT SCHOOL DISTRICT

/s/ Greg Mock

President, Board of Trustees

ATTEST:

/s/ Amy Jarvis

Secretary, Board of Trustees

**APPENDIX A**  
**FINANCIAL INFORMATION OF THE DISTRICT**

# **NAVASOTA INDEPENDENT SCHOOL DISTRICT**

## **Financial Information**

### **ASSESSED VALUATION<sup>(1)</sup>**

2017/18 Total Valuation.....	\$ 3,038,664,796
Less Exemptions and Deductions .....	( 1,416,863,821)
2017/18 Net Taxable Valuation.....	<b>\$ 1,621,700,975</b>

<sup>(1)</sup> Source: Brazos County and Grimes County Appraisal Districts. The passage of a Texas Constitutional Amendment on November 3, 2015 increased the homestead exemption from \$15,000 to \$25,000.

### **VOTED GENERAL OBLIGATION DEBT**

Unlimited Tax Bonds Outstanding	\$ 32,844,204
Plus: The Bonds	47,445,000
Total Unlimited Tax Bonds	\$ 80,289,204
Less: Interest & Sinking Fund Balance (As of August 31, 2017) <sup>(1)</sup>	(977,225)
Net General Obligation Debt	\$ 79,311,979

Ratio of Net G.O. Debt to Net Taxable Valuation)<sup>(2)</sup> 4.89%

2017 Population Estimate	19,486
Per Capita Net Taxable Valuation	\$83,224
Per Capita Net G.O. Debt	\$4,070

<sup>(1)</sup> Source: Navasota ISD Audited Financial Statements.

<sup>(2)</sup> 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 August 31, 2017" in Appendix E for more information relative to the District's obligations.

### **PROPERTY TAX RATES AND COLLECTIONS**

Fiscal Year	Net Taxable Valuation <sup>(1)(2)</sup>	Tax Rate	% Collections <sup>(2)</sup>	
			Current <sup>(3)</sup>	Total <sup>(3)</sup>
2013/14	\$1,537,728,529	\$1.1914	97.94%	99.04%
2014/15	\$1,654,071,478	\$1.1799	98.23%	98.95%
2015/16	\$1,680,035,416	\$1.1634	97.84%	97.84%
2016/17	\$1,667,255,751	\$1.1634	96.97%	96.97%
2017/18	\$1,621,700,975	\$1.1840	37.62% <sup>(4)</sup>	37.62% <sup>(4)</sup>

<sup>(1)</sup> Source: Brazos County and Grimes County Appraisal Districts.

<sup>(2)</sup> Source: Navasota ISD Audited Financial Statements.

<sup>(3)</sup> Excludes penalties and interest.

<sup>(4)</sup> Partial collections as of December 31, 2017.

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**TAX RATE DISTRIBUTION**

	2013/14	2014/15	2015/16	2016/17	2017/18
Maintenance & Operations	\$1.0400	\$1.0400	\$1.0400	\$1.0400	\$1.0400
Debt Service	0.1514	0.1399	0.1234	0.1234	\$0.1440
Total Tax Rate	<u>\$1.1914</u>	<u>\$1.1799</u>	<u>\$1.1634</u>	<u>\$1.1634</u>	<u>\$1.1840</u>

**VALUATION AND FUNDED DEBT HISTORY**

Fiscal Year	Net Taxable Valuation	Bond Debt Outstanding <sup>(1)</sup>	Ratio Debt to A.V.
2013/14	\$1,537,728,529	\$30,759,996	2.00%
2014/15	1,654,071,478	29,734,996	1.80%
2015/16	1,680,035,416	26,684,996	1.59%
2016/17	1,667,255,751	27,599,996	1.66%
2017/18	1,621,700,975	80,289,204 <sup>(2)</sup>	4.95% <sup>(2)</sup>

<sup>(1)</sup> At fiscal year end.<sup>(2)</sup> Includes the Bonds.**ESTIMATED OVERLAPPING DEBT STATEMENT**

Expenditures of the various taxing entities within the boundaries of the District are paid out of ad valorem taxes levied by such entities on properties within the District. Such entities are independent of the District and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax bonds ("Tax Debt") was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional bonds since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the District.

Taxing Body	As Of	Amount	Percent Overlapping	Amount Overlapping
Brazos County	12/31/2017	\$86,290,000	1.79%	\$1,544,591
Grimes County	12/31/2017	12,000	50.46%	6,055
Navasota, City of	12/31/2017	11,945,000	100.00%	\$11,945,000
Total Overlapping Debt <sup>(1)</sup>				\$13,495,646
Navasota Independent School District <sup>(2)</sup>		\$80,289,204	100.00%	\$80,289,204
Total Direct & Overlapping Debt <sup>(2)</sup>				<u>\$93,784,850</u>
Ratio of Net Direct & Overlapping Debt to Net Taxable Valuation			5.78%	
Per Capita Direct & Overlapping Debt			\$4,812	

<sup>(1)</sup> Equals gross debt less self-supporting debt.<sup>(2)</sup> Includes the Bonds.

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

# TOP TEN TAXPAYERS<sup>(1)</sup>

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
1. National Oilwell Varco LP	Oil & Gas	\$140,991,742	8.69%
2. Ellwood Texas Forge Navasota	Metal Forge	\$64,669,406	3.99%
3. Helmerich & Payne Intl Drilling Co	Oil & Gas	\$60,333,118	3.72%
4. Trinity Industries Inc.	Industrial Transportation	\$29,087,516	1.79%
5. Union Pacific RR Co.	Railroad	\$22,676,583	1.40%
6. Nabors Driling Technologies USA	Oil & Gas	\$22,500,882	1.39%
7. Precision Drilling Co Lp	Oil & Gas	\$20,572,145	1.27%
8. Champions Cinco Pipe & Supply LLC	Pipe & Tube Retail	\$19,259,725	1.19%
9. Entergy Texas Inc.	Electric Utility	\$15,578,008	0.96%
10. Heat Transfer Research Inc.	Software Design	\$15,073,954	0.93%
<b>Total</b>		<b>\$410,743,079</b>	<b>25.33%</b>

<sup>(1)</sup> Source: Municipal Advisory Council of Texas.

# DEBT SERVICE REQUIREMENTS

Year	Outstanding Debt Service	Plus: The Bonds		Total	Combined Total
		Principal	Interest		
2018	\$2,424,245	\$ --	\$ --	\$ --	\$ 2,424,245
2019	3,412,660	--	2,642,423	2,642,423	6,055,083
2020	3,437,760	--	2,372,250	2,372,250	5,810,010
2021	3,439,685	--	2,372,250	2,372,250	5,811,935
2022	3,418,560	--	2,372,250	2,372,250	5,790,810
2023	3,222,913	--	2,372,250	2,372,250	5,595,163
2024	3,243,588	--	2,372,250	2,372,250	5,615,838
2025	3,015,088	--	2,372,250	2,372,250	5,387,338
2026	3,006,163	--	2,372,250	2,372,250	5,378,413
2027	2,588,488	--	2,372,250	2,372,250	4,960,738
2028	1,758,400	745,000	2,353,625	3,098,625	4,857,025
2029	1,762,738	780,000	2,315,500	3,095,500	4,858,238
2030	1,757,138	825,000	2,275,375	3,100,375	4,857,513
2031	1,729,538	885,000	2,232,625	3,117,625	4,847,163
2032	1,745,738	920,000	2,187,500	3,107,500	4,853,238
2033	1,783,938	945,000	2,140,875	3,085,875	4,869,813
2034	1,735,975	1,020,000	2,091,750	3,111,750	4,847,725
2035	--	2,090,000	2,014,000	4,104,000	4,104,000
2036	--	2,195,000	1,906,875	4,101,875	4,101,875
2037	--	2,310,000	1,794,250	4,104,250	4,104,250
2038	--	2,430,000	1,675,750	4,105,750	4,105,750
2039	--	2,550,000	1,551,250	4,101,250	4,101,250
2040	--	2,685,000	1,420,375	4,105,375	4,105,375
2041	--	2,820,000	1,282,750	4,102,750	4,102,750
2042	--	2,965,000	1,138,125	4,103,125	4,103,125
2043	--	3,120,000	986,000	4,106,000	4,106,000
2044	--	3,280,000	826,000	4,106,000	4,106,000
2045	--	3,445,000	657,875	4,102,875	4,102,875
2046	--	3,620,000	481,250	4,101,250	4,101,250
2047	--	3,810,000	295,500	4,105,500	4,105,500
2048	--	4,005,000	100,125	4,105,125	4,105,125
<b>TOTAL:</b>	<b><u>\$43,482,615</u></b>	<b><u>\$47,445,000</u></b>	<b><u>\$ 53,347,798</u></b>	<b><u>\$100,792,798</u></b>	<b><u>\$ 144,275,413</u></b>

**AUTHORIZED BUT UNISSUED BONDS**

Purpose	Date Authorized	Amount Authorized	Amount Previously Issued	Amount Being Issued	Unissued Balance
School Buildings	11/7/2017	\$55,000,000	\$3,280,000 <sup>(1)</sup>	\$51,720,000 <sup>(2)</sup>	\$0 <sup>(2)</sup>
Refunding	11/7/2017	\$6,145,000	\$6,120,000	--	\$25,000

<sup>(1)</sup> Includes par amount of \$3,040,000 plus \$240,000 in premium applied towards the amount of authorization.

<sup>(2)</sup> "Amount Being Issued" includes premium on the Bonds in the amount of \$4,275,000 allocated to the Construction Fund and applied towards the amount of authorization.

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**COMPARATIVE STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES<sup>(1)</sup>**

	Fiscal Year Ending August 31				
	2017	2016	2015	2014	2013
<b>Revenues:</b>					
Local and Intermediate Sources	\$17,426,581	\$18,049,855	\$17,684,258	\$17,372,807	\$15,540,896
State Sources	6,298,026	6,572,010	5,954,169	7,447,757	7,041,831
Federal Sources & Other	--	17,996	139,386	205,141	191,358
<b>Total Revenues</b>	<b>\$23,724,607</b>	<b>\$24,639,861</b>	<b>\$23,777,813</b>	<b>\$25,025,705</b>	<b>\$22,774,085</b>
<b>Expenditures:</b>					
<i>Current:</i>					
Instruction	\$12,498,541	\$12,458,294	\$11,664,554	\$12,068,734	\$11,815,761
Instructional Resources & Media Services	112,841	118,346	179,259	219,698	262,249
Curriculum & Staff Development	299,551	35,914	22,282	132,846	21,655
Instructional Leadership	270,299	675,425	747,218	625,468	571,681
School Leadership	1,770,885	1,664,542	1,587,854	1,613,451	1,604,953
Guidance, Counseling & Evaluation Services	547,307	523,005	485,074	509,587	427,223
Health Services	296,158	302,136	289,767	257,286	206,611
Student Transportation	1,269,376	5,108,368	1,282,148	1,291,107	1,301,529
Food Services	--	--	--	--	--
Extracurricular Activities	933,157	985,579	887,604	815,198	939,784
General Administration	978,271	1,176,018	1,139,541	1,212,291	944,716
Plant Maintenance & Operations	2,799,869	2,605,549	2,429,168	2,615,625	3,085,737
Security and Monitoring Services	136,796	126,813	119,176	108,096	86,976
Data Processing Services	335,237	391,169	358,666	471,846	689,005
<i>Debt Service:</i>					
Principal	\$675,392	\$330,246	\$346,114	\$201,070	\$160,000
Interest and Fiscal Charges	207,019	188,862	115,020	130,254	130,420
<i>Capital Outlay</i>	--	--	--	1,100,259	--
<i>Intergovernmental</i>					
Payments to SSA	\$216,343	\$210,547	\$228,124	\$235,016	\$221,702
Other Intergovernmental Charges	\$411,834	374,296	367,128	343,950	313,990
<b>Total Expenditures</b>	<b>\$23,758,876</b>	<b>\$27,275,109</b>	<b>\$22,248,697</b>	<b>\$23,951,782</b>	<b>\$22,783,992</b>
Excess (Deficiency) of Revenues over Expenditures	(\$34,269)	(\$2,635,248)	\$1,529,116	\$1,073,923	(\$9,907)
<b>Other Resources and (Uses):</b>					
Loan Proceeds	\$--	\$3,719,999	\$--	\$1,100,859	\$--
Transfers In	--	--	--	--	--
Transfers (Out)	--	--	--	--	--
<b>Total Other Financing Sources and (Uses)</b>	<b>--</b>	<b>\$3,719,999</b>	<b>\$--</b>	<b>\$1,100,859</b>	<b>\$--</b>
Net Change in Fund Balance	(\$34,269)	\$1,084,751	\$1,529,116	\$2,174,782	(\$9,907)
<b>Fund Balance – Beginning</b>	<b>\$8,093,111</b>	<b>\$7,008,360</b>	<b>\$5,479,244</b>	<b>\$3,304,462</b>	<b>\$3,314,369</b>
<b>Fund Balance – Ending</b>	<b>\$8,058,842</b>	<b>\$8,093,111</b>	<b>\$7,008,360</b>	<b>\$5,479,244</b>	<b>\$3,304,462</b>

<sup>(1)</sup> See "MANAGEMENT'S DISCUSSION AND ANALYSIS" - ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES" in Appendix D hereto for a discussion of the 2017/18 budget and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Possible Effects of Wealth Transfer Provisions on the District's Financial Condition" in the Official Statement.

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**CHANGE IN NET ASSETS<sup>(1)</sup>**

	<b>Fiscal Year Ending August 31</b>				
	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>ASSETS:</b>					
Cash & Cash Equivalents	\$8,400,069	\$8,484,064	\$6,724,589	\$5,755,851	\$3,179,845
Taxes Receivable	1,654,817	1,568,875	1,533,178	1,535,336	1,533,155
Allowance for Uncollectible Taxes	(352,067)	(353,453)	(420,481)	(473,187)	(540,840)
Due from Other Governments	205,720	426,489	522,607	305,727	248,392
Due from Other Funds	--	507,570	1,068,748	451,433	1,489,554
Other Receivables	--	--	1,114	1,486	2,476
Inventories	47,809	--	--	--	--
<b>TOTAL ASSETS:</b>	<b>\$10,832,203</b>	<b>\$10,633,545</b>	<b>\$9,429,755</b>	<b>\$7,576,646</b>	<b>\$5,912,582</b>
<b>LIABILITIES:</b>					
Current Liabilities:					
Accounts Payable	\$464,177	\$179,036	\$217,156	\$208,840	\$88,757
Accrued Wages Payable	997,141	1,113,323	1,144,260	876,718	887,782
Due to Other Funds	--	--	--	--	--
Due to Other Governments	--	413	--	--	693,103
Accrued Expenses	9,293	32,240	--	--	--
Deferred Revenues	--	--	--	--	--
<b>TOTAL LIABILITIES:</b>	<b>\$1,470,611</b>	<b>\$1,325,012</b>	<b>\$1,361,416</b>	<b>\$1,085,558</b>	<b>\$1,669,642</b>
<b>DEFERRED INFLOWS:</b>					
Unavailable Revenues – Property Taxes	\$1,302,750	\$1,215,422	\$1,059,979	\$1,011,844	\$938,478
<b>FUND BALANCES:</b>					
Nonspendable Fund Balances:					
Inventories	\$--	\$--	\$--	\$--	\$--
Prepaid Items	47,809	--	--	--	--
Restricted Fund Balances					
Grant Restrictions	--	--	--	--	--
Debt Service	--	--	--	--	--
Committed Fund Balance					
Construction	400,000	400,000	400,000	400,000	400,000
Unassigned Fund Balance	7,611,033	7,693,111	6,608,360	5,079,244	2,904,462
<b>Total Fund Balances</b>	<b>\$8,058,842</b>	<b>\$8,093,111</b>	<b>\$7,008,360</b>	<b>\$5,479,244</b>	<b>\$3,304,462</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES &amp; FUND BALANCES</b>	<b>\$10,832,203</b>	<b>\$10,633,545</b>	<b>\$9,429,755</b>	<b>\$7,576,646</b>	<b>\$5,912,582</b>

<sup>(1)</sup> The foregoing information represents government-wide financial information provided in accordance with GASB 34.

## **APPENDIX B**

### **GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY**

# **NAVASOTA INDEPENDENT SCHOOL DISTRICT**

## **General and Economic Information**

*Source: Texas Municipal Report for Navasota ISD and District Records.*

### **Enrollment Statistics**

<u>Year Ending 8/31</u>	<u>Enrollment</u>
2008	2939
2009	2951
2010	2883
2011	2937
2012	2985
2013	3010
2014	3058
2015	3055
2016	3078
2017	3064
Current	3044

### **Facilities**

<u>Campus</u>	<u>Grades</u>	<u>Current Enrollment</u>	<u>Capacity</u>	<u>Year Built</u>	<u>Year of Addition/Renovation</u>
Brule Elementary School	PreK – 5	350	400	1997	None
High Point Elementary School	PreK – 5	428	420	2006	None
Webb Elementary School	PreK – 5	814	1,012	1968	1993, 2006
Navasota Junior High School	6 <sup>th</sup> – 8 <sup>th</sup>	678	675	1996	None
Navasota Early Learning Center (NELC)	Offices/ DAEP			1984	None
Navasota High School	9 <sup>th</sup> – 12 <sup>th</sup>	764	828	1975	1995, 2000, 2007
Brosig Auditorium	N/A	N/A	N/A	1952	
Rock Gym	N/A	N/A	N/A	1930	

### **Unemployment Rates**

	<u>November</u> <u>2015</u>	<u>November</u> <u>2016</u>	<u>November</u> <u>2017</u>
Grimes County	5.7%	6.5%	4.3%
Brazos County	3.1%	3.2%	2.6%
State of Texas	4.4%	4.5%	3.7%

*Source: Texas Workforce Commission.*

**APPENDIX C**

**FORM OF LEGAL OPINION OF BOND COUNSEL**

Blake G. Powell  
Sara Hardner Leon  
Darrick W. Eugene  
Michelle Alcala  
Mackenzie Lewis  
Casandra Johnson  
William C. Bednar, *Of Counsel*



Jay Youngblood  
*Tyler, Texas*  
John J. Janssen, Ph.D.  
*Corpus Christi, Texas*  
Geneva L. Taylor  
*Houston, Texas*  
Rick W. Powell  
*Pittsburg/Lewisville, Texas*

March 20, 2018

**NAVASOTA INDEPENDENT SCHOOL DISTRICT  
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018  
IN THE ORIGINAL PRINCIPAL AMOUNT OF \$ 47,445,000**

We have acted as Bond Counsel to Navasota Independent School District (the “Issuer”) in connection with the issuance of the bonds described above (the “Bonds”) 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. We have not investigated or verified original proceedings, records, data, or other material, but we have relied solely upon the transcript of certified proceedings, certifications, and other documents described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Bonds. We have relied solely on information and certifications furnished to us by the Issuer with respect to the current outstanding indebtedness of, and assessed valuation of taxable property within, the Issuer.

In our capacity as Bond Counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds that contains certified copies of certain proceedings of the Board of Trustees of the Issuer (the “Board”); an order of the Board authorizing the Bonds adopted on February 27, 2018 (the “Order”); the approving opinion of the Attorney General of the State of Texas; customary certificates of officers, agents, and representatives of the Issuer, and other public officials; and other documents relating to the issuance of the Bonds. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the truth and accuracy of the statements contained in such certificates. We have also examined executed Bond No. I-1.

Based on said examination, it is our opinion that:

1. The Issuer is a validly existing political subdivision of the State of Texas with power to adopt the Order, perform its agreements therein, and issue the Bonds.
2. The Bonds have been authorized, sold, and delivered in accordance with law.
3. The Bonds constitute valid and legally binding obligations of the Issuer enforceable in accordance with their terms except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, liquidation, and other similar laws now or hereafter enacted relating to creditors’ rights generally.
4. Ad valorem taxes, without legal limitation, upon all taxable property within the Issuer, necessary to pay the interest on and principal of the Bonds, have been pledged irrevocably for such purpose.

In rendering these opinions, we have relied upon the representations and certifications of the Issuer, with respect to matters solely within the knowledge of the Issuer, which we have not independently verified.

We express no opinion as to any federal, state, or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on or the acquisition, ownership, or disposition of the Bonds. We have acted only as Bond Counsel with respect to rendering the above opinions. We understand that the

District's special tax counsel, Bracewell, LLP ("Special Tax Counsel"), is not responsible for our opinion as Bond Counsel and our law firm is not responsible for any of the matters that are the subject of opinions rendered by Special Tax Counsel. In like manner, neither Special Tax Counsel nor our law firm has exercised joint responsibility or supervised the work of the other firm with respect to the Bonds or the proceedings relating to the same, but Special Tax Counsel has been solely responsible therefor, and we have been solely responsible only for our opinion as Bond Counsel. The two firms are not part of a partnership and each firm is an independent entity.

The opinions set forth above are based on existing laws of the United States and the State of Texas, which are 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 hereafter come to our attention, or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result; rather, such opinions represent our legal judgment based on our review of existing law, and are made in reliance on the representations and covenants referenced above that we deem relevant to such opinions.

This legal opinion expresses the professional judgment of the undersigned firm as to the legal issues explicitly addressed therein. In rendering a legal opinion, we do not become an insurer or guarantor of that 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 our opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Respectfully submitted,

**APPENDIX D**

**FORM OF SPECIAL TAX COUNSEL'S OPINION**

[DATE]

WE HAVE ACTED AS SPECIAL TAX COUNSEL for the Navasota Independent School District (the “District”), in connection with an issue of bonds (the “Bonds”) described as follows:

Navasota Independent School District Unlimited Tax School Building Bonds, Series 2018 aggregating \$47,445,000 in initial principal amount and initially dated as of March 20, 2018.

WE HAVE ACTED AS SPECIAL TAX COUNSEL for the sole purpose of rendering an opinion with respect to the excludability of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied upon certificates executed by officers, agents and representatives of the District and other public officials. We have assumed no responsibility with respect to the financial condition of the District or the reporting or disclosure thereof in connection with the sale of the Bonds. We have acted only as special tax counsel. We understand that the District’s bond counsel, Powell & Leon, LLP (“Bond Counsel”), is not responsible for our opinion as special tax counsel and our law firm is not responsible for any of the matters that are the subject of opinions rendered by Bond Counsel. In like manner, neither Bond Counsel nor our law firm has exercised joint responsibility or supervised the work of the other firm with respect to the Bonds or the proceedings relating to the same, but Bond Counsel has been solely responsible therefor, and we have been solely responsible only for our opinion as special tax counsel. The two firms are not part of a partnership and each firm is an independent entity.

IN OUR CAPACITY AS SPECIAL TAX COUNSEL, we have examined a transcript of certified proceedings pertaining to the Bonds on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the District and customary certificates of officers, agents and representatives of the District and other public officials. We have also examined such applicable provisions of the Internal Revenue Code of 1986, as amended (the “Code”), court decisions, Treasury Regulations and published rulings of the Internal Revenue Service (the “Service”) as we have deemed relevant. Capitalized terms used herein, unless otherwise defined, have the meanings set forth in the Order adopted by the District with respect to the issuance of the Bonds.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION that, under existing law:

1. Interest on the Bonds is excludable from gross income for federal income tax purposes.
2. The Bonds are not “private activity bonds” within the meaning of the Code, and interest on the Bonds is not subject to the alternative minimum tax on individuals and corporations, except that interest on the Bonds will be included in the “adjusted current earnings” of a corporation (other than any S corporation, regulated investment company, REIT or REMIC) for purposes of computing its alternative minimum tax liability.

In providing such opinions, we have relied on legal opinions of the Attorney General of the State of Texas and of Bond Counsel of even date herewith regarding the legality and validity of the Bonds under the Constitution and laws of the State of Texas. We have further relied on representations of the District, the District’s financial advisor and the underwriters of the Bonds with respect to matters solely within the knowledge of the District, the District’s financial advisor and the underwriters of the Bonds, respectively, which we have not independently verified. In addition, we have assumed for purposes of this opinion continuing compliance with the covenants in the Order pertaining to those sections of the Code that affect the excludability of interest on the Bonds from gross income for federal income tax purposes. If such representations or the Report are determined to be inaccurate or incomplete or the District fails to comply with the foregoing covenants of the Order, interest on the Bonds could become includable in gross income from the date of their original delivery, regardless of the date on which the event causing such inclusion occurs.

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

Owners of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States may be subject to the “branch profits tax” on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Bonds).

**APPENDIX E**

**AUDITED FINANCIAL REPORT**  
**FISCAL YEAR ENDED AUGUST 31, 2017**

*ANNUAL FINANCIAL REPORT*

of the

**NAVASOTA  
INDEPENDENT SCHOOL DISTRICT**

For the Year Ended  
August 31, 2017

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**NAVASOTA**  
**INDEPENDENT SCHOOL DISTRICT**  
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**NAVASOTA**  
**INDEPENDENT SCHOOL DISTRICT**

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## ***INTRODUCTORY SECTION***

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## CERTIFICATE OF BOARD


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Navasota  
Independent School District  
\_\_\_\_\_  
Name of School District

Grimes  
\_\_\_\_\_  
County

093-904  
\_\_\_\_\_  
Co. Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) ☒ approved ☐ disapproved for the year ended August 31, 2017, at a meeting of the Board of Trustees of such school district on the 18<sup>th</sup> day of December, 2017.

  
\_\_\_\_\_  
Signature of Board Secretary

  
\_\_\_\_\_  
Signature of Board President

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

(attach list as necessary)

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## ***FINANCIAL SECTION***

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

To the Board of Trustees of  
Navasota Independent School District:

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

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

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

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

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

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

## Opinions

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

## Other Matters

### *Required Supplementary Information*

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

### *Other Information*

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

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

The introductory section and the schedule of required responses to selected school first indicators have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*BELT HARRIS PECHACEK, LLP*

Belt Harris Pechacek, LLLP  
*Certified Public Accountants*  
Houston, Texas  
December 13, 2017

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



# NAVASOTA

## INDEPENDENT SCHOOL DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended August 31, 2017

This discussion and analysis of Navasota Independent School District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended August 31, 2017. It should be read in conjunction with the District's financial statements.

#### FINANCIAL HIGHLIGHTS

- The District's total combined net position at year end was \$13,140,297.
- For the fiscal year ended August 31, 2017, the District's general fund reported a total fund balance of \$8,058,842, of which \$47,809 is non-spendable, \$400,000 is committed for construction and \$7,611,033 is unassigned.
- At the end of the fiscal year, the District's governmental funds (the general fund plus all state and federal grant funds and the debt service fund) reported combined ending fund balances of \$10,483,752.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

#### GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

**NAVASOTA**  
**INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended August 31, 2017**

The Statement of Net Position presents information on all of the District's assets, liabilities, and deferred outflows/inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Other nonfinancial factors, such as changes in the District's tax base, staffing patterns, enrollment, and attendance need to be considered in order to assess the overall health of the District.

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

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

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

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

#### **FUND FINANCIAL STATEMENTS**

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

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

The District has the following kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.
- *Fiduciary funds* – The District serves as the trustee, or fiduciary, for certain funds such as student activity funds. The District is responsible for ensuring that the assets reported in these funds are used for their

**NAVASOTA**  
**INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
For the Year Ended August 31, 2017

intended purposes. All of the District's fiduciary activities that are reported in these funds are used for their intended purposes. All of the District's fiduciary activities reported in a separate statement of fiduciary net position and statement of changes in fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its governmental operations.

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

The District's combined net position was \$13,140,297 at year end. *Table 1* focuses on net position while *Table 2* shows the revenues and expenses that changed the net position balance during the fiscal year ended August 31, 2017. The District reported a decrease of \$85,157 in net position from the prior year. This decrease can be attributed to expenses exceeding revenue. There was a decrease in revenue primarily due to a decrease in operating grants and contributions and property taxes. Operating grants and contributions decreased largely due to a decrease in the Fund for the Improvement of Education grant. The District received the final payment for this grant in December 2016. Property taxes decreased primarily due to a decrease in assessed value. There was a decrease in expenses, which was primarily due to a decrease in instructional leadership and guidance, counseling, and evaluation services expenses. Instructional leadership expenses decreased mainly due to a decrease in personnel. The decrease in guidance, counseling, and evaluation services expenses is largely due to the decrease in funding for the Fund for the Improvement of Education grant.

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

Description	Governmental Activities		Total Change
	2017	2016	2017-2016
Current assets	\$ 13,632,716	\$ 13,356,981	\$ 275,735
Capital assets	37,261,871	39,294,031	(2,032,160)
<b>Total Assets</b>	<b>50,894,587</b>	<b>52,651,012</b>	<b>(1,756,425)</b>
Deferred charge on refunding	1,017,492	1,116,204	(98,712)
Deferred outflows - pensions	1,985,338	3,102,653	(1,117,315)
<b>Total Deferred Outflows of Resources</b>	<b>3,002,830</b>	<b>4,218,857</b>	<b>(1,216,027)</b>
Current liabilities	1,716,720	1,667,034	49,686
Long-term liabilities	38,299,181	40,710,684	(2,411,503)
<b>Total Liabilities</b>	<b>40,015,901</b>	<b>42,377,718</b>	<b>(2,361,817)</b>
Deferred inflows - pensions	741,219	1,266,697	(525,478)
<b>Total Deferred Inflows of Resources</b>	<b>741,219</b>	<b>1,266,697</b>	<b>(525,478)</b>
<b>Net Position:</b>			
Net investment in capital assets	5,968,936	6,179,525	(210,589)
Restricted	2,394,810	2,195,108	199,702
Unrestricted	4,776,551	4,850,821	(74,270)
<b>Total Net Position</b>	<b>\$ 13,140,297</b>	<b>\$ 13,225,454</b>	<b>\$ (85,157)</b>

**NAVASOTA**  
**INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
For the Year Ended August 31, 2017

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

	<b>Governmental Activities</b>		<b>Total Change 2017-2016</b>
	<b>2017</b>	<b>2016</b>	
<b>Revenues</b>			
Program revenues:			
Charges for services	\$ 849,197	\$ 832,281	\$ 16,916
Operating grants and contributions	5,409,723	6,114,930	(705,207)
General revenues:			
Property taxes	18,852,845	19,479,740	(626,895)
Grants and contributions not restricted	6,426,516	6,797,800	(371,284)
Investment earnings	111,791	55,123	56,668
Miscellaneous	522,016	635,184	(113,168)
<b>Total Revenue</b>	<b>32,172,088</b>	<b>33,915,058</b>	<b>(1,742,970)</b>
<b>Expenses</b>			
Instruction	16,678,889	16,519,930	158,959
Instructional resources and media services	302,527	306,462	(3,935)
Curriculum and staff development	332,235	109,483	222,752
Instructional leadership	663,047	1,094,021	(430,974)
School leadership	1,886,026	1,799,114	86,912
Guidance, counseling, and evaluation services	1,050,614	1,441,885	(391,271)
Social work/health services	313,551	321,942	(8,391)
Student (pupil) transportation	1,675,547	1,541,722	133,825
Food services	1,927,696	2,063,977	(136,281)
Co-curricular/extracurricular activities	1,224,520	1,257,529	(33,009)
General administration	1,018,742	1,238,592	(219,850)
Plant maintenance and operations	2,927,962	2,731,464	196,498
Security and monitoring	136,796	126,813	9,983
Data processing services	356,652	412,727	(56,075)
Community services	9,943	38,375	(28,432)
Interest on long-term debt	1,040,404	1,114,559	(74,155)
Payments related to shared services arrangements	300,260	278,456	21,804
Other intergovernmental charges	411,834	374,296	37,538
<b>Total Expenses</b>	<b>32,257,245</b>	<b>32,771,347</b>	<b>(514,102)</b>
<b>Change in Net Position</b>	<b>(85,157)</b>	<b>1,143,711</b>	<b>(1,228,868)</b>
Beginning net position	13,225,454	12,081,743	1,143,711
<b>Ending Net Position</b>	<b>\$ 13,140,297</b>	<b>\$ 13,225,454</b>	<b>\$ (85,157)</b>

**NAVASOTA**  
**INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended August 31, 2017**

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

At the close of the fiscal year ended August 31, 2017, the District's governmental funds reported a combined fund balance of \$10,483,752. This compares to a combined fund balance of \$10,370,978 at August 31, 2016. The fund balance in the general fund decreased \$34,269. The fund balance for debt service decreased \$82,641 primarily due to a decrease in property tax revenue. This decrease can be attributed to a decrease in assessed values. Lastly, other governmental funds that are restricted for special services experienced an increase in fund balance of \$229,684, which was primarily from an increase in the Medicaid fund fund balance.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

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

During the period ended August 31, 2017, the District amended its budget as required by State law and to reflect current levels of revenue and anticipated expenses. The general fund's actual revenues exceeded budgeted revenues by \$389,839, which was primarily due to the District receiving more property tax and state program revenues than anticipated. The budgeted expenditures exceeded actual expenditures by \$846,342, which was primarily due to the District spending less than expected on instruction, curriculum and instructional staff development, general administration, and data processing services.

**CAPITAL ASSETS**

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

At year end, the District had a total of \$37,261,871 invested in capital assets (net of depreciation) such as land, buildings, and District vehicles and equipment. This total includes \$15,244 invested during the fiscal year ended August 31, 2017.

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

**LONG-TERM DEBT**

At year end, the District had \$38,299,181 in general obligation bonds, notes, and other liabilities, including net pension liability, outstanding versus \$40,710,684 last year. This is a decrease of \$2,411,503, which was primarily due to debt principal payments.

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

**NAVASOTA**  
**INDEPENDENT SCHOOL DISTRICT**  
*MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)*  
For the Year Ended August 31, 2017

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

The following were considered in establishing the District's budget for 2017-2018:

- Student enrollment increased in 2016-2017 to 2,823 average daily attendance (ADA) as compared to 2,812 in 2015-2016. The projected student enrollment for forecasting Foundation payments was kept at 2,823 ADA in the 2017-2018 budget.
- The District budgeted revenues of \$23,356,074 and expenditures of \$25,184,282 for fiscal year 2017-2018.
- The District adopted a 2017-2018 maintenance and operation tax rate of \$1.04 and an interest and sinking tax rate of \$0.14399 for a total of \$1.18399 per \$100 of valuation.
- The District reports cash flows to the Board of Trustees on a monthly basis; therefore, adjustments to operating expenses are made in response to any negative or positive impact on revenue estimates.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Valerie Moore, Business Manager, at (936) 825-4200.

## ***BASIC FINANCIAL STATEMENTS***

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# NAVASOTA

## INDEPENDENT SCHOOL DISTRICT

### STATEMENT OF NET POSITION - EXHIBIT A-1

August 31, 2017

1

Data Control Codes		Governmental Activities
	<b><u>Assets</u></b>	
1110	Cash and cash equivalents	\$ 10,926,015
1225	Property taxes receivable	1,885,775
1230	Allowance for uncollectible taxes	(397,579)
1240	Due from other governments	1,082,789
1267	Due from fiduciary funds	34,304
1290	Other receivables	819
1300	Inventories, at cost	52,784
1410	Prepaid items	47,809
		<u>13,632,716</u>
	Capital assets:	
1510	Land	1,021,218
1520	Buildings and improvements, net	32,255,643
1530	Furniture and equipment, net	3,985,010
		<u>37,261,871</u>
1000	<b>Total Assets</b>	<u>50,894,587</u>
	<b><u>Deferred Outflows of Resources</u></b>	
1700	Deferred charge on refunding	1,017,492
1705	Deferred outflows - pensions	1,985,338
	<b>Total Deferred Outflows of Resources</b>	<u>3,002,830</u>
	<b><u>Liabilities</u></b>	
2110	Accounts payable	581,549
2140	Interest payable	55,953
2165	Accrued liabilities	1,044,626
2180	Due to other governments	10
2200	Accrued expenses	9,293
2300	Unearned revenues	25,289
		<u>1,716,720</u>
	Noncurrent liabilities:	
2501	Long-term liabilities due within one year	1,808,090
2502	Long-term liabilities due in more than one year	30,727,512
2540	Net pension liability	5,763,579
		<u>38,299,181</u>
2000	<b>Total Liabilities</b>	<u>40,015,901</u>
	<b><u>Deferred Inflows of Resources</u></b>	
2605	Deferred inflows - pensions	<u>741,219</u>
	<b><u>Net Position</u></b>	
3200	Net investment in capital assets	5,968,936
	Restricted for:	
3820	Federal and state programs	1,394,901
3850	Debt service	999,909
3900	Unrestricted	4,776,551
3000	<b>Total Net Position</b>	<u>\$ 13,140,297</u>

See Notes to Financial Statements.

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# NAVASOTA

## INDEPENDENT SCHOOL DISTRICT

### STATEMENT OF ACTIVITIES - EXHIBIT B-1

For the Year Ended August 31, 2017

Data Control Codes	Functions/Programs	1  Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
			3  Charges for Services	4  Operating Grants and Contributions	
					6  Primary Gov. Governmental Activities
	<b>Primary Government</b>				
	<b>Governmental Activities</b>				
0011	Instruction	\$ 16,678,889	\$ 147,385	\$ 2,914,470	\$ (13,617,034)
0012	Instructional resources				
0012	and media services	302,527	-	107,606	(194,921)
0013	Curriculum/instructional				
0013	staff development	332,235	-	13,173	(319,062)
0021	Instructional leadership	663,047	184,514	195,179	(283,354)
0023	School leadership	1,886,026	-	65,812	(1,820,214)
0031	Guidance, counseling,				
0031	and evaluation services	1,050,614	167,140	311,605	(571,869)
0033	Health services	313,551	-	6,659	(306,892)
0034	Student (pupil) transportation	1,675,547	-	31,978	(1,643,569)
0035	Food services	1,927,696	317,754	1,592,815	(17,127)
0036	Extracurricular activities	1,224,520	-	31,828	(1,192,692)
0041	General administration	1,018,742	704	42,876	(975,162)
0051	Plant maintenance and operations	2,927,962	21,700	9,206	(2,897,056)
0052	Security and monitoring services	136,796	-	-	(136,796)
0053	Data processing services	356,652	-	12,599	(344,053)
0061	Community services	9,943	-	-	(9,943)
0072	Interest - long term debt	1,040,404	-	-	(1,040,404)
0093	Payments to fiscal agent/member				
0093	districts of SSA	300,260	10,000	73,917	(216,343)
0099	Other intergovernmental charges	411,834	-	-	(411,834)
TG	<b>Total Governmental Activities</b>	<u>\$ 32,257,245</u>	<u>\$ 849,197</u>	<u>\$ 5,409,723</u>	<u>(25,998,325)</u>
	<b>General Revenues</b>				
MT	Property taxes, levied for general purposes				16,846,745
DT	Property taxes, levied for debt service				2,006,100
GC	Grants and contributions not restricted				6,426,516
IE	Investment earnings				111,791
MI	Miscellaneous local and intermediate revenue				522,016
TR	<b>Total General Revenues</b>				<u>25,913,168</u>
CN	<b>Change in Net Position</b>				<u>(85,157)</u>
NB	Beginning net position				<u>13,225,454</u>
NE	<b>Ending Net Position</b>				<u>\$ 13,140,297</u>

See Notes to Financial Statements.

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# NAVASOTA

## INDEPENDENT SCHOOL DISTRICT

### BALANCE SHEET

#### GOVERNMENTAL FUNDS - EXHIBIT C-1

August 31, 2017

Data Control Codes		10	50	98	
		General	Debt Service	Other Governmental	Total Governmental Funds
<u>Assets</u>					
1110	Cash and cash equivalents	\$ 8,400,069	\$ 993,240	\$ 1,532,706	\$ 10,926,015
1220	Taxes receivable	1,654,817	230,958	-	1,885,775
1230	Allowance for uncollectible taxes	(352,067)	(45,512)	-	(397,579)
1240	Due from other governments	875,855	8,127	198,807	1,082,789
1260	Due from other funds	205,720	-	-	205,720
1290	Other receivables	-	-	819	819
1300	Inventories, at cost	-	-	52,784	52,784
1410	Prepaid items	47,809	-	-	47,809
1000	Total Assets	<u>\$ 10,832,203</u>	<u>\$ 1,186,813</u>	<u>\$ 1,785,116</u>	<u>\$ 13,804,132</u>
<u>Liabilities</u>					
2110	Accounts payable	\$ 464,177	\$ -	\$ 117,372	\$ 581,549
2160	Accrued wages payable	997,141	-	47,485	1,044,626
2170	Due to other funds	-	24,131	147,285	171,416
2180	Due to other governments	-	10	-	10
2200	Accrued expenses	9,293	-	-	9,293
2300	Unearned revenue	-	-	25,289	25,289
2000	Total Liabilities	<u>1,470,611</u>	<u>24,141</u>	<u>337,431</u>	<u>1,832,183</u>
<u>Deferred Inflows of Resources</u>					
2600	Unavailable revenue - property taxes	<u>1,302,750</u>	<u>185,447</u>	<u>-</u>	<u>1,488,197</u>
<u>Fund Balances</u>					
Nonspendable					
3410	Inventories	-	-	52,784	52,784
3430	Prepaid items	47,809	-	-	47,809
Restricted					
3450	Grant funds	-	-	1,394,901	1,394,901
3480	Debt service	-	977,225	-	977,225
Committed					
3510	Construction	400,000	-	-	400,000
3600	Unassigned	7,611,033	-	-	7,611,033
3000	Total Fund Balances	<u>8,058,842</u>	<u>977,225</u>	<u>1,447,685</u>	<u>10,483,752</u>
4000	Total Liabilities, Deferred Inflows				
4000	of Resources, and Fund Balances	<u>\$ 10,832,203</u>	<u>\$ 1,186,813</u>	<u>\$ 1,785,116</u>	<u>\$ 13,804,132</u>

See Notes to Financial Statements.

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**NAVASOTA**  
**INDEPENDENT SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION - EXHIBIT C-1R**

August 31, 2017

Total fund balances for governmental funds	\$	10,483,752
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Amounts reported for governmental activities in the Statement of Net Position are different because:

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

Capital assets - nondepreciable	1,021,218		
Capital assets - depreciable	36,240,653		
			37,261,871

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

1,488,197

Some liabilities, including bonds and notes payable, are not reported as liabilities in the governmental funds.

Deferred charge on refunding	1,017,492		
Deferred outflows - pensions	1,985,338		
Deferred inflows - pensions	(741,219)		
Accrued interest	(55,953)		
Net pension liability	(5,763,579)		
Noncurrent liabilities due in one year	(1,808,090)		
Noncurrent liabilities due in more than one year	(30,727,512)		
			(36,093,523)

<b>Net Position of Governmental Activities</b>	<b>\$</b>	<b>13,140,297</b>
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See Notes to Financial Statements.

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

For the Year Ended August 31, 2017

<b>Data Control Codes</b>		<b>General</b>	<b>Debt Service</b>	<b>Other Governmental</b>	<b>Total Governmental Funds</b>
<b><u>Revenues</u></b>					
5700	Local, intermediate, and out-of-state	\$ 17,426,581	\$ 2,060,071	\$ 849,197	\$ 20,335,849
5800	State program revenues	6,298,026	37,899	492,760	6,828,685
5900	Federal program revenues	-	-	3,937,625	3,937,625
5020	<b>Total Revenues</b>	<u>23,724,607</u>	<u>2,097,970</u>	<u>5,279,582</u>	<u>31,102,159</u>
<b><u>Expenditures</u></b>					
<b>Current:</b>					
0011	Instruction	12,498,541	-	2,305,975	14,804,516
0012	Instruction resources and media services	112,841	-	90,468	203,309
0013	Curriculum/instructional staff development	299,551	-	12,683	312,234
0021	Instructional leadership	270,299	-	333,860	604,159
0023	School leadership	1,770,885	-	-	1,770,885
0031	Guidance, counseling, evaluation services	547,307	-	416,557	963,864
0033	Health services	296,158	-	-	296,158
0034	Student (pupil) transportation	1,269,376	-	31,978	1,301,354
0035	Food services	-	-	1,704,495	1,704,495
0036	Extracurricular activities	933,157	-	-	933,157
0041	General administration	978,271	-	2,154	980,425
0051	Plant maintenance and operations	2,799,869	-	58,150	2,858,019
0052	Security and monitoring services	136,796	-	-	136,796
0053	Data processing services	335,237	-	9,661	344,898
<b>Debt service:</b>					
0071	Principal	675,392	1,114,514	-	1,789,906
0072	Interest and fiscal charges	207,019	1,066,097	-	1,273,116
<b>Intergovernmental:</b>					
0093	Payments to member districts of SSA	216,343	-	83,917	300,260
0099	Other intergovernmental charges	411,834	-	-	411,834
6030	<b>Total Expenditures</b>	<u>23,758,876</u>	<u>2,180,611</u>	<u>5,049,898</u>	<u>30,989,385</u>
1200	<b>Net Change in Fund Balances</b>	<u>(34,269)</u>	<u>(82,641)</u>	<u>229,684</u>	<u>112,774</u>
0100	<b>Beginning fund balances</b>	<u>8,093,111</u>	<u>1,059,866</u>	<u>1,218,001</u>	<u>10,370,978</u>
3000	<b>Ending Fund Balances</b>	<u>\$ 8,058,842</u>	<u>\$ 977,225</u>	<u>\$ 1,447,685</u>	<u>\$ 10,483,752</u>

See Notes to Financial Statements.



**NAVASOTA**  
**INDEPENDENT SCHOOL DISTRICT**  
*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES - EXHIBIT C-3*

For the Year Ended August 31, 2017

Net change in fund balances - total governmental funds	\$	112,774
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Amounts reported for governmental activities in the Statement of Activities are different because:

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

Depreciation		(2,047,404)
Capital outlay		15,244

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		90,591
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The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when it is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Principal repayments		1,789,906
Amortization of deferred charge on refunding		(98,712)
Amortization of premiums		130,377
Accrued interest		22,684
Amortization of accreted interest		178,363

Pension activity reported in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as an expenditure or revenue in governmental funds.

Change in net pension liability		312,857
Net change in deferred outflows and inflows related to pensions		(591,837)

<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b><u>(85,157)</u></b>
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See Notes to Financial Statements.

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**NAVASOTA**  
**INDEPENDENT SCHOOL DISTRICT**  
*STATEMENT OF FIDUCIARY NET POSITION*  
*FIDUCIARY FUNDS - EXHIBIT E-1*

August 31, 2017

Data Control Codes		Private Purpose Trust	Agency
	<b><u>Assets</u></b>		
1110	Cash and cash equivalents	\$ -	\$ 194,626
1800	Restricted assets	138,286	-
1260	Due from other funds	-	24,131
1000	<b>Total Assets</b>	<b><u>\$ 138,286</u></b>	<b><u>\$ 218,757</u></b>
	<b><u>Liabilities</u></b>		
	Current liabilities:		
2170	Due to other funds	\$ -	\$ 58,435
2190	Due to student groups	-	158,924
2200	Accrued expenses	-	1,398
2000	<b>Total Liabilities</b>	<b><u>-</u></b>	<b><u>218,757</u></b>
	<b><u>Net Position</u></b>		
3800	Held in trust	138,286	-
3000	<b>Total Net Position</b>	<b><u>\$ 138,286</u></b>	<b><u>\$ -</u></b>

See Notes to Financial Statements.

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**NAVASOTA**  
**INDEPENDENT SCHOOL DISTRICT**  
*STATEMENT OF CHANGES IN FIDUCIARY NET POSITION*  
*FIDUCIARY FUNDS - EXHIBIT E-2*  
For the Year Ended August 31, 2017

	<u>Private Purpose Trust</u>
<b><u>Additions</u></b>	
Investment income	\$ 7,859
<b>Total Additions</b>	<u>7,859</u>
<b><u>Deductions</u></b>	
Scholarship awards	7,000
<b>Total Deductions</b>	<u>7,000</u>
<b>Change in Net Position</b>	859
Beginning net position	<u>137,427</u>
<b>Ending Net Position</b>	<u><u>\$ 138,286</u></u>

See Notes to Financial Statements.

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**NAVASOTA**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS*  
For the Year Ended August 31, 2017

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

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

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

**B. Government-Wide Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all nonfiduciary activities of the primary government. All fiduciary activities are reported only in the fund financial statements. *Governmental activities* are normally supported by taxes, intergovernmental revenues, and other nonexchange transactions.

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

**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

**NAVASOTA**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended August 31, 2017

column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The District reports the following governmental funds:

**General Fund**

The general fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The general fund is always considered a major fund for reporting purposes.

**Debt Service Fund**

The debt service fund is used to account for tax revenues and for the payment of principal, interest, and other related costs on long-term debt for which a tax has been dedicated. This is a budgeted fund and a separate bank account is maintained for this fund. Any unused sinking fund balances are transferred to the general fund after all of the related debt obligations have been met. The debt service fund is considered a major fund for reporting purposes.

**Special Revenue Funds**

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

Additionally, the District reports the following fund type:

**Fiduciary Funds**

The fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The District has the following type of fiduciary funds:

**Agency Funds**

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

**Trust Funds**

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

**NAVASOTA**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended August 31, 2017

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

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

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

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

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

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

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

**NAVASOTA**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended August 31, 2017

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

**1. Cash and Cash Equivalents**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

**2. Investments**

Investments, 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 cost.

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

- Direct obligations of the U.S. Government
- Fully collateralized certificates of deposit and money market accounts
- Statewide investment pools and commercial paper

**3. Inventories and Prepaid Items**

Inventories of supplies on the balance sheet are stated at weighted average cost, while inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Inventory items are recorded as expenditures when they are consumed. Supplies are used for almost all functions of activity, while food commodities are used only in the food service program. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as inventory and deferred revenue when received. When requisitioned, inventory and deferred revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount. Inventories also include plant maintenance and operation supplies, as well as instructional supplies.

**4. Capital Assets**

Purchased or constructed capital assets are reported at cost or estimated historical costs. Donated fixed assets are recorded at acquisition value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Buildings	20 to 50 years
Vehicles and Equipment	8 to 18 years

**NAVASOTA**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended August 31, 2017

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

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

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

**6. Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount, and payment of principal and interest reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as

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debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable, available financial resources.

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

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

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

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

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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 of Trustees may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**10. Estimates**

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

**11. Data Control Codes**

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

**12. Pensions**

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

**G. Revenues and Expenditures/Expenses**

**1. Program Revenues**

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

**2. Property Taxes**

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year

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following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Allowances for uncollectible tax receivables within the general and debt service funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

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

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

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

During the year, the District amended its budget as required by State law and to reflect current levels of revenue and anticipated expenditures.

**A. Expenditures in Excess of Appropriations**

For the year ended August 31, 2017, expenditures exceeded appropriations at the legal level of control in functions 23, 31, 51, and 71 in the general fund and 51 in the national school breakfast and lunch program fund.

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

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

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

At August 31, 2017, the District's investments are rated as to credit quality as follows:

<u>Investment</u>	<u>Maturity</u>	<u>Amount</u>	<u>Credit Rating</u>
Lone Star	N/A	\$ 9,469,345	AAA

# NAVASOTA

## INDEPENDENT SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2017

#### Lone Star Investment Pool

The Lone Star Investment Pool ("Lone Star") is a public funds investment pool created pursuant to the Interlocal Cooperation Act, Texas Government Code, Chapter 791, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. Lone Star is administered by First Public, a subsidiary of the Texas Association of School Boards (TASB), with Standish and American Beacon Advisors managing the investment and reinvestment of Lone Star's assets. State Street Bank provides custody and valuation services to Lone Star. All of the Board of Trustees' eleven members are Lone Star participants by either being employees or elected officials of a participant. Lone Star has established an advisory board composed of both pool members and nonmembers. Lone Star is rated "AAA" by Standard and Poor's. The District is invested in the Government Overnight Fund of Lone Star which seeks to maintain a net asset value of one dollar. Lone Star has 3 different funds: Government Overnight, Corporate Overnight, and Corporate Overnight Plus. Government and Corporate Overnight maintain a net asset value of one dollar and the Corporate Overnight Plus maintains a net asset value of 50 cents.

#### **B. Capital Assets**

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balances</u>
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 1,021,218	\$ -	\$ -	\$ 1,021,218
<b>Total Capital Assets Not             Being Depreciated</b>	<u>1,021,218</u>	<u>-</u>	<u>-</u>	<u>1,021,218</u>
Other capital assets:				
Buildings and improvements	64,037,425	-	-	64,037,425
Vehicles and equipment	6,453,121	15,244	-	6,468,365
<b>Total Other Capital Assets</b>	<u>70,490,546</u>	<u>15,244</u>	<u>-</u>	<u>70,505,790</u>
Less accumulated depreciation for:				
Buildings and improvements	(30,286,529)	(1,495,253)	-	(31,781,782)
Vehicles and equipment	(1,931,204)	(552,151)	-	(2,483,355)
<b>Total Accumulated Depreciation</b>	<u>(32,217,733)</u>	<u>(2,047,404)</u>	<u>-</u>	<u>(34,265,137)</u>
Other capital assets, net	38,272,813	(2,032,160)	-	36,240,653
<b>Governmental Activities Capital Assets, Net</b>	<u>\$ 39,294,031</u>	<u>\$ (2,032,160)</u>	<u>\$ -</u>	<u>37,261,871</u>
			Less associated debt	(32,310,427)
			Plus deferred charge on refunding	<u>1,017,492</u>
			<b>Net Investment in Capital Assets</b>	<u>\$ 5,968,936</u>

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For the Year Ended August 31, 2017

Depreciation was charged to governmental functions as follows:

11	Instruction	\$ 1,067,912
12	Instructional resources and media services	77,198
13	Curriculum and instructional staff development	19,373
23	School leadership	30,583
31	Guidance, counseling, and evaluation services	6,848
33	Health services	8,837
34	Student (pupil) transportation	374,193
35	Food service	135,621
36	Co-curricular/extracurricular activities	250,468
41	General administration	334
51	Plant maintenance and operations	58,114
53	Data processing services	7,980
61	Community services	9,943
<b>Total Depreciation Expense</b>		<u><u>\$ 2,047,404</u></u>

**C. Long-Term Debt**

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

<b>Governmental Activities:</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>(Reductions)</b>	<b>Ending Balance</b>	<b>Amounts Due Within One Year</b>	<b>Interests Rates</b>
Bonds payable:						
Series 2012	\$ 6,005,000	\$ -	\$ (660,000)	\$ 5,345,000	\$ 690,000	3.50%
Series 2013	8,819,996	-	(254,817)	8,565,179	225,179	2.00-4.50%
Series 2014	8,775,000	-	-	8,775,000	-	2.00-4.50%
QZAB	2,003,030	-	(199,697)	1,803,333	199,697	N/A
Notes payable:						
Series 2007 MTN	2,565,000	-	(185,000)	2,380,000	195,000	5.35%
CL240	767,993	-	(154,037)	613,956	157,925	2.50%
Capital lease	3,719,999	-	(336,355)	3,383,644	340,289	2.45%
	<u>32,656,018</u>	<u>-</u>	<u>(1,789,906)</u>	<u>30,866,112</u>	<u>* 1,808,090</u>	
Other liabilities:						
Accreted interest	403,538	-	(178,363)	225,175	-	
Premium on bonded debt	1,574,692	-	(130,377)	1,444,315	*	
Net pension liability	6,076,436	-	(312,857)	5,763,579	-	
<b>Total Governmental Activities</b>	<u><u>\$ 40,710,684</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (2,411,503)</u></u>	<u><u>\$ 38,299,181</u></u>	<u><u>\$ 1,808,090</u></u>	
<b>Long-term liabilities due in more than one year</b>				<u><u>\$ 36,491,091</u></u>		
<b>*Debt associated with capital assets</b>				<u><u>\$ 32,310,427</u></u>		

Bonded indebtedness of the District reflected in the general long-term debt and current requirements for principal and interest expenditures are accounted for in the debt service fund. These bonds were

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## INDEPENDENT SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2017

issued as school building bonds or refunding bonds. Interest expense was \$1,066,097 for the year ended August 31, 2017.

Notes payable of the District reflected in the general long-term debt and current requirements for principal and interest expenditures are accounted for in the general fund. The District's maintenance tax notes, series 2007 and CL240 have interest rates that range from four percent to five percent. Interest expense was \$207,019 for the year ended August 31, 2017. The District's QZAB debt is accounted for in the debt service fund and the interest rate is zero percent; therefore, there was no interest expense.

Debt service requirements on long-term debt at August 31, 2017 are as follows:

Year Ended Aug 31	Governmental Activities - Bonds		
	Principal	Interest	Total
2018	\$ 1,114,876	\$ 1,078,334	\$ 2,193,210
2019	1,354,697	819,362	2,174,059
2020	1,399,697	781,163	2,180,860
2021	1,449,697	741,488	2,191,185
2022	2,274,545	700,163	2,974,708
2023-2027	6,405,000	2,818,538	9,223,538
2028-2032	7,180,000	1,573,550	8,753,550
2033-2034	3,310,000	209,910	3,519,910
	<u>\$ 24,488,512</u>	<u>\$ 8,722,508</u>	<u>\$ 33,211,020</u>

Year Ended Aug 31	Governmental Activities - Notes		
	Principal	Interest	Total
2018	\$ 352,925	\$ 110,559	\$ 463,484
2019	366,910	98,574	465,484
2020	380,996	86,088	467,084
2021	348,125	73,199	421,324
2022	230,000	58,270	288,270
2023-2027	1,315,000	139,254	1,454,254
	<u>\$ 2,993,956</u>	<u>\$ 565,944</u>	<u>\$ 3,559,900</u>

Future minimum payments to retire capital lease obligations are as follows:

Year Ended Aug 31	Governmental Activities - Capital Lease		
	Principal	Interest	Total
2018	\$ 340,289	\$ 79,789	\$ 420,078
2019	348,703	71,375	420,078
2020	357,325	62,753	420,078
2021	366,160	53,918	420,078
2022	375,214	44,864	420,078
2023-2026	1,595,953	84,356	1,680,309
	<u>\$ 3,383,644</u>	<u>\$ 397,055</u>	<u>\$ 3,780,699</u>

Vehicles acquired under current capital lease obligations totaled \$3,665,024 and accumulated depreciation totaled \$397,044.

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## INDEPENDENT SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2017

#### D. Interfund Transactions

The interfund balances consisted of the following:

Due To Fund	Due From Fund	Amount
General Fund	Special Revenue Funds	\$ 147,285
General Fund	Trust Fund	58,435
Trust Fund	Debt Service	24,131
		<u>\$ 229,851</u>

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

#### IV. OTHER INFORMATION

##### A. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the District purchases commercial insurance. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

##### B. Contingent Liabilities

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

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

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

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**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended August 31, 2017

**C. Defined Benefit Pension Plan**

**Teacher Retirement System**

**Plan Description**

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

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

**Pension Plan Fiduciary Net Position**

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

**Benefits Provided**

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3% (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule.

There are no automatic post-employment benefit changes, including automatic cost of living adjustments (COLAs). Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan Description above.

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## INDEPENDENT SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2017

#### Contributions

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

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

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

2017 Employer Contributions	\$ 484,601
2017 Member Contributions	\$ 448,974
2017 NECE On-Behalf Contributions	\$ 795,042

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.

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For the Year Ended August 31, 2017

- When the employing District is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees and 100% of the state contribution rate for all other employees.

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

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

Actuarial Assumptions

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

Valuation date	August 31, 2016
Actuarial cost method	Individual entry age normal
Asset valuation method	Market value
Single discount rate	8.0%
Long-term expected investment rate of return	8.0%
Inflation	2.5%
Salary increases including inflation	3.5% to 9.5%
Payroll growth rate	2.50%
Benefit changes during the year	None
Ad hoc post-employment benefit changes	None

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

Discount Rate

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

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*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended August 31, 2017

Best estimates of geometric real rates of return for each major asset class included in the system's target asset allocation as of August 31, 2016 are summarized below:

**Teacher Retirement System of Texas**  
**Asset Allocation and Long-Term Expected Real Rate of Return**  
As of August 31, 2016

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Return Geometric Basis</b>	<b>Expected Contribution to Long-Term Portfolio Returns*</b>
<b>Global</b>			
U.S.	18.0%	4.6%	1.0%
Non-U.S. Developed	13.0%	5.1%	0.8%
Emerging Markets	9.0%	5.9%	0.7%
Directional Hedge Funds	4.0%	3.2%	0.1%
Private Equity	13.0%	7.0%	1.1%
<b>Stable Value</b>			
U.S. Treasuries	11.0%	0.7%	0.1%
Absolute Return	0.0%	1.8%	0.0%
Hedge Funds (Stable Value)	4.0%	3.0%	0.1%
Cash	1.0%	-0.2%	0.0%
<b>Real Return</b>			
Global Inflation-Linked Bond	3.0%	90.0%	0.0%
Real Assets	16.0%	5.1%	1.1%
Energy & National Resources	3.0%	6.6%	0.2%
Commodities	0.0%	1.2%	0.0%
<b>Risk Parity</b>			
Risk Parity	5.0%	6.7%	0.3%
Inflation Expectation	0.0%		2.2%
Alpha	0.0%		1.0%
<b>Total</b>	<b>100.0%</b>		<b>8.7%</b>

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

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the net pension liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the net pension liability.

	<b>1% Decrease in Discount Rate (7%)</b>	<b>Discount Rate (8%)</b>	<b>1% Increase in Discount Rate(9%)</b>
District's proportionate share of the net pension liability	\$ 8,920,079	\$ 5,763,579	\$ 3,086,229

# NAVASOTA

## INDEPENDENT SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2017

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

At August 31, 2017, the District reported a liability of \$5,763,579 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 5,763,579
State's proportionate share that is associated with the District	9,437,022
Total	<u>\$ 15,200,601</u>

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

At August 31, 2016, the District's proportion of the collective net pension liability was 0.0152522%, which was a decrease of 0.0019378% from its proportion measured as of August 31, 2015.

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

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

For the year ended August 31, 2017, the District recognized pension expense of \$979,338 and revenue of \$979,338 for support provided by the State.

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

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual economic experience	\$ 90,372	\$ (172,097)
Changes in actuarial assumptions	175,664	(159,759)
Difference between projected and actual investment earnings	488,048	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	733,788	(409,363)
Contributions paid to TRS subsequent to the measurement date	497,466	-
<b>Total</b>	<u>\$ 1,985,338</u>	<u>\$ (741,219)</u>

# NAVASOTA

## INDEPENDENT SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2017

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

<u>Year Ended August 31:</u>	<u>Pension Expense</u>
2018	\$ 123,958
2019	123,958
2020	435,258
2021	100,041
2022	11,627
Thereafter	(48,189)
<b>Total</b>	<b>\$ 746,653</b>

#### D. Retiree Health Care Plan

##### Plan Description

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

##### Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.00 percent and 0.65 percent of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55 percent for fiscal years 2017, 2016, and 2015. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25 percent or greater than 0.75 percent of the salary of each active employee of the public school. For the years ended August 31, 2017, 2016, and 2015, the State's contributions to TRS-Care were \$16,962, \$18,825, and \$22,336, respectively; the active member contributions were \$102,591, \$102,172, and \$99,872, respectively; and the District's contributions were \$86,808, \$86,453, and \$84,507, respectively; which equaled the required contributions each year.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for TRS-Care to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2017, 2016, and 2015, the subsidy payments received by TRS-Care on behalf of the District were \$48,872, \$60,984, and \$62,673, respectively.

**NAVASOTA**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended August 31, 2017

**E. Employee Health Care Coverage**

During the year ended August 31, 2017, employees of the District were covered by a health insurance plan (the "Plan"). The District paid premiums of \$325 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a third-party administrator, acting on behalf of the licensed insurer. The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreement.

The contract between the District and the third-party administrator is renewable September 1, 2017 and terms of coverage and premium costs are included in the contractual provisions.

**F. Workers' Compensation Insurance**

During the year ended August 31, 2017, the District met its statutory workers' compensation obligations through participation in the TASB Risk Management Fund (the "Fund"). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Workers' Compensation Program is authorized by Chapter 504, Texas Labor Code. All members participating in the Fund execute interlocal agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members' injured employees.

The member 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 claims in excess of the Fund's self-insured retention of \$2 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2016, the Fund carries a discounted reserve of \$51,843,324 for future development on reported claims and claims that have been incurred but not yet reported. For the year ended August 31, 2017, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contributions and reimbursable aggregate deductibles.

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 accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2016 are available at the TASB offices and have been filed with the Texas State Board of Insurance in Austin.

**G. Unemployment Compensation**

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

**NAVASOTA**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended August 31, 2017

All members participating in the Fund execute interlocal agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop-loss coverage for the unemployment compensation pool.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is approved by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2016 are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

**H. Auto, Liability, and Property Program**

During the year ended August 31, 2017, the District participated in the following TASB Risk Management Fund (the "Fund") programs.

- Auto Liability
- Auto Physical Damage
- General Liability
- Legal Liability
- Property

The Fund was created and is operated under the provision of the Interlocal Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute interlocal agreements that define the responsibilities of the parties.

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for the Fund programs. The terms and limits of the stop-loss program vary by line of coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended August 31, 2017, the Fund anticipates that the District has no additional liability beyond the contractual obligations for payment of contributions.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is approved by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2016 are available at the TASB offices and have been filed with the Texas State Board of Insurance in Austin.

**NAVASOTA**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended August 31, 2017

**I. Shared Services Arrangements**

The District is the fiscal agent for a shared services arrangement (SSA) which provides services to the member districts listed below. All services are provided by the fiscal agent. The member districts provide the funds to the fiscal agent. According to guidance provided in TEA's Resource Guide, the District has accounted for the fiscal agent's activities of the SSA in a special revenue fund and will be accounted for using Model 3 in the SSA section of the Resource Guide. Expenditures of the SSA are summarized below:

<u>Member Districts</u>	<u>Amounts</u>
Anderson-Shiro Independent School District	\$ 105,148
Iola Independent School District	47,912
Navasota Independent School District	216,343
North Zulch Independent School District	46,637
Richards Independent School District	21,310
<b>Total</b>	<u><u>\$ 437,350</u></u>

The District participates in an SSA for the improvement of the education of limited English proficient children funded under ESEA Title III, Part A, English Language Acquisition and Language Enhancement, with other school districts, charter schools, and the Education Service Center – Region VI. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Education Service Center – Region VI, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for part of the financial activities of the SSA.



***REQUIRED SUPPLEMENTARY INFORMATION***

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**NAVASOTA**  
**INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - GENERAL FUND - EXHIBIT G-1**  
For the Year Ended August 31, 2017

Data Control Codes		Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
		Original	Final		
	<b>Revenues</b>				
5700	Local and intermediate sources	\$ 17,305,595	\$ 17,305,595	\$ 17,426,581	\$ 120,986
5800	State program revenues	5,679,173	6,029,173	6,298,026	268,853
5020	<b>Total Revenues</b>	<u>22,984,768</u>	<u>23,334,768</u>	<u>23,724,607</u>	<u>389,839</u>
	<b>Expenditures</b>				
	<b>Current:</b>				
0011	Instruction	12,764,187	12,758,647	12,498,541	260,106
0012	Instructional resources				
0012	and media services	115,738	115,738	112,841	2,897
0013	Curriculum and instructional				
0013	staff development	505,641	435,641	299,551	136,090
0021	Instructional leadership	318,998	302,397	270,299	32,098
0023	School leadership	1,674,161	1,729,161	1,770,885	(41,724) *
0031	Guidance, counseling,				
0031	and evaluation services	523,133	538,133	547,307	(9,174) *
0033	Health services	305,209	305,209	296,158	9,051
0034	Student (pupil) transportation	1,470,000	1,321,000	1,269,376	51,624
0036	Extracurricular activities	906,029	961,029	933,157	27,872
0041	General administration	1,204,452	1,114,696	978,271	136,425
0051	Plant maintenance and operations	2,655,602	2,765,882	2,799,869	(33,987) *
0052	Security and monitoring services	145,000	145,000	136,796	8,204
0053	Data processing services	448,917	468,467	335,237	133,230
0071	Debt service principal	674,979	674,979	675,392	(413) *
0072	Interest and fiscal charges	207,019	207,019	207,019	-
	<b>Capital outlay:</b>				
0081	Facilities acquisition and				
	construction	-	95,617	-	95,617
	<b>Intergovernmental:</b>				
0093	Shared services arrangements	219,919	219,919	216,343	3,576
0099	Other intergovernmental charges	446,684	446,684	411,834	34,850
6030	<b>Total Expenditures</b>	<u>24,585,668</u>	<u>24,605,218</u>	<u>23,758,876</u>	<u>846,342</u>
1200	<b>Net Change in Fund Balance</b>	(1,600,900)	(1,270,450)	(34,269)	1,236,181
0100	Beginning fund balance	8,093,111	8,093,111	8,093,111	-
3000	<b>Ending Fund Balance</b>	<u>\$ 6,492,211</u>	<u>\$ 6,822,661</u>	<u>\$ 8,058,842</u>	<u>\$ 1,236,181</u>

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
2. \* Expenditures exceeded appropriations at the legal level of control.

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**NAVASOTA**  
**INDEPENDENT SCHOOL DISTRICT**  
*SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE*  
*OF THE NET PENSION LIABILITY*  
**TEACHER RETIREMENT SYSTEM OF TEXAS (TRS) - EXHIBIT G-2**  
For the Year Ended August 31, 2017

	Measurement Year*		
	2016	2015	2014
District's proportion of the net pension liability (asset)	0.0152522%	0.0171900%	0.0133204%
District's proportionate share of the net pension liability (asset)	\$ 5,763,579	\$ 6,076,436	\$ 3,558,063
State's proportionate share of the net pension liability (asset) associated with the District	9,437,022	8,744,264	8,179,619
Total	<u>\$ 15,200,601</u>	<u>\$ 14,820,700</u>	<u>\$ 11,737,682</u>
District's covered employee payroll**	\$ 15,718,775	\$ 15,364,966	\$ 16,238,864
District's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	36.67%	39.55%	21.91%
Plan fiduciary net position as a percentage of the total pension liability	78.00%	78.43%	83.25%

\* Only three-years' worth of information is currently available.

**Notes to Required Supplementary Information:**

*Changes in Assumptions:* There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

*Changes in Benefits:* There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

**NAVASOTA**  
**INDEPENDENT SCHOOL DISTRICT**  
*SCHEDULE OF DISTRICT CONTRIBUTIONS*  
**TEACHER RETIREMENT SYSTEM OF TEXAS (TRS)-EXHIBIT G-3**

Last Ten Fiscal Years\*  
For the Year Ended August 31, 2017

	Fiscal Year			
	2017	2016	2015	2014
Contractually required contribution	\$ 497,466	\$ 484,601	\$ 316,803	\$ 337,708
Contributions in relations to the contractually required contribution	497,466	484,601	316,803	337,708
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
District's covered employee payroll	\$ 15,783,191	\$ 15,718,775	\$ 15,364,966	\$ 16,238,864
Contributions as a percentage of covered employee payroll	3.15%	3.08%	2.06%	2.08%

\* Only five years' worth of information is currently available. The District will build this schedule over the next five-year period.

<b>Fiscal Year</b>	
<b>2013</b>	
\$	280,909
	280,909
\$	-

\$ 15,861,982

1.77%



***OTHER SUPPLEMENTARY  
INFORMATION***

**NAVASOTA**  
**INDEPENDENT SCHOOL DISTRICT**  
*COMBINING BALANCE SHEET*  
*NONMAJOR GOVERNMENTAL FUNDS (Page 1 of 2) - EXHIBIT H-1*  
August 31, 2017

Data Control Codes		211	240	244	255
		ESEA Title I Improving Basic Programs	National School Breakfast and Lunch Program	Career and Technical Basic Grant	ESEA Title II Training and Recruiting
	<b><u>Assets</u></b>				
1110	Cash and cash equivalents	\$ -	\$ 497,853	\$ -	\$ -
1240	Due from other governments	78,416	-	-	13,292
1290	Other receivables	-	819	-	-
1300	Inventories, at cost	-	52,784	-	-
1000	<b>Total Assets</b>	<u>\$ 78,416</u>	<u>\$ 551,456</u>	<u>\$ -</u>	<u>\$ 13,292</u>
	<b><u>Liabilities</u></b>				
2110	Accounts payable	\$ 20,568	\$ 51,404	\$ -	\$ 9,326
2160	Accrued wages payable	-	34,470	-	-
2170	Due to other funds	57,848	-	-	3,966
2300	Unearned revenue	-	17,939	-	-
2000	<b>Total Liabilities</b>	<u>78,416</u>	<u>103,813</u>	<u>-</u>	<u>13,292</u>
	<b><u>Fund Balances</u></b>				
	Nonspendable				
3410	Inventories	-	52,784	-	-
	Restricted				
3450	Federal/state funds grant restrictions	-	394,859	-	-
3000	<b>Total Fund Balances</b>	<u>-</u>	<u>447,643</u>	<u>-</u>	<u>-</u>
4000	<b>Total Liabilities and Fund Balances</b>	<u>\$ 78,416</u>	<u>\$ 551,456</u>	<u>\$ -</u>	<u>\$ 13,292</u>

263 English Language Acquisition and Enhancement	270 ESEA, Title VI Part B Subpart 2 Rural School	289 Improvement of Education	313 SSA IDEA-Part B Formula	314 SSA IDEA-Part B Preschool	315 SSA IDEA-Part B High Cost Risk Pool
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5,965	-	-	100,094	14	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 5,965</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,094</u>	<u>\$ 14</u>	<u>\$ -</u>
\$ 200	\$ -	\$ -	\$ 21,414	\$ 14	\$ -
-	-	-	-	-	-
5,765	-	-	78,680	-	-
-	-	-	-	-	-
<u>5,965</u>	<u>-</u>	<u>-</u>	<u>100,094</u>	<u>14</u>	<u>-</u>
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 5,965</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,094</u>	<u>\$ 14</u>	<u>\$ -</u>

# NAVASOTA

## INDEPENDENT SCHOOL DISTRICT

### COMBINING BALANCE SHEET

*NONMAJOR GOVERNMENTAL FUNDS (Page 2 of 2) - EXHIBIT H-1*

August 31, 2017

Data Control Codes		385 SSA Supplemental Visually Impaired	397 SSA Advanced Placement Incentives	410 State Textbook	429 Prekindergarten Grant
	<b><u>Assets</u></b>				
1110	Cash and cash equivalents	\$ -	\$ 2,041	\$ 18,560	\$ 7,379
1240	Due from other governments	1,026	-	-	-
1290	Other receivables	-	-	-	-
1300	Inventories, at cost	-	-	-	-
1000	<b>Total Assets</b>	<u>\$ 1,026</u>	<u>\$ 2,041</u>	<u>\$ 18,560</u>	<u>\$ 7,379</u>
	<b><u>Liabilities</u></b>				
2110	Accounts payable	\$ -	\$ -	\$ 13,096	\$ 29
2160	Accrued wages payable	-	-	-	-
2170	Due to other funds	1,026	-	-	-
2300	Unearned revenue	-	-	-	7,350
2000	<b>Total Liabilities</b>	<u>1,026</u>	<u>-</u>	<u>13,096</u>	<u>7,379</u>
	<b><u>Fund Balances</u></b>				
	Nonspendable				
3410	Inventories	-	-	-	-
	Restricted				
3450	Federal/state funds grant restrictions	-	2,041	5,464	-
3000	<b>Total Fund Balances</b>	<u>-</u>	<u>2,041</u>	<u>5,464</u>	<u>-</u>
4000	<b>Total Liabilities and Fund Balances</b>	<u>\$ 1,026</u>	<u>\$ 2,041</u>	<u>\$ 18,560</u>	<u>\$ 7,379</u>

437	459	499	Total Nonmajor Governmental Funds
Special Education	Medicaid	Education Foundation	
\$ 81,475	\$ 903,095	\$ 22,303	\$ 1,532,706
-	-	-	198,807
-	-	-	819
-	-	-	52,784
<u>\$ 81,475</u>	<u>\$ 903,095</u>	<u>\$ 22,303</u>	<u>\$ 1,785,116</u>
\$ -	\$ 1,321	\$ -	\$ 117,372
3,859	9,156	-	47,485
-	-	-	147,285
-	-	-	25,289
<u>3,859</u>	<u>10,477</u>	<u>-</u>	<u>337,431</u>
-	-	-	52,784
<u>77,616</u>	<u>892,618</u>	<u>22,303</u>	<u>1,394,901</u>
<u>77,616</u>	<u>892,618</u>	<u>22,303</u>	<u>1,447,685</u>
<u>\$ 81,475</u>	<u>\$ 903,095</u>	<u>\$ 22,303</u>	<u>\$ 1,785,116</u>

**NAVASOTA**  
**INDEPENDENT SCHOOL DISTRICT**  
*COMBINING STATEMENT OF REVENUES, EXPENDITURES,*  
*AND CHANGES IN FUND BALANCES*  
**NONMAJOR GOVERNMENTAL FUNDS (Page 1 of 2) - EXHIBIT H-2**  
For the Year Ended August 31, 2017

		211	240	244	255
Data		ESEA Title I	National	Career and	ESEA Title II
Control		Improving	School	Technical	Training and
Codes		Basic Programs	Breakfast and Lunch Program	Basic Grant	Recruiting
<u>Revenues</u>					
5700	Local and intermediate sources	\$ -	\$ 317,754	\$ -	\$ -
5800	State program revenues	-	10,010	-	-
5900	Federal program revenues	823,275	1,514,643	36,799	182,469
5020	Total Revenues	823,275	1,842,407	36,799	182,469
<u>Expenditures</u>					
Current:					
0011	Instruction	732,807	-	7,453	169,786
0012	Instruction resources				
0012	and media services	90,468	-	-	-
0013	Curriculum and instructional				
0013	staff development	-	-	-	12,683
0021	Instructional leadership	-	-	-	-
0031	Guidance, counseling, and				
0031	evaluation services	-	-	29,346	-
0034	Student (pupil) transportation	-	-	-	-
0035	Food services	-	1,704,495	-	-
0041	General administration	-	-	-	-
0051	Plant maintenance and operations	-	36,450	-	-
0053	Data processing services	-	-	-	-
Intergovernmental:					
0093	Payments to member districts	-	-	-	-
6030	Total Expenditures	823,275	1,740,945	36,799	182,469
Excess (Deficiency) of Revenues					
Over (Under) Expenditures					
		-	101,462	-	-
1200	Net Change in Fund Balances	-	101,462	-	-
0100	Beginning fund balances	-	346,181	-	-
3000	Ending Fund Balances	\$ -	\$ 447,643	\$ -	\$ -

263 English Language Acquisition and Enhancement	270 ESEA, Title VI Part B, Subpart 2 Rural School	289 Improvement of Education	313 SSA IDEA-PartB Formula	314 SSA IDEA-PartB Preschool	315 SSA IDEA-PartB High Cost Risk Pool
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
33,285	63,708	20,097	887,654	14,806	15,194
33,285	63,708	20,097	887,654	14,806	15,194
33,285	63,708	925	550,178	7,560	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	115,695	-	-
-	-	19,172	121,945	6,720	-
-	-	-	31,978	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	9,135	526	-
-	-	-	58,723	-	15,194
33,285	63,708	20,097	887,654	14,806	15,194
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

**NAVASOTA**  
**INDEPENDENT SCHOOL DISTRICT**  
*COMBINING STATEMENT OF REVENUES, EXPENDITURES,*  
*AND CHANGES IN FUND BALANCES*  
**NONMAJOR GOVERNMENTAL FUNDS (Page 2 of 2) - EXHIBIT H-2**

For the Year Ended August 31, 2017

Data Control Codes		385 SSA Supplemental Visually Impaired	397 SSA Advanced Placement Incentives	410 State Textbook	429 Prekindergarten Grant
	<b><u>Revenues</u></b>				
5700	Local and intermediate sources	\$ -	\$ -	\$ -	\$ -
5800	State program revenues	2,800	-	355,146	124,804
5900	Federal program revenues	-	-	-	-
5020	<b>Total Revenues</b>	<u>2,800</u>	<u>-</u>	<u>355,146</u>	<u>124,804</u>
	<b><u>Expenditures</u></b>				
	<b>Current:</b>				
0011	Instruction	2,800	-	350,977	124,804
0012	Instruction resources				
0012	and media services	-	-	-	-
0013	Curriculum and instructional				
0013	staff development	-	-	-	-
0021	Instructional leadership	-	-	-	-
0031	Guidance, counseling, and				
0031	evaluation services	-	-	-	-
0034	Student (pupil) transportation	-	-	-	-
0035	Food services	-	-	-	-
0041	General administration	-	-	-	-
0051	Plant maintenance and operations	-	-	-	-
0053	Data processing services	-	-	-	-
	<b>Intergovernmental:</b>				
0093	Payments to member districts	-	-	-	-
6030	<b>Total Expenditures</b>	<u>2,800</u>	<u>-</u>	<u>350,977</u>	<u>124,804</u>
	<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>-</u>	<u>-</u>	<u>4,169</u>	<u>-</u>
1200	<b>Net Change in Fund Balances</b>	-	-	4,169	-
0100	Beginning fund balances	<u>-</u>	<u>2,041</u>	<u>1,295</u>	<u>-</u>
3000	<b>Ending Fund Balances</b>	<u>\$ -</u>	<u>\$ 2,041</u>	<u>\$ 5,464</u>	<u>\$ -</u>

437	459	499	Total Nonmajor Governmental Funds
Special Education	Medicaid	Education Foundation	
\$ 437,350	\$ -	\$ 94,093	\$ 849,197
-	-	-	492,760
-	345,695	-	3,937,625
<u>437,350</u>	<u>345,695</u>	<u>94,093</u>	<u>5,279,582</u>
51,900	113,755	96,037	2,305,975
-	-	-	90,468
-	-	-	12,683
184,514	33,651	-	333,860
167,140	72,234	-	416,557
-	-	-	31,978
-	-	-	1,704,495
704	1,450	-	2,154
21,700	-	-	58,150
-	-	-	9,661
10,000	-	-	83,917
<u>435,958</u>	<u>221,090</u>	<u>96,037</u>	<u>5,049,898</u>
<u>1,392</u>	<u>124,605</u>	<u>(1,944)</u>	<u>229,684</u>
1,392	124,605	(1,944)	229,684
<u>76,224</u>	<u>768,013</u>	<u>24,247</u>	<u>1,218,001</u>
<u>\$ 77,616</u>	<u>\$ 892,618</u>	<u>\$ 22,303</u>	<u>\$ 1,447,685</u>

**NAVASOTA**  
**INDEPENDENT SCHOOL DISTRICT**  
*SCHEDULE OF DELINQUENT TAXES RECEIVABLE - EXHIBIT J-1*  
For the Year Ended August 31, 2017

	1	2	3
	Tax Rates		Net Assessed/ Appraised Value For School Tax Purposes
<u>Last Ten Years</u>	<u>Maintenance</u>	<u>Debt Service</u>	
2008 and prior	Various	Various	Various
2009	\$ 1.0400	\$ 0.2277	\$ 1,092,545,829
2010	\$ 1.0400	\$ 0.1962	\$ 1,178,277,983
2011	\$ 1.0400	\$ 0.1995	\$ 1,263,704,311
2012	\$ 1.0400	\$ 0.1889	\$ 1,324,844,285
2013	\$ 1.0400	\$ 0.1710	\$ 1,364,823,955
2014	\$ 1.0400	\$ 0.1514	\$ 1,537,728,529
2015	\$ 1.0400	\$ 0.1399	\$ 1,654,071,478
2016	\$ 1.0400	\$ 0.1234	\$ 1,680,035,413
2017	\$ 1.0400	\$ 0.1234	\$ 1,632,469,336

1000 Totals

10	20	31	32	40	50
Beginning Balance 8/31/16	Current Year's Total Levy	Maintenance Total Collected	Debt Service Total Collected	Entire Year's Adjustments	Ending Balance 8/31/17
\$ 479,320	\$ -	\$ 29,820	\$ 4,038	\$ (30,422)	\$ 415,040
83,450	-	7,660	1,677	(1,994)	72,119
86,225	-	10,044	1,895	(1,922)	72,364
93,615	-	9,090	1,744	(2,001)	80,780
112,368	-	14,438	2,622	(850)	94,458
131,697	-	24,063	3,957	(4,840)	98,837
183,847	-	36,801	5,357	(2,656)	139,033
204,207	-	51,779	6,967	(1,761)	143,700
422,849	-	197,788	23,474	(3,954)	197,633
-	18,992,638	16,466,534	1,954,293	-	571,811
<u>\$ 1,797,578</u>	<u>\$ 18,992,638</u>	<u>\$ 16,848,017</u>	<u>\$ 2,006,024</u>	<u>\$ (50,400)</u>	<u>\$ 1,885,775</u>

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**NAVASOTA**  
**INDEPENDENT SCHOOL DISTRICT**  
*BUDGETARY COMPARISON SCHEDULE*  
**NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM - EXHIBIT J-2**  
For the Year Ended August 31, 2017

Data Control Codes		Budgeted Amounts			Variance With Final Budget Positive (Negative)
		Original	Final	Actual	
<b>Revenues</b>					
5700	Local and intermediate sources	\$ 420,000	\$ 420,000	\$ 317,754	\$ (102,246)
5800	State program revenues	10,000	10,000	10,010	10
5900	Federal program revenues	1,592,810	1,592,810	1,514,643	(78,167)
5020	<b>Total Revenues</b>	<u>2,022,810</u>	<u>2,022,810</u>	<u>1,842,407</u>	<u>(180,403)</u>
<b>Expenditures</b>					
0035	Food services	1,990,810	1,990,810	1,704,495	286,315
0051	Plant maintenance and operations	32,000	32,000	36,450	(4,450) *
6030	<b>Total Expenditures</b>	<u>6,004,430</u>	<u>6,004,430</u>	<u>1,740,945</u>	<u>4,263,485</u>
1200	<b>Net Change in Fund Balance</b>	(3,981,620)	(3,981,620)	101,462	4,083,082
0100	Beginning fund balance	346,181	346,181	346,181	-
3000	<b>Ending Fund Balance</b>	<u>\$ (3,635,439)</u>	<u>\$ (3,635,439)</u>	<u>\$ 447,643</u>	<u>\$ 4,083,082</u>

\* Expenditures exceeded appropriations at the legal level of control.

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**NAVASOTA**  
**INDEPENDENT SCHOOL DISTRICT**  
*BUDGETARY COMPARISON SCHEDULE*  
**DEBT SERVICE FUND - EXHIBIT J-3**

For the Year Ended August 31, 2017

Data					Variance With
Control Codes		Budgeted Amounts		Actual	Final Budget
		Original	Final		Positive (Negative)
<u>Revenues</u>					
5700	Local and intermediate sources	\$ 2,181,611	\$ 2,181,611	\$ 2,060,071	\$ (121,540)
5800	State program revenues	-	-	37,899	37,899
5020	Total Revenues	2,181,611	2,181,611	2,097,970	(83,641)
<u>Expenditures</u>					
0071	Principal on long-term debt	1,114,515	1,114,515	1,114,514	1
0072	Interest on long-term debt	1,067,096	1,067,096	1,066,097	999
6030	Total Expenditures	2,181,611	2,181,611	2,180,611	1,000
1200	Net Change in Fund Balance	-	-	(82,641)	(82,641)
0100	Beginning fund balance	1,059,866	1,059,866	1,059,866	-
3000	Ending Fund Balance	\$ 1,059,866	\$ 1,059,866	\$ 977,225	\$ (82,641)

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***FEDERAL AWARDS AND OTHER COMPLIANCE SECTION***

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**INDEPENDENT AUDITORS' 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**

December 13, 2017

To the Board of Trustees of  
Navasota Independent School District:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Navasota Independent School District (the "District"), as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 13, 2017.

**Internal Control Over Financial Reporting**

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

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

Our consideration of the 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 over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*BELT HARRIS PECHACEK, LLP*

Belt Harris Pechacek, LLP  
Certified Public Accountants  
Houston, Texas



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY  
THE UNIFORM GUIDANCE**

December 13, 2017

To the Board of Trustees of  
Navasota Independent School District:

**Report on Compliance for Each Major Federal Program**

We have audited Navasota Independent School District's (the "District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2017. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditors' Responsibility**

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

We believe 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2017.

### **Report on Internal Control Over Compliance**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of 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.

*BELT HARRIS PECHACEK, LLP*

Belt Harris Pechacek, LLP  
*Certified Public Accountants*  
Houston, Texas

**NAVASOTA**  
**INDEPENDENT SCHOOL DISTRICT**  
*SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS*  
For the Year Ended August 31, 2017

**A. SUMMARY OF PRIOR YEAR AUDIT FINDINGS**

No prior year findings.

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**NAVASOTA**  
**INDEPENDENT SCHOOL DISTRICT**  
***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***  
For the Year Ended August 31, 2017

**A. SUMMARY OF AUDIT RESULTS**

1. The auditors' report expresses an unmodified opinion on the financial statements of Navasota Independent School District (the "District").
2. No material weaknesses or significant deficiencies in internal control were disclosed by the audit of the basic financial statements.
3. No instances of noncompliance material to the financial statements were disclosed during the audit.
4. No material weaknesses or significant deficiencies in internal control over major federal award programs were disclosed by the audit.
5. The auditors' report on compliance for the major federal award programs expresses an unmodified opinion.
6. No audit findings relative to the major federal award programs for the District are reported in Part C of this schedule.
7. The programs included as major programs are:

**CFDA Number(s)**  
10.553 & 10.555

**Name of Federal Program or Cluster**  
Child Nutrition Cluster

8. The threshold for distinguishing Type A and B programs was \$750,000.
9. The District did qualify as a low-risk auditee.

**B. FINDINGS— BASIC FINANCIAL STATEMENT AUDIT**

*None Noted*

**C. FINDINGS – FEDERAL AWARDS**

*None Noted*



**NAVASOTA**  
**INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - EXHIBIT K-1**  
For the Year Ended August 31, 2017

(1)	(2)	(2A)	(3)
Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<i>Passed Through State Department of Education</i>			
ESEA Title I, Part A	84.010	17610101093904	\$ 727,340
ESEA Title I, Part A Priority	84.010	17610112093904000	95,935
Special Education (IDEA) Cluster:			
IDEA B, Formula Grant*	84.027	176600010939046000	887,654
IDEA B, Preschool*	84.173	176610010939046000	14,806
IDEA B, High *	84.027	176600060939046000	15,194
Career and Technical, Basic Grant	84.048	17420006093904	36,799
Title II, Part A, Teacher and Principal	84.367	17694501093904	182,469
LEP Summer School	84.369	69551602	925
ESEA, Title VI, Part B, Subpart 2 - Rural and Low Income Schools	84.358	17696001093904	63,708
<i>Passed Through Education Service Center, Region VI</i>			
Title III Part A English Language Acquisition and Language Enhancement	84.196	17671001236950	33,285
<i>Direct Awards</i>			
Fund for the Improvement of Education	84.215	S215E130215	19,172
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>			<b>2,077,287</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<i>Passed Through State Department of Education</i>			
Child Nutrition Cluster:			
School Breakfast Programs*	10.553	71401701	339,382
National School Lunch*	10.555	71301701	1,044,196
USDA Commodities	10.565	00446	131,065
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>			<b>1,514,643</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 3,591,930</b>

\* Indicates clustered program under OMB Compliance Supplement

The accompanying notes are an integral part of this schedule.

Federal revenue per SEFA	\$ 3,591,930
Fund 459 Medicaid revenue	345,695
C-2 Federal revenue	<u>\$ 3,937,625</u>

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**NAVASOTA**  
**INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended August 31, 2017

**NOTE 1: BASIS OF ACCOUNTING**

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

**NOTE 2: INDIRECT COST RATE**

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



**NAVASOTA**  
**INDEPENDENT SCHOOL DISTRICT**  
*SCHEDULE OF REQUIRED RESPONSES TO*  
*SELECTED SCHOOL FIRST INDICATORS - EXHIBIT L-1*  
For the Year Ended August 31, 2017

<u>Data Control Codes</u>		<u>Responses</u>
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 District make timely payments to the Teacher Retirement System, Texas Workforce Commission, Internal Revenue Service, and other government agencies?	Yes
SF8	Did the District <u>not</u> 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	What was the total accumulated accretion on capital appreciation bonds included in the government-wide financial statements at fiscal year end?	<u>\$ 225,175</u>
SF11	Net pension asset (1920) at fiscal year end	<u>\$ -</u>
SF12	Net pension liability (2540) at fiscal year end	<u>\$ 5,763,579</u>





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