

**PARITY ELECTRONIC BIDDING INFORMATION  
FOR FROST BANK BOND SALE**

Submitted: Wednesday, July 26, 2017

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Issuer Name:	Goldthwaite Consolidated Independent School District (Texas)
Issue Description:	Unlimited Tax School Building Bonds, Series 2017
Par Amount:	\$15,500,000*
Sale Date:	Monday, August 21, 2017
Bid Deadline:	11:00 AM, Central Time, Monday, August 21, 2017
Financial Advisor:	Victor Quiroga, Jr.
Financial Advisor's Email:	victor.quiroga@frostbank.com
Financial Advisor's Phone:	(210) 220-5701
Issuer Contact Name:	Mr. Ronny Wright Superintendent
Issuer Address:	P.O. Box 608 1509 Hannah Valley Road Goldthwaite, Texas 76844
Issuer Telephone:	(325) 648-3531
Additional Financial Advisor Contact Information:	Rachel Reyes (210) 220-5718 rachel.reyes@frostbank.com

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*\*Preliminary, subject to change.*

**OFFICIAL NOTICE OF SALE,  
BID FORM  
and  
PRELIMINARY OFFICIAL STATEMENT**

**\$15,500,000\***

**GOLDTHWAITE  
CONSOLIDATED INDEPENDENT SCHOOL DISTRICT  
(Hamilton, Lampasas and Mills Counties, Texas)**

**Unlimited Tax School Building Bonds,  
Series 2017**

**Bids Due:  
Monday, August 21, 2017  
until 11:00 AM, Central Time**

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\*Preliminary, subject to change. See "THE BONDS – ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE BONDS" herein.

*This Official Notice of Sale does not alone constitute an invitation for bids but is merely notice of sale of the Bonds defined and described herein. The invitation for bids on the Bonds is being made by means of this Official Notice of Sale, the Official Bid Form, and the Preliminary Official Statement.*

**OFFICIAL NOTICE OF SALE**  
**\$15,500,000\***  
**GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**  
**(A political subdivision of the State of Texas located in Hamilton, Lampasas and Mills Counties, Texas)**  
**UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2017**

**THE SALE**

**BONDS OFFERED FOR SALE AT COMPETITIVE BID:** The Board of Trustees (the "Board") of the Goldthwaite Consolidated Independent School District (the "District" or the "Issuer") is offering for sale at competitive bid its \$15,500,000\* Unlimited Tax School Building Bonds, Series 2017 (the "Bonds"). Bidders may submit bids for the Bonds by either of the following methods:

- (1) Submit bids electronically as described below in "BIDS BY INTERNET;" or
- (2) Submit bids by facsimile as described below in "BIDS BY FACSIMILE."

**BIDS BY INTERNET:** Interested bidders may, at their option and risk, submit their bid by electronic media, as described below, by 11:00 AM, Central Time, on Monday, August 21, 2017. Any bid received after the scheduled time for their receipt will not be accepted. Bidders submitting a bid by internet **shall not** be required to submit signed Official Bid Forms prior to the award. Any prospective bidder that intends to submit an electronic bid must submit its electronic bid via the facilities of the i-Deal, LLC Parity System ("PARITY") and should, as a courtesy, register with PARITY by 11:00 AM Central Time, on Monday, August 21, 2017 indicating their intent to submit a bid by internet.

In the event of a malfunction in the electronic bidding process, bidders may submit their bids by facsimile, as described below.

The official time for the receipt of bids shall be the time maintained by PARITY. All electronic bids shall be deemed to incorporate the provisions of this Official Notice of Sale, the Official Bid Form, and the Preliminary Official Statement. To the extent that any instructions or directions set forth in PARITY conflict with this Official Notice of Sale, the terms of this Official Notice of Sale shall control. For further information about the PARITY System, potential bidders may contact i-Deal LLC at 1359 Broadway, 2nd Floor, New York, New York 10018, Telephone (212) 849-5021.

An electronic bid made through the facilities of PARITY shall be deemed an irrevocable offer to purchase the Bonds on the terms provided in this Official Notice of Sale, and shall be binding upon the bidder as if made by a signed, sealed bid delivered to the Issuer. The Issuer shall not be responsible for any malfunction or mistake made by, or as a result of the use of PARITY, the use of such facilities being the sole risk of the prospective bidder.

**BIDS BY FACSIMILE:** Interested bidders may, at their option and risk, submit their bid by facsimile to the District's Financial Advisor, Frost Bank Capital Markets Division, Attention: Mr. Victor Quiroga, Jr. at (210) 220-4111 by 11:00 AM, Central Time, on Monday, August 21, 2017. Bidders submitting a bid by facsimile **shall not** be required to submit signed Official Bid Forms prior to the award. Any prospective bidder that intends to submit a bid by facsimile should, as a courtesy, submit an email message to victor.quiroga@frostbank.com by 11:00 AM, Central Time, on Monday, August 21, 2017 indicating their intent to submit a bid by facsimile.

Neither the District nor Frost Bank Capital Markets Division (the "Financial Advisor") is responsible for any failure of either of the Financial Advisor's or the bidder's fax machine, any failed delivery of a fax, or any incomplete or ambiguous transmittals. If any portion of the faxed or telecopied bid is illegible, the City and the Financial Advisor may, in their discretion, either call any provided reference number for clarification or reject the bid. Bids received by facsimile after the bid deadline will not be accepted. Bidders who fax bids do so at their own risk. All such bids are binding on the bidder.

**PLACE AND TIME OF BID OPENING:** The bids for the Bonds will be opened at the District's offices at 11:00 AM Central Time, on Monday, August 21, 2017.

**AWARD OF THE BONDS:** The award is to be made by Board at a Board meeting on Monday, August 21, 2017.

\*Preliminary, subject to change. See "THE BONDS – ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE BONDS" herein.

## THE BONDS

**DESCRIPTION:** The Bonds will be dated September 1, 2017 (the "Dated Date"). Interest on the Bonds will accrue from the Dated Date and will be due on February 15, 2018, and each August 15 and February 15 thereafter until maturity or prior redemption. The Bonds will be issued as fully registered obligations in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository (the "Securities Depository"). Book-Entry interests in the Bonds will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Bonds ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, the principal of and interest on the Bonds will be payable by BOKF, NA, Austin, Texas as Paying Agent/Registrar, to the Securities Depository, which will in turn remit such principal and interest to its Participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds. (See "BOOK-ENTRY-ONLY SYSTEM" in the Preliminary Official Statement.)

**MATURITY SCHEDULE:** The Bonds will be stated to mature on each of the following dates in the following amounts:

Maturity	Principal Amount*	Maturity	Principal Amount*	Maturity	Principal Amount*	Maturity	Principal Amount*
8/15/2018	\$255,000	8/15/2026	\$360,000	8/15/2034	\$515,000	8/15/2042	\$730,000
8/15/2019	265,000	8/15/2027	380,000	8/15/2035	535,000	8/15/2043	765,000
8/15/2020	280,000	8/15/2028	395,000	8/15/2036	560,000	8/15/2044	800,000
8/15/2021	290,000	8/15/2029	410,000	8/15/2037	585,000	8/15/2045	835,000
8/15/2022	305,000	8/15/2030	430,000	8/15/2038	615,000	8/15/2046	870,000
8/15/2023	315,000	8/15/2031	450,000	8/15/2039	640,000	8/15/2047	910,000
8/15/2024	330,000	8/15/2032	470,000	8/15/2040	670,000		
8/15/2025	345,000	8/15/2033	490,000	8/15/2041	700,000		

**ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE BONDS:** After selecting the winning bid, the aggregate principal amount of the Bonds and the principal amortization schedule may be adjusted as determined by the District and its Financial Advisor in \$5,000 increments to reflect the actual interest rates and to create a substantially level debt service schedule for the District. Such adjustments will not change the aggregate principal amount of the Bonds by more than 10% from the amount set forth herein or change the principal amount due on the Bonds in any year by more than 20%. The dollar amount bid for the Bonds by the winning bidder will be adjusted proportionately to reflect any increase or decrease in the aggregate principal amount of the Bonds finally determined to be issued. The District will use its best efforts to communicate to the winning bidder any such adjustment within four (4) hours after the opening of the bids. Purchaser's compensation will be based upon the final par amount after any adjustment thereto, subsequent to the receipt and tabulation of the winning bid, within the aforementioned parameters. In the event of any adjustment of the maturity schedule for the Bonds as described above, no rebidding or recalculation of the proposals submitted will be required or permitted. Any such adjustment of the aggregate principal amount of the Bonds and/or the maturity schedule for the Bonds made by the District or its Financial Advisor shall be subsequent to the award of the Bonds to the winning bidder as determined pursuant to "CONDITIONS OF THE SALE – BASIS OF AWARD" herein and shall not affect such determination. The winning bidder may not withdraw its bid as a result of any changes made within the aforementioned limits.

**SERIAL BONDS AND/OR TERM BONDS:** Bidders may provide that all of the Bonds be issued as serial maturities or may provide that maturities 2018 through 2047 be combined into term bonds (the "Term Bonds").

**MANDATORY SINKING FUND REDEMPTION:** If the successful bidder designates principal amounts of the Bonds to be combined into one or more Term Bonds, each such Term Bond will be subject to mandatory sinking fund redemption commencing on August 15 of the first year which has been combined to form such Term Bond and continuing on August 15 in each year thereafter until the stated maturity date of that Term Bond. The amount redeemed in any year will be equal to the principal amount for such year set forth in the table above under the caption "THE BONDS - MATURITY SCHEDULE" (subject to adjustment, as provided in "THE BONDS - ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE BONDS"). Term Bonds to be redeemed in any year by mandatory sinking fund redemption will be redeemed at par and will be selected by lot from among the Term Bonds then subject to redemption. The District, at its option, may credit against any mandatory sinking fund redemption requirement Term Bonds of the maturity then subject to redemption which have been purchased and canceled by the District and not theretofore applied as a credit against any mandatory sinking fund redemption requirement.

**OPTIONAL REDEMPTION:** The Issuer reserves the right to redeem the Bonds maturing on and after August 15, 2027 in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2026, or any date thereafter at the redemption price of par plus accrued interest to the date of redemption. (See "THE BONDS - Redemption Provisions of the Bonds" in the Preliminary Official Statement.) In the event the successful bidder elects to combine two or more maturities of the Bonds into one or more "Term Bonds", such Term Bonds will be subject to mandatory sinking fund redemption prior to stated maturity.

**AUTHORITY FOR ISSUANCE AND SECURITY FOR PAYMENT:** 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 on May 6, 2017 (the "Election"), and an order (the "Order") anticipated to be adopted by the Board of Trustees (the "Board") of the District on August 21, 2017, the date of sale of the Bonds. The Bonds are direct obligations of the District and are payable as to both principal and interest from ad valorem taxes to be levied annually on all taxable property within the District, without legal limitation as to rate or amount. (See "THE BONDS – Security for Payment" in the Preliminary Official Statement.)

**PAYING AGENT/REGISTRAR:** The initial Paying Agent/Registrar is BOKF, NA, Austin, Texas. In the Order, the District covenants to provide a Paying Agent/Registrar at all times while the Bonds are outstanding, and any Paying Agent/Registrar selected by the District shall be a commercial bank or trust company organized under the laws of the United States and any state and duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds. The Paying Agent/Registrar will maintain the Security Register containing the names and addresses of the registered owners of the Bonds.

In the Order the District retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, such Paying Agent/Registrar, promptly upon the appointment of a successor, is required to deliver the Security Register to the successor Paying Agent/Registrar.

In the event there is a change in the Paying Agent/Registrar, the District has agreed to notify each registered owner of the Bonds by United States mail, first-class postage prepaid, at the address in the Security Register, stating the effective date of the change and the mailing address of the successor Paying Agent/Registrar.

**BOOK-ENTRY-ONLY SYSTEM:** The District intends to utilize the Book-Entry-Only System of DTC with respect to the issuance of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" in the Preliminary Official Statement.

## **CONDITIONS OF THE SALE**

**TYPES OF BIDS AND INTEREST RATES:** The Bonds will be sold in one block, on an "All or None" basis, and at a price of not less than their par value, plus accrued interest on the Bonds from the Dated Date of the Bonds to the date of Initial Delivery (defined herein) of the Bonds. **No bid producing a cash premium on the Bonds that results in a dollar price of less than \$101.20 nor greater than \$110.00 will be considered; provided, however, that any bid is subject to adjustment as described under the caption "THE BONDS – ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE BONDS."** Bidders are invited to name the rate(s) of interest to be borne by the Bonds, provided that each rate bid must be in a multiple of 1/8 of 1% or 1/20 of 1% and the net effective interest rate for the Bonds (calculated in the manner required by Chapter 1204, as amended, Texas Government Code) must not exceed 15%. **The highest rate bid may not exceed the lowest rate bid by more than 300 basis points (or 3.00% in rate). No limitation is imposed upon bidders as to the number of rates or changes which may be used.** All Bonds of one stated maturity must bear one and the same rate. No bids involving supplemental interest rates will be considered.

**BASIS OF AWARD:** The sale of the Bonds will be awarded to the bidder making a bid that conforms to the specifications herein and which produces the **lowest True Interest Cost (defined herein) rate on the Bonds to the District**. The "True Interest Cost" rate is that rate which, when used to compute the total present value as of the **Dated Date** of all debt service payments on the Bonds on the basis of semi-annual compounding, produces an amount equal to the sum of the par value of the Bonds plus the premium bid (but not interest accrued from the Dated Date to the date of their Initial Delivery). In the event of a bidder's error in interest cost rate calculations, the interest rates, and premium set forth in the Official Bid Form will be considered as the intended bid. In order to provide the District with information required to enable it to comply with certain conditions of the Internal Revenue Code of 1986, as amended (the "Code") relating to the exclusion of interest on the Bonds from the gross income of their owners, the Purchaser will be required to complete, execute, and deliver to the District (on or before the date of Initial Delivery of the Bonds) a certification as to their "issue price" (the "Issue Price Certificate") in the form and to the effect attached hereto or accompanying this Official Notice of Sale. (See "ESTABLISHING THE ISSUE PRICE FOR THE BONDS" herein.)

Upon the opening of the bids as described above, the District shall award the Bonds by executing the Official Bid Form. The award will be given to the entity submitting the best bid for the Bonds as "Bidder" (defined above as the "Purchaser"). Bidders that work with syndicates of dealers may disclose to the District members of its syndicate, but for all purposes of contracting for the sale of the Bonds, the entity signing the Official Bid Form shall be solely responsible for the payment of the purchase price of the Bonds, and any information provided with respect to syndicate members shall be provided solely for informational purposes. The District reserves the right to reject any and all bids and to waive any irregularities except time of submission.

## ESTABLISHING THE ISSUE PRICE FOR THE BONDS

The Issuer intends to rely on Treasury Regulation section 1.148-1(f)(3)(i) (defining “competitive sale” for purposes of establishing the issue price of municipal bonds), which require, among other things, that the Issuer receives bids from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds (the “Competitive Sale Requirement”).

In the event that the bidding process does not satisfy the Competitive Sale Requirement, as communicated by the Financial Advisor to the winning bidder, Bids **will not be subject to cancellation** and the winning bidder (i) agrees to promptly report to the Issuer the first prices at which at least 10% of each maturity of the Bonds (the “First Price Maturity”) have been sold to the Public on the Sale Date (the “10% Test”) (if different interest rates apply within a maturity, each separate CUSIP number within that maturity will be subject to the 10% Test) and (ii) agrees to hold-the-offering-price of each maturity of the Bonds that does not satisfy the 10% Test (“Hold-the-Price Maturity”), as described below.

In order to provide the Issuer with information that enables it to comply with the establishment of the issue price of the Bonds under the Internal Revenue Code of 1986, as amended, the winning bidder agrees to complete, execute, and timely deliver to the Issuer or to the Issuer’s Financial Advisor, Frost Bank Capital Markets Division (the “Issuer’s Municipal Advisor”) a certification as to the Bonds’ “issue price” (the “Issue Price Certificate”) substantially in the form and to the effect attached hereto or accompanying this Notice of Sale, within 5 business days prior to the Closing Date if the Competitive Sale Requirement is satisfied or within 5 business days of the date on which the 10% Test is satisfied with respect to all of the First Price Maturities. In the event the winning bidder will not reoffer any maturity of the Bonds for sale to the Public (as defined herein) by the Closing Date, the Issue Price Certificate may be modified in a manner approved by the Issuer. It will be the responsibility of the winning bidder to institute such syndicate reporting requirements, to make such investigation, or otherwise to ascertain such facts necessary to enable it to make such certification with reasonable certainty. Any questions concerning such certification should be directed to Bond Counsel (identified in the Preliminary Official Statement).

For purposes of this section of this Notice of Sale:

- (i) “Public” means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a Related Party to the Underwriter,
- (ii) “Underwriter” means (A) any person that agrees pursuant to a written contract with the Issuer (or with the lead Underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public),
- (iii) “Related Party” means any two or more persons (including an individual, trust, estate, partnership, association, company, or corporation) that are subject, directly or indirectly, to (i) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and
- (iv) “Sale Date” means the date that the Bonds are awarded by the Issuer to the winning bidder.

All actions to be taken by the Issuer under this Notice of Sale to establish the issue price of the Bonds may be taken on behalf of the Issuer by the Issuer’s Municipal Advisor, and any notice or report to be provided to the Issuer may be provided to the Issuer’s Municipal Advisor.

The Issuer will consider any bid submitted pursuant to this Notice of Sale to be a firm offer for the purchase of the Bonds, as specified in the bid and, if so stated, in the Official Bid Form.

By submitting a bid, each bidder confirms that: (i) any agreement among underwriters, any selling group agreement and each retail distribution agreement (to which the bidder is a party) relating to the initial sale of the Bonds to the Public, together with the related pricing wires, contains or will contain language obligating each Underwriter, each dealer who is a member of the selling group, and each broker-dealer that is a party to such retail distribution agreement, as applicable, to report the prices at which it sells to the Public the unsold Bonds of each maturity allotted to it until it is notified by the winning bidder that either the 10% Test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the Public, if and for so long as directed by the winning bidder and as set forth in the related pricing wires, and (ii) any agreement among underwriters relating to the initial sale of the Bonds to the Public, together with the related pricing wires, contains or will contain language obligating each Underwriter that is a party to a retail distribution agreement to be employed in connection with the initial sale of the Bonds to the Public to require each broker-dealer that is a party to such retail distribution agreement to report the prices at which it sells to the Public the unsold Bonds of each maturity allotted to it until it is notified by the winning bidder or such Underwriter that either the 10% Test has been

satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the Public, if and for so long as directed by the winning bidder or such Underwriter and as set forth in the related pricing wire.

By submitting a bid, the winning bidder agrees, on behalf of each Underwriter participating in the purchase of the Bonds, that each Underwriter will neither offer nor sell any Hold-the-Price Maturity to any person at a price that is higher than the initial offering price to the Public during the period starting on the Sale Date and ending on the earlier of (1) the close of the fifth (5th) business day after the Sale Date; or (2) the date on which the Underwriters have sold at least 10% of that Hold-the-Price Maturity to the Public at a price that is no higher than the initial offering price to the Public. The winning bidder shall promptly advise the Issuer when the Underwriters have sold 10% of a Hold-the-Price Maturity to the Public at a price that is no higher than the initial offering price to the Public, if that occurs prior to the close of the fifth (5th) business day after the Sale Date.

**GOOD FAITH DEPOSIT:** A bank cashier's check, payable to the order of "Goldthwaite Consolidated Independent School District", in the amount of \$310,000 which is 2% of the proposed par value of the Bonds (the "Good Faith Deposit"), is required to accompany any bid. The Good Faith Deposit of the Purchaser will be retained uncashed by the District pending the Purchaser's compliance with the terms of its bid and this Official Notice of Sale. In the event the Purchaser should fail or refuse to take up and pay for the Bonds in accordance with its bid, then said check shall be cashed and accepted by the District as full and complete liquidated damages. The Good Faith Deposit may accompany the Official Bid Form or it may be submitted separately; however, if submitted separately, it shall be made available to the District prior to the opening of the bids, and shall be accompanied by instructions from the bank on which it is drawn which authorizes its use as a Good Faith Deposit by the Purchaser who shall be named in such instructions. **The Good Faith Deposit of the Purchaser will be returned to the Purchaser on the date of Initial Delivery.** No interest will be allowed on the Good Faith Deposit. Checks accompanying bids other than the winning bid will be returned promptly after the bids are opened, and an award of the Bonds has been made by the District.

#### **ADDITIONAL CONDITION OF AWARD - DISCLOSURE OF INTERESTED PARTY FORM**

**NEW OBLIGATION OF THE DISTRICT TO RECEIVE INFORMATION FROM WINNING BIDDER.** Effective January 1, 2016, pursuant to Texas Government Code Section 2252.908 ("the Interested Party Disclosure Act"), the District may not award the Bonds to the winning bidder unless the bidder submits a Certificate of Interested Parties Form 1295 (the "Disclosure Form") to the District as prescribed by the Texas Ethics Commission ("TEC") before the District can formally award the Bonds to the winning bidder. In the event that the bidder's bid for the Bonds is the best bid received, the District, acting through its financial advisor, will promptly notify the bidder. That notification will serve as the conditional verbal acceptance of the bid, and will obligate the bidder to promptly file a completed Disclosure Form, as described below, in order to complete the award.

**PROCESS FOR COMPLETING THE DISCLOSURE FORM.** Reference should be made to the Disclosure Form, the rules of the Texas Ethics Commission with respect to the Disclosure Form (the "Disclosure Rules") and the Interested Party Disclosure Act. Instructional information regarding such matters are set forth at [https://www.ethics.state.tx.us/whatsnew/elf\\_info\\_form1295.htm](https://www.ethics.state.tx.us/whatsnew/elf_info_form1295.htm). For purposes of completing the Disclosure Form the Purchaser will need the following information: (a) item 2 - name of governmental entity: Goldthwaite Consolidated Independent School District, and (b) item 3 - the identification number assigned to this contract by the District: "2017 School Building Bonds" and a description of the services to be provided under the contract: "Purchase of Bonds." The Interested Party Disclosure Act and the Disclosure Rules require a business entity contracting with the District to complete the form at the TEC Internet "portal" that may be accessed at the url set forth above, and then print, sign, notarize and deliver the Disclosure Form in physical form to the District (to be sent to the attention of Mr. Ronny Wright, Superintendent, Goldthwaite CISD, P.O. Box 608, 1509 Hannah Valley Road, Goldthwaite, Texas 76844). Following the award of the Bonds, the District will acknowledge receipt of the completed Disclosure Form through the TEC website, as required by the law.

**PREPARATIONS FOR COMPLETION, AND THE SIGNIFICANCE, OF THE REPORTED INFORMATION.** In accordance with the Interested Party Disclosure Act, the information reported by the bidder **MUST BE ACKNOWLEDGED BY AND SUBMITTED UNDER A NOTARY STAMP.** No exceptions may be made to that requirement. The Interested Party Disclosure Act provides that such acknowledgment is made "under oath and under penalty of perjury." Consequently, a bidder should take appropriate steps prior to completion of the Disclosure Form to familiarize itself with the Interested Party Disclosure Act, the Disclosure Rules and the Disclosure Form. Time will be of the essence in submitting the form to the District, and no award will be made by the District of the Bonds until a completed Disclosure Form is received. (A pdf copy of the executed and notarized Disclosure Form must be emailed to the District at [r.wright@goldisd.net](mailto:r.wright@goldisd.net) and to the District's Bond Counsel at [sibarra@mphlegal.com](mailto:sibarra@mphlegal.com) prior to the time the District approves the winning bid.) The District reserves the right to reject any bid that is not accompanied by a completed Disclosure Form, as described herein. Neither the District nor its consultants have the ability to verify the information included in a Disclosure Form, and neither have an obligation nor undertake responsibility for advising any bidder with respect to the proper completion of the Disclosure Form. Consequently, an entity intending to bid on the Bonds should consult its own advisors to the extent it deems necessary and be prepared to submit the completed form promptly upon notification from the District that its bid is the conditional winning bid.

## OFFICIAL STATEMENT

To assist the winning bidder (the "Purchaser" or Initial Purchaser") in complying with Rule 15c2-12, as amended (the "Rule"), of the United Securities and Exchange Commission ("SEC"), the Issuer and the Initial Purchaser contract and agree, by the submission and acceptance of the winning bid, as follows:

**COMPLIANCE WITH RULE 15c2-12 OF THE SECURITIES AND EXCHANGE COMMISSION:** The Issuer has approved and authorized distribution of the accompanying Preliminary Official Statement for dissemination to potential purchasers of the Bonds, but does not presently intend to prepare any other document or version thereof for such purpose, except as described below. Accordingly, the Issuer deems the accompanying Preliminary Official Statement to be final as of its date, within the meaning of the Rule, except for information relating to the offering prices, interest rates, final debt service schedule, selling compensation, identity of the Purchaser and other similar information, terms and provisions to be specified in the competitive bidding process. The Initial Purchaser shall be responsible for promptly informing the Issuer of the initial offering yields of the Bonds.

Thereafter, the Issuer will complete and authorize distribution of the final Official Statement, being a modification of the Preliminary Official Statement, identifying the Initial Purchaser and containing such omitted information. The Issuer does not intend to amend or supplement the Official Statement otherwise, except to take into account certain subsequent events, if any, as described below. By delivering the final Official Statement or any amendment or supplement thereto in the requested quantity to the Initial Purchaser on or after the sale date, the Issuer intends the same to be final as of such date, within the meaning of the Rule. Notwithstanding the foregoing, the Issuer makes no representation concerning the absence of material misstatements or omissions from the Official Statement, except only as and to the extent under "CERTIFICATION OF THE OFFICIAL STATEMENT" as described below.

**FINAL OFFICIAL STATEMENT:** The Issuer will furnish to the Purchaser, within seven (7) business days after the sale date, an aggregate maximum of one hundred (100) copies of the Official Statement, together with information regarding interest rates, and other terms relating to the reoffering of the Bonds. In addition, the District agrees to provide, or cause to be provided, to the Purchaser, the Preliminary Official Statement and the Official Statement and any amendments or supplements thereto in a "designated electronic format" (or printed format with respect to the final Official Statement) as may be required for the Purchaser to comply with the Rule or the rules of the Municipal Securities Rulemaking Board ("MSRB"). The District consents to the distribution of such documents in a "designated electronic format." Upon receipt, the Purchaser shall promptly file the Official Statement with the MSRB in accordance with MSRB Rule G-32. The Purchaser may arrange at its own expense to have the Official Statement reproduced and printed if it requires more copies and may also arrange, at its own expense and responsibility, for completion and perfection of the cover page and page 2 of the Official Statement so as to reflect interest rates and other terms and information related to the reoffering of the Bonds. The Purchaser will be responsible for providing information concerning the Issuer and the Bonds to subsequent purchasers of the Bonds, and the Issuer will undertake no responsibility for providing such information other than to make the Official Statement available to the Purchaser as provided herein. The Issuer's obligation to supplement the Official Statement to correct key representations determined to be omitted or materially misleading, after the date of the Official Statement, shall terminate 25 days after the sale date.

**CHANGES TO OFFICIAL STATEMENT:** If, subsequent to the date of the Official Statement, the Issuer learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes, or is notified by the Initial Purchaser of any adverse event which causes the Official Statement to be incomplete or materially misleading, and unless the Initial Purchaser elects to terminate its obligation to purchase the Bonds, as described below under "DELIVERY AND ACCOMPANYING DOCUMENTS – CONDITIONS TO DELIVERY," the Issuer will promptly prepare and supply to the Initial Purchaser an appropriate amendment or supplement to the Official Statement, in a "designated electronic format" satisfactory to the Initial Purchaser.

**CERTIFICATION OF THE OFFICIAL STATEMENT:** At the time of payment for and delivery of the hereinafter defined Initial Bonds ("Initial Delivery"), the Initial Purchaser will be furnished a certificate, executed by proper officials of the Issuer, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the Issuer contained in its Official Statement, and any addenda, supplement or amendment thereto, for the Bonds, on the date of such Official Statement, on the date of sale of said Bonds and the acceptance of the best bid therefor, and on the date of the Initial Delivery, were and are true and correct in all material respects; (b) insofar as the Issuer and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the Issuer, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the Issuer believes to be reliable and the Issuer has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the Issuer, since August 31, 2016, the date of the last financial statements of the Issuer appearing in the Official Statement. The Official Statement and this Official Notice of Sale have been approved as to form and content and the use thereof in the offering of the Bonds has been authorized, ratified and approved by the Board in the Order, and the Initial Purchaser will be furnished, upon request, at the time of payment for and the delivery of the Bonds, a certified copy of such approval, duly executed by the proper officials of the Issuer.



**CONTINUING DISCLOSURE AGREEMENT:** The District has agreed in the Order to provide certain periodic information and notices of certain events in accordance with the Rule, as described in the Official Statement under "CONTINUING DISCLOSURE OF INFORMATION". The Purchaser's obligation to accept and pay for the Bonds is conditioned upon delivery to the Purchaser or its agent of a certified copy of the Order containing the agreement described under such heading.

**COMPLIANCE WITH PRIOR UNDERTAKINGS:** During the past five years, the District has complied in all material respects with all continuing disclosure agreements made in accordance with the Rule.

#### **DELIVERY AND ACCOMPANYING DOCUMENTS**

**INITIAL DELIVERY OF INITIAL BOND:** Initial Delivery will be accomplished by the issuance of one or more fully registered Bonds in the aggregate principal amount of the Bonds payable to the Purchaser (the "Initial Bond" or "Initial Bonds"), signed by the duly appointed officers of the Board, by their manual or facsimile signatures, approved by the Texas Attorney General, and registered and manually signed by the Texas Comptroller of Public Accounts. Initial Delivery will be at the designated office of the Paying Agent/Registrar. Upon delivery of the Initial Bonds, they shall be immediately canceled and one definitive Bond for each maturity of the Bonds payable to Cede & Co. will be delivered to DTC in connection with DTC's Book-Entry-Only System. Payment for the Bonds must be made in immediately available funds for unconditional credit to the District, or as otherwise directed by the District.

The Purchaser will be given six business days' notice of the time fixed for delivery of the Bonds. It is anticipated that the delivery of the Initial Bond can be made on or about Tuesday, September 19, 2017, but if for any reason the District is unable to make delivery by September 19, 2017, then the District shall immediately contact the Purchaser and offer to allow the Purchaser to extend its obligation to take up and pay for the Bonds an additional thirty days. If the Purchaser does not elect to extend its offer within six days thereafter, then its Good Faith Deposit will be returned, and both the District and the Purchaser shall be relieved of any further obligation. In no event shall the District be liable for any damages by reason of its failure to deliver the Bonds, provided that such failure is due to circumstances beyond the District's reasonable control.

**CUSIP NUMBERS:** It is anticipated that CUSIP identification numbers will be printed on the Bonds, but neither the failure to print such number on any Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the Initial Purchaser to accept delivery of and pay for the Bonds in accordance with the terms of the Official Bid Form and this Official Notice of Sale. All expenses in relation to the printing of CUSIP numbers on the Bonds shall be paid by the Issuer; however, the CUSIP Service Bureau's charge for the assignment of the numbers shall be paid by the Initial Purchaser.

**CONDITIONS TO DELIVERY:** The obligation to take up and pay for the Bonds is subject to the following conditions: the issuance of an approving opinion of the Attorney General of the State of Texas, the Initial Purchaser's receipt of the legal opinion of Bond Counsel and the certificate regarding the Official Statement, and the non-occurrence of the events described below under the caption "NO MATERIAL ADVERSE CHANGE". In addition, if the Issuer fails to comply with its obligations described under "OFFICIAL STATEMENT" above, the Initial Purchaser may terminate its contract to purchase the Bonds by delivering written notice to the Issuer within five (5) days thereafter.

**NO MATERIAL ADVERSE CHANGE:** The obligations of the Initial Purchaser to take up and pay for the Bonds, and of the Issuer to deliver the Initial Bonds, are subject to the condition that, up to the time of delivery of and receipt of payment for the Initial Bonds, there shall have been no material adverse change in the affairs of the Issuer subsequent to the date of sale from that set forth in the Official Statement, as it may have been finalized, supplemented or amended through the date of Initial Delivery.

**LEGAL OPINIONS:** The District will furnish the Purchaser a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas as to the Bonds, to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, regarding the legality and validity of the Bonds issued in compliance with the provisions of the Order. (See "LEGAL MATTERS" in the Preliminary Official Statement and APPENDIX C – "Form of Opinion of Bond Counsel" attached to the Preliminary Official Statement.)

**CHANGE IN TAX-EXEMPT STATUS:** At any time before the Bonds are tendered for initial delivery to the Initial Purchaser, the Initial Purchaser may withdraw its bid if the interest on obligations such as the Bonds shall be declared to be includable in the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes, either by Treasury regulations, by ruling or administrative guidance of the Internal Revenue Service, by a decision of any federal court, or by the terms of any federal income tax legislation enacted subsequent to the date of this Official Notice of Sale.

## GENERAL CONSIDERATIONS

**RATING:** S&P Global Ratings ("S&P") has rated the Bonds "AAA" based upon the guaranteed repayment thereof under the Texas Permanent School Fund Guarantee Program (defined and described in the Preliminary Official Statement). The District has an underlying, unenhanced rating on its unlimited tax indebtedness, including the Bonds, of "A+" (stable outlook) by S&P. There is no assurance that such ratings will continue for any given period of time on its unlimited tax indebtedness or that it will not be revised downward or withdrawn entirely by such rating company, if in the judgment of said rating company, circumstances so warrant. Any such downward revision or withdrawal of such rating, or either of them, may have an adverse effect on the market price of the Bonds.

**REGISTRATION AND QUALIFICATION OF BONDS FOR SALE:** No registration statement relating to the Bonds has been filed with the SEC under the Securities Act of 1933, as amended, in reliance upon exemptions provided in such Act. 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. Any representation to the contrary is a criminal offense. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon exemptions contained therein, nor have the Bonds been registered or qualified under the securities acts of any other jurisdiction. The Issuer assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

It is the obligation of the Purchaser to register or qualify the sale of the Bonds under the securities laws of any jurisdiction which so requires. The Issuer agrees to cooperate, at the Purchaser's written request and expense and within reasonable limits, in registering or qualifying the Bonds, or in obtaining an exemption from registration or qualification in any state where such action is necessary, but the District will in no instance execute a general consent to service of process in any state in which the Bonds are offered for sale.

**ADDITIONAL COPIES:** Subject to the limitations described herein, additional copies of this Official Notice of Sale, the Official Bid Form, and the Official Statement may be obtained from Frost Bank Capital Markets Division, 100 West Houston Street, Suite 110, San Antonio, Texas 78205. In the Order, the Board has delegated to the Designated Financial Officer the authority to approve the form and content of the Official Statement, and any addenda, supplement or amendment thereto, and the Board has authorized its further use in the reoffering of the Bonds by the Purchaser.

## GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT

ATTEST:

/s/

\_\_\_\_\_  
President, Board of Trustees

/s/

\_\_\_\_\_  
Secretary, Board of Trustees

Dated: July 26, 2017

# OFFICIAL BID FORM

President and Board of Trustees  
Goldthwaite CISD  
P.O. Box 608  
1509 Hannah Valley Road  
Goldthwaite, TX 76844

Reference is made to your Official Notice of Sale and Preliminary Official Statement, dated July 26, 2017, of \$15,500,000\* GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2017 (the "Bonds"), both of which constitute a part hereof.

For your legally issued Bonds, as described in said Official Notice of Sale and Preliminary Official Statement, we will pay you a price of par value thereof plus accrued interest from their Dated Date to the date of delivery to us, plus a cash premium of \$\_\_\_\_\_ (no bid producing a cash premium that results in a dollar price of less than \$101.20 nor greater than \$110.00 will be considered) for Bonds maturing on the dates and bearing interest as follows:

Maturity	Principal Amount*	Maturity	Principal Amount*	Maturity	Principal Amount*	Maturity	Principal Amount*
8/15/2018	\$255,000	8/15/2026	\$360,000	8/15/2034	\$515,000	8/15/2042	\$730,000
8/15/2019	265,000	8/15/2027	380,000	8/15/2035	535,000	8/15/2043	765,000
8/15/2020	280,000	8/15/2028	395,000	8/15/2036	560,000	8/15/2044	800,000
8/15/2021	290,000	8/15/2029	410,000	8/15/2037	585,000	8/15/2045	835,000
8/15/2022	305,000	8/15/2030	430,000	8/15/2038	615,000	8/15/2046	870,000
8/15/2023	315,000	8/15/2031	450,000	8/15/2039	640,000	8/15/2047	910,000
8/15/2024	330,000	8/15/2032	470,000	8/15/2040	670,000		
8/15/2025	345,000	8/15/2033	490,000	8/15/2041	700,000		

(Interest to Accrue from the Dated Date)

Our calculation (which is not a part of this bid) of the True Interest Cost in accordance with the above bid is: \_\_\_\_\_%

Of the principal maturities of the Bonds set forth in the table above, we have created term bonds (the "Term Bonds") as indicated in the following table (which may include multiple Term Bonds, one Term Bond or no Term Bond if none is indicated). For those years which have been combined into a Term Bond, the principal amount shown in the table above\* will be the mandatory sinking fund redemption amounts in such years except that the amount shown in the year of the Term Bond maturity date will mature in such year. The Term Bonds created are as follows:

Term Bond Maturity Date August 15	Year of First Mandatory Redemption	Principal Amount of Term Bond
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

\*Preliminary, subject to change. See "THE BONDS – ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE BONDS" in the Official Notice of Sale and Bidding Instructions.

By accepting this bid, we understand the District will provide the copies of the Official Statement and of any amendments or supplements thereto in accordance with the Official Notice of Sale. The Initial Bond(s) shall be registered in the name of \_\_\_\_\_.

We will advise DTC of registration instructions at least five business days prior to the date set for Initial Delivery. It is the obligation of the Purchaser of the Bonds to complete the DTC Eligibility Questionnaire.

Cashier's Check of the (bank), \_\_\_\_\_ Bank, \_\_\_\_\_ (location), in the amount of \$310,000 which represents our Good Faith Deposit is attached hereto or has been made available to you prior to the opening of the bid, in accordance with the terms set forth in the Official Notice of Sale and the Preliminary Official Statement. The Good Faith Deposit of the Purchaser will be returned to the Purchaser on the date of Initial Delivery upon completion of the closing.

We agree to accept delivery of the Initial Bond(s) through DTC and make payment for the Initial Bond(s) in immediately available funds at BOKF, NA, Austin, Texas, no later than 10:00 A.M., Central Time, on September 19, 2017 or thereafter on the date the Initial Bond(s) are tendered for delivery, pursuant to the terms set forth in the Official Notice of Sale.

The undersigned agrees to complete, execute, and deliver to the Issuer, by the date of initial delivery of the Bonds, a certificate relating to the "issue price" of the Bonds in the form and to the effect attached to or accompanying the Official Notice of Sale, with such changes thereto as may be acceptable to Bond Counsel for the Issuer. It will be the obligation of the Purchaser of the Bonds to complete and file the DTC Eligibility Questionnaire.

Respectfully submitted

BY:	:
_____	_____
Authorized Representative	Signature
_____	_____
Title	Firm
_____	_____
Telephone Number	Email Address

**ACCEPTANCE CLAUSE**

THE FOREGOING BID IS IN ALL THINGS HEREBY ACCEPTED this August \_\_\_\_\_, 2017 by authority conveyed in the Order of the Board of Trustees of the GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT adopted on August 21, 2017.

\_\_\_\_\_  
Authorized Officer  
Goldthwaite Consolidated Independent School District

Return Good Faith Check is hereby acknowledged:

Firm: \_\_\_\_\_

By: \_\_\_\_\_

## ISSUE PRICE CERTIFICATE

(Sales where at least 3 bids are received from underwriters)

The undersigned, as the underwriter or the manager of the syndicate of underwriters ("Purchaser"), with respect to the purchase at competitive sale of the Unlimited Tax School Building Bonds, Series 2017 issued by the Goldthwaite Consolidated Independent School District ("Issuer") in the principal amount of \$\_\_\_\_\_ ("Bonds"), hereby certifies and represents, based on its records and information, as follows:

(a) On the first day on which there was a binding contract in writing for the purchase of the Bonds by the Purchaser, the Purchaser's reasonably expected initial offering prices of each maturity of the Bonds with the same credit and payment terms (the "Expected Offering Prices") to a person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter are as set forth in the pricing wire or equivalent communication for the Bonds, as attached to this Certificate as Schedule A. The Expected Offering Prices are the prices for the Bonds used by the Purchaser in formulating its bid to purchase the Bonds.

(b) The Purchaser had an equal opportunity to bid to purchase the Bonds and it was not given the opportunity to review other bids that was not equally given to all other bidders (i.e., no last look).

(c) The bid submitted by the Purchaser constituted a firm bid to purchase the Bonds.

For purposes of this Issue Price Certificate, the term "Underwriter" means (1) (i) a person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, or (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (1)(i) of this paragraph (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public) to participate in the initial sale of the Bonds to the Public, and (2) any person who has more than 50% common ownership, directly or indirectly, with a person described in clause (1) of this paragraph.

*[Signature Page Follows]*

The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Federal Tax Certificate and with respect to compliance with the federal income tax rules affecting the Bonds, and by McCall, Parkhurst & Horton L.L.P. in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Bonds. Notwithstanding anything set forth herein, the Purchaser is not engaged in the practice of law and makes no representation as to the legal sufficiency of the factual matters set forth herein.

EXECUTED and DELIVERED as of this \_\_\_\_\_.

\_\_\_\_\_, as Purchaser

By: \_\_\_\_\_

Name: \_\_\_\_\_

SCHEDULE A

PRICING WIRE OR EQUIVALENT COMMUNICATION

*(Attached)*

## ISSUE PRICE CERTIFICATE

(Sales where less than 3 bids are received from underwriters)

The undersigned, as the underwriter or the manager of the syndicate of underwriters ("Purchaser"), with respect to the purchase at competitive sale of the Unlimited Tax School Building Bonds, Series 2017 issued by the Goldthwaite Consolidated Independent School District ("Issuer") in the principal amount of \$\_\_\_\_\_ ("Bonds"), hereby certifies and represents, based on its records and information, as follows:

(a) Other than the Bonds maturing in \_\_\_\_\_ ("Hold-the-Price Maturities"), if any, the first prices at which at least ten percent ("Substantial Amount") of the principal amount of each maturity of the Bonds having the same credit and payment terms ("Maturity") was sold on the Sale Date to a person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter ("Public") are their respective initial offering prices (the "Initial Offering Prices"), as listed in the pricing wire or equivalent communication for the Bonds that is attached to this Certificate as Schedule A.

(b) On or before the first day on which there is a binding contract in writing for the sale of the Bonds ("Sale Date"), the Purchaser offered to the Public each Hold-the-Price Maturity at their respective Initial Offering Prices, as set forth in Schedule A hereto.

(c) As set forth in the Notice of Sale, the Purchaser agreed in writing to neither offer nor sell any of the Hold-the-Price Maturities to any person at any higher price than the Initial Offering Price for such Maturity until the earlier of the close of the fifth business day after the Sale Date or the date on which the Purchaser sells a Substantial Amount of a Maturity of the Bonds to the Public at no higher price than the Initial Offering Price for such Maturity.

For purposes of this Issue Price Certificate, the term "Underwriter" means (1) (i) a person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, or (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (1)(i) of this paragraph (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public) to participate in the initial sale of the Bonds to the Public, and (2) any person who has more than 50% common ownership, directly or indirectly, with a person described in clause (1) of this paragraph.

*[Signature Page Follows]*



The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Federal Tax Certificate and with respect to compliance with the federal income tax rules affecting the Bonds, and by McCall, Parkhurst & Horton L.L.P. in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Bonds. Notwithstanding anything set forth herein, the Purchaser is not engaged in the practice of law and makes no representation as to the legal sufficiency of the factual matters set forth herein.

EXECUTED and DELIVERED as of this \_\_\_\_\_.

\_\_\_\_\_, as Purchaser

By: \_\_\_\_\_

Name: \_\_\_\_\_

SCHEDULE A

PRICING WIRE OR EQUIVALENT COMMUNICATION

*(Attached)*

This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. These securities may not be sold, nor may offers to buy them be accepted, prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration, qualification or filing under the securities laws of any such jurisdiction.

**NEW ISSUE – Book-Entry-Only**

**Rating: S&P: “AAA”/“A”**

**PSF: “Applied For”**

**(See “OTHER PERTINENT INFORMATION - Rating” and  
“THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”)**

**PRELIMINARY OFFICIAL STATEMENT**

**Dated July 26, 2017**

In the opinion of Bond Counsel (defined below), interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporations.

**\$15,500,000\***

**GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**

**(A Political Subdivision of the State of Texas located in Hamilton, Lampasas and Mills Counties, Texas)**

**UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2017**

**Dated Date: September 1, 2017 (Interest to accrue from Dated Date)**

**Due: As shown herein**

The \$15,500,000\* Goldthwaite Consolidated Independent School District Unlimited Tax School Building Bonds, Series 2017 (the "Bonds") are being issued by the Goldthwaite Consolidated Independent School District (the "Issuer" or the "District") pursuant to the Constitution and laws of the State of Texas (the "State"), including Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, an election held on May 6, 2017 (the "Election"), and an order (the "Order") anticipated to be adopted by the Board of Trustees (the "Board") of the District on August 21, 2017, the date of sale of the Bonds. (See "THE BONDS - Authority for Issuance" herein.)

The Bonds are direct obligations payable from an annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District. (See "THE BONDS - Security for Payment" herein.) The District has made application to and received conditional approval from the Texas Education Agency for the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined), which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.) See also "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" for a discussion of recent developments in Texas law affecting the financing of school districts in Texas.

Interest on the Bonds will accrue from the Dated Date, as defined below, and will be payable on February 15 and August 15 of each year, commencing on February 15, 2018, until stated maturity or prior redemption and will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Bonds will be issued in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository (the "Securities Depository"). Book-entry interests in the Bonds will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof.

Purchasers of the Bonds ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, the principal of and interest on the Bonds will be payable by the Paying Agent/Registrar, BOKF, NA, Austin, Texas, to the Securities Depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Proceeds from the sale of the Bonds will be used to (1) acquire, construct and equip school buildings in the District, and (2) pay for the costs of issuance of the Bonds. (See "THE BONDS - Use of Bond Proceeds" herein).

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CUSIP PREFIX: 381568

SEE FOLLOWING PAGE FOR STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES,  
INITIAL YIELDS, REDEMPTION PROVISIONS AND CUSIP NUMBERS FOR THE BONDS

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*The Bonds are offered for delivery, when, as and if issued and received by the initial purchasers and subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, Bond Counsel. It is expected that the Bonds will be available for delivery through the services of DTC on or about September 19, 2017.*

*\*Preliminary, subject to change.*

**BIDS DUE MONDAY, AUGUST 21, 2017, AT 11:00 AM CENTRAL TIME**

**\$15,500,000<sup>(1)</sup>**  
**GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**  
**(A Political Subdivision of the State of Texas located in Hamilton, Lampasas and Mills Counties, Texas)**  
**UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2017**

**CUSIP PREFIX: 381568**

**STATED MATURITY SCHEDULE<sup>(1)</sup>**

<b>Stated Maturity</b>	<b>Principal Amount (\$)<sup>(1)</sup></b>	<b>Interest Rate (%)</b>	<b>Initial Yield (%)</b>	<b>CUSIP<sup>(2)</sup> Prefix</b>
08/15/2018	\$255,000			
08/15/2019	265,000			
08/15/2020	280,000			
08/15/2021	290,000			
08/15/2022	305,000			
08/15/2023	315,000			
08/15/2024	330,000			
08/15/2025	345,000			
08/15/2026	360,000			
08/15/2027	380,000			
08/15/2028	395,000			
08/15/2029	410,000			
08/15/2030	430,000			
08/15/2031	450,000			
08/15/2032	470,000			
08/15/2033	490,000			
08/15/2034	515,000			
08/15/2035	535,000			
08/15/2036	560,000			
08/15/2037	585,000			
08/15/2038	615,000			
08/15/2039	640,000			
08/15/2040	670,000			
08/15/2041	700,000			
08/15/2042	730,000			
08/15/2043	765,000			
08/15/2044	800,000			
08/15/2045	835,000			
08/15/2046	870,000			
08/15/2047	910,000			

**(Interest to accrue from the Dated Date)**

The Issuer reserves the right to redeem the Bonds maturing on or after August 15, 2027 in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2026, or any date thereafter at the redemption price of par plus accrued interest to the date of redemption. In the event the Purchaser elects to combine two or more maturities of the Bonds into one or more "Term Bonds," such Term Bonds will be subject to mandatory sinking fund redemption prior to stated maturity. (See "THE BONDS - Redemption Provisions of the Bonds" herein.)

<sup>(1)</sup>Preliminary, subject to change.

<sup>(2)</sup>CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Purchaser, the District or the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

**GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**

P.O. Box 608  
 1509 Hannah Valley Road  
 Goldthwaite, Texas 76844-0608  
 Phone: (325) 648-3531  
 Facsimile: (325) 648-2456

**ELECTED OFFICIALS**

<b>Name</b>	<b>Years Served</b>	<b>Term Expires (November)</b>	<b>Occupation</b>
Mr. Brady Rountree President	6	2018	Banking/Technology
Mr. Rodney Spies Vice-President	4	2019	General Store Owner
Ms. Marla Watson Secretary	4	2020	USPS
Mr. Charles Miles Board Member	8	2018	CPA Business Owner
Mr. Clark Campbell Board Member	1	2019	Banking/Mortgage
Ms. Keri Roberts Board Member	4	2019	Attorney
Mr. Mike Mitchell Board Member	4	2020	Ford Dealership

**ADMINISTRATION**

<b>Name</b>	<b>Position</b>	<b>Length of Service With the District (years)</b>	<b>Length of Service in Present Position (years)</b>
Mr. Ronny Wright	Superintendent	8	8
Mr. Glenn Benningfield	Business Manager	3	3

**CONSULTANTS AND ADVISORS**

**Bond Counsel** ..... McCall, Parkhurst & Horton LLP  
 San Antonio, Texas

**Certified Public Accountants** ..... Burl D. Lowery  
 Brownwood, Texas

**Financial Advisor** ..... Frost Bank Capital Markets Division  
 San Antonio, Texas

***For Additional Information Please Contact:***

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 Superintendent  
**Goldthwaite Consolidated Independent School District**  
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 Goldthwaite, TX 76844  
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## USE OF INFORMATION IN THE OFFICIAL STATEMENT

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

No dealer, broker, salesman, or other person has been authorized to give any 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 as having been authorized by the Issuer or the Purchaser. This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any jurisdiction in which such offer or solicitation is not authorized or in which person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. Any information or expression of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create an implication that there has been no change in the affairs of the Issuer or other matters described herein since the date hereof.

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

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

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

None of the District, the Financial Advisor, nor the Purchaser make any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company, ("DTC") or its Book-Entry-Only System or the affairs of the Texas Education Agency ("TEA") described under "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM," as such information has been provided by DTC and TEA, respectively.

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

## TABLE OF CONTENTS

<b>COVER PAGE.....</b>	<b>1</b>	<b>CURRENT PUBLIC SCHOOL FINANCE SYSTEM ....</b>	<b>31</b>
<b>ELECTED AND APPOINTED OFFICIALS .....</b>	<b>3</b>	<b>THE SCHOOL FINANCE SYSTEM AS APPLIED</b>	
<b>USE OF INFORMATION IN THE OFFICIAL STATEMENT .....</b>	<b>4</b>	<b>TO THE DISTRICT .....</b>	<b>34</b>
<b>SELECTED DATA FROM THE OFFICIAL STATEMENT ...</b>	<b>5</b>	<b>INVESTMENT POLICIES.....</b>	<b>35</b>
<b>INTRODUCTORY STATEMENT .....</b>	<b>7</b>	<b>AD VALOREM TAX PROCEDURES .....</b>	<b>37</b>
<b>THE BONDS .....</b>	<b>7</b>	<b>THE PROPERTY TAX CODE AS APPLIED TO THE</b>	
<b>REGISTERED OWNERS' REMEDIES.....</b>	<b>10</b>	<b>DISTRICT .....</b>	<b>41</b>
<b>REGISTRATION, TRANSFER AND EXCHANGE .....</b>	<b>11</b>	<b>TAX RATE LIMITATIONS .....</b>	<b>42</b>
<b>BOOK-ENTRY-ONLY SYSTEM .....</b>	<b>13</b>	<b>DEBT LIMITATIONS .....</b>	<b>43</b>
<b>THE PERMANENT SCHOOL FUND GUARANTEE</b>		<b>TAX MATTERS .....</b>	<b>44</b>
<b>PROGRAM.....</b>	<b>15</b>	<b>CONTINUING DISCLOSURE OF INFORMATION.....</b>	<b>46</b>
<b>STATE AND LOCAL FUNDING OF SCHOOL</b>		<b>LEGAL MATTERS .....</b>	<b>48</b>
<b>DISTRICTS IN TEXAS .....</b>	<b>30</b>	<b>OTHER PERTINENT INFORMATION.....</b>	<b>49</b>
Financial Information for the Goldthwaite Consolidated Independent School District.....		APPENDIX A	
General Information Regarding the Goldthwaite Independent School District, the City of Goldthwaite, Texas and Hamilton, Lampasas and Mills Counties, Texas.....		APPENDIX B	
Form of Opinion of Bond Counsel .....		APPENDIX C	
Excerpts from the Issuer's Audited Financial Statements for the Year Ended August 31, 2016 .....		APPENDIX D	

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

## SELECTED DATA FROM THE OFFICIAL STATEMENT

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

<b>The Issuer</b>	<p>The Goldthwaite Consolidated Independent School District (the "Issuer" or the "District") is a political subdivision of the State of Texas (the "State") located primarily in Mills County, Texas with small amounts in Hamilton and Lampasas Counties. The District is a ranching area that includes the City of Goldthwaite, the Mills County seat and principal commercial center, located at the intersection of U.S. Highways 84 and 183 and State Highway 16.</p> <p>The Issuer was created under State statute and is governed by an elected seven-member Board of Trustees (the "Board") of which each member serves a staggered three-year term. (See APPENDIX B - "General Information Regarding the Goldthwaite Consolidated Independent School District, the City of Goldthwaite, Texas and Hamilton, Lampasas and Mills Counties, Texas" herein.)</p>
<b>The Bonds</b>	<p>The District's Unlimited Tax School Building Bonds, Series 2017 (the "Bonds") are being issued pursuant to the Constitution and laws of the State of Texas, including Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, an election held on May 6, 2017 (the "Election"), and an order (the "Order") anticipated to be adopted by the Board of Trustees (the "Board") of the District on August 21, 2017, the date of sale of the Bonds. (See "THE BONDS - Authority for Issuance" herein.)</p> <p>At the Election, the voters of the District authorized the District to issue up to \$15,500,000 in unlimited tax bonds for the purpose of acquiring, constructing and equipping school buildings in the District. The Bonds represent the first and final installment of such voted authority.</p> <p>Interest on the Bonds will accrue from the Dated Date, with such interest payable initially on February 15, 2018 and thereafter on August 15 and February 15 in each year, until stated maturity or prior redemption (See "THE BONDS – General Description" herein.)</p>
<b>Paying Agent/Registrar</b>	<p>The initial Paying Agent/Registrar is BOKF, NA, Austin, Texas.</p>
<b>Security</b>	<p>The Bonds are direct obligations of the Issuer and are payable from an annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District. The Issuer has made application to and received conditional approval from the Texas Education Agency for the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined), which guarantee automatically becomes effective when the Attorney General of Texas approves the Bonds. (See "THE BONDS - Security for Payment" herein.) See also "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" for a discussion of recent developments in Texas law affecting the financing of school districts in Texas.</p>
<b>Redemption Provision of the Bonds</b>	<p>The Issuer reserves the right to redeem the Bonds maturing on or after August 15, 2027 in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2026, or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. In the event the Purchaser elects to combine two or more maturities of the Bonds into one or more "Term Bonds," such Term Bonds will be subject to mandatory sinking fund redemption prior to stated maturity. (See "THE BONDS - Redemption Provisions of the Bonds" herein.)</p>
<b>Permanent School Fund Guarantee</b>	<p>The District has made application to and received conditional approval from the Texas Education Agency ("TEA") for the payment of the Bonds to be guaranteed under the Permanent School Fund Guarantee Program, which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "THE BONDS – Permanent School Fund Guarantee" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.)</p>

<b>Tax Matters</b>	In the opinion of McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporations. (See "TAX MATTERS" and APPENDIX C - "Form of Opinion of Bond Counsel" herein.)
<b>Use of Bond Proceeds</b>	Proceeds from the sale of the Bonds will be used to (1) acquire, construct and equip school buildings in the District, and (2) pay for the costs of issuance of the Bonds. (See "THE BONDS - Use of Bond Proceeds" herein.)
<b>Rating</b>	S&P Global Ratings ("S&P") has rated the Bonds "AAA" based on the payment of the Bonds being guaranteed by the State of Texas Permanent School Fund. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM".) The unenhanced, underlying rating of the District's unlimited ad valorem tax-supported bonds, which includes the Bonds, is "A+" (stable outlook) by S&P. (See "OTHER PERTINENT INFORMATION - Rating" herein.)
<b>Book-Entry-Only System</b>	The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 principal amount with respect to the Bonds or integral multiples thereof. No physical delivery of the Bonds will be made to the Beneficial Owners thereof. The principal of the Bonds and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners of the Bonds. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)
<b>Payment Record</b>	The District has never defaulted on the payment of its ad valorem tax supported indebtedness.
<b>Future Bond Issues</b>	Other than the issuance of the Bonds, the Issuer does not anticipate the issuance of additional ad valorem tax supported debt in 2017.
<b>Delivery</b>	When issued, anticipated on or about September 19, 2017.
<b>Legality</b>	Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the legal opinion of McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, Bond Counsel.

*(Remainder of this page intentionally left blank.)*



**PRELIMINARY OFFICIAL STATEMENT**  
relating to

**\$15,500,000\***  
**GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**  
**(A Political Subdivision of the State of Texas located in Hamilton, Lampasas and Mills Counties, Texas)**  
**UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2017**

**INTRODUCTORY STATEMENT**

This Official Statement provides certain information in connection with the issuance by the Goldthwaite Consolidated Independent School District (the "District" or "Issuer") of its \$15,500,000\* Unlimited Tax School Building Bonds, Series 2017 (the "Bonds") identified on the inside cover page hereof.

The Issuer is a body corporate and a political subdivision of the State of Texas (the "State" or "Texas") duly organized and existing under the laws of the State. The Bonds are issued pursuant to the Constitution and laws of the State, including Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, an election held on May 6, 2017 (the "Election"), and an order (the "Order") anticipated to be adopted by the Board of Trustees (the "Board") of the District on August 21, 2017, the date of sale of the Bonds.

Unless otherwise indicated, capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Order. Included in this Official Statement are descriptions of the Bonds and certain information about the Issuer and its finances. **ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT.** Copies of such documents may be obtained from the Issuer or the Financial Advisor (defined herein), by electronic mail or upon payment of reasonable mailing, handling, and delivery charges.

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

**THE BONDS**

**General Description**

The Bonds will be dated September 1, 2017. Interest on the Bonds will accrue from the Dated Date, as defined on the front cover of this Official Statement, with such interest payable initially February 15, 2018 and thereafter on August 15 and February 15 of each year until stated maturity or prior redemption. The Bonds will mature on the dates, in the principal amounts, and will bear interest at the rates set forth on page 2 of this Official Statement.

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

Principal of, and interest on the Bonds are payable in the manner described herein under "BOOK-ENTRY-ONLY SYSTEM". In the event the Book-Entry-Only System is discontinued, the interest on the Bonds will be payable to the registered owner as shown on the security register maintained by BOKF, NA, Austin, Texas, as the initial Paying Agent/Registrar, as of the last business day of the month next preceding such interest payment date, by check, mailed first-class, postage prepaid, to the address of such person on the security register or by such other method acceptable to the Paying Agent/Registrar requested by and at the risk and expense of the registered owner. In the event the Book-Entry-Only System is discontinued, principal of the Bonds will be payable at stated maturity upon presentation and surrender thereof at the corporate trust office of the Paying Agent/Registrar.

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

*\*Preliminary, subject to change.*

## **Authority for Issuance**

The Bonds are being issued pursuant to the Constitution and laws of the State, including Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, the Election, and the Order. At the Election, the qualified voters of the District authorized the District to issue unlimited tax bonds in a maximum amount of \$15,500,000. This issuance of the Bonds represents the first and final installment of this voted authority.

## **Security for Payment**

The Bonds are payable from an annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District. The Issuer has made application to and received conditional approval from the Texas Education Agency ("TEA") for the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined) which guarantee automatically becomes effective when the Attorney General of Texas approves the Bonds. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" herein.) See also "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" for a discussion of recent developments in Texas law affecting the financing of school districts in Texas.

## **Permanent School Fund Guarantee**

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

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

## **Redemption Provisions of the Bonds**

The Issuer reserves the right to redeem the Bonds maturing on or after August 15, 2027, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2026, or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. If less than all of the bonds within a stated maturity are to be redeemed, the particular Bonds to be redeemed shall be selected by lot or by other customary random method by the Paying Agent/Registrar.

In the event the Purchaser elects to combine two or more maturities of the Bonds into one or more "Term Bonds," such Term Bonds will be subject to mandatory sinking fund redemption prior to stated maturity.

## **Notice of Redemption**

Not less than 30 days prior to an optional redemption date for the Bonds, a notice of redemption shall be sent by United States mail, first class postage prepaid, in the name of the District and at the District's expense, by the Paying Agent/Registrar 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 security register at the close of business on the business day next preceding the date of mailing such notice. The notice may state (1) that it is conditioned upon the deposit of moneys, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar no later than the redemption date, or (2) that the District retains the right to rescind such notice at any time prior to the scheduled redemption date if the District delivers a certificate of an authorized representative to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and optional redemption shall be of no effect if such moneys are not so deposited or if the notice is so rescinded. ANY NOTICE SO MAILED WILL 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 WILL 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 WILL CEASE TO ACCRUE.

## **Redemption through the Depository Trust Company**

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 with regard to the Bonds, notice of proposed amendment to the Order, or other notices with respect to the Bonds only to DTC (defined herein). Any failure by DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to notify the Beneficial Owner, will 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 DTC Participants and Indirect Participants may implement a redemption of such Bonds from the Beneficial Owners. Any such selection of Bonds to be redeemed will not be governed by the Order and will not be conducted by the District or the Paying Agent/Registrar.

Neither the District nor the Paying Agent/Registrar will have any responsibility to DTC Participants, Indirect Participants, or the persons for whom DTC Participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC Participants, Indirect Participants, or Beneficial Owners of the selection of portions of the Bonds for redemption. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

#### **Payment Record**

The Issuer has never defaulted on the payment of its ad valorem tax supported indebtedness.

#### **Amendments**

The Issuer may amend the Order without the consent of or notice to any registered owners as may be required by the provisions in the Order, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the Issuer may, with the written consent of the holders of a majority in aggregate principal amount, as the case may be, of the Bonds then outstanding and affected thereby, amend, add to or rescind any of the provisions of the Order; except that, without the consent of the registered owners of all of the Bonds affected, no such amendment, addition or rescission may (1) make any change in the maturity of any of the outstanding Bonds; (2) reduce the rate of interest borne by any of the outstanding Bonds; (3) reduce the amount of the principal payable on or the redemption price of any outstanding Bonds; (4) modify the terms of payment of principal or of interest on outstanding Bonds or any of them or impose any condition with respect to such payment; or (5) change the minimum percentage of the principal amount of the Bonds necessary for consent to such amendment.

#### **Use of Bond Proceeds**

Proceeds from the sale of the Bonds will be used to (1) acquire, construct and equip school buildings in the District, and (2) pay for the costs of issuance of the Bonds.

*(Remainder of this page intentionally left blank.)*

## REGISTERED OWNERS' REMEDIES

The Order establishes specific events of default with respect to the Bonds. If the District defaults in the payment of the principal of or interest on the Bonds when due, and the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, or the District defaults in the observance or performance of any of the covenants, conditions, or obligations of the District, the failure to perform which materially, adversely affects the rights of the registered owners, including but not limited to, their prospect or ability to be repaid in accordance with the Order, the Order provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the District to make such payment or observe and perform such covenants, obligations, or conditions, as well as enforce rights of payment under the Permanent School Fund Guarantee. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or the Order and the District's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the registered owners upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas Legislature has effectively waived the District's sovereign immunity from a suit for money damages, registered owners may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the 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 ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or registered owners of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and by general principles of equity which permit judicial discretion.

*(Remainder of this page intentionally left blank.)*

## **REGISTRATION, TRANSFER AND EXCHANGE**

### **Paying Agent/Registrar**

The initial Paying Agent/Registrar is BOKF, NA, Austin, Texas (the "Paying Agent/Registrar"). The Bonds are being issued in fully registered form in integral multiples of \$5,000 of principal amount. If the Bonds are no longer held in the Book-Entry-Only System, interest on the Bonds will be payable semiannually by the Paying Agent/Registrar by check mailed on each interest payment date by the Paying Agent/Registrar to the registered owner at the last known address as it appears on the Paying Agent/Registrar's books on the Record Date hereinafter defined.

If the Bonds are no longer held in the Book-Entry-Only System, principal of the Bonds will be payable at stated maturity upon presentation and surrender thereof at the corporate trust office of the Paying Agent/Registrar. So long as Cede & Co. is the registered owner of the Bonds, payments of principal of, and interest on the Bonds will be made as described in "BOOK-ENTRY-ONLY SYSTEM."

### **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; a trust company organized under the laws of the State of Texas; or other entity duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds.

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

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

The record date ("Record Date") for determining the party to whom the interest on any Bond is payable on any interest payment date means the close of business on the last business day of the 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 owner of a Bond appearing on the books of the Paying Agent/Registrar at the close of business on the last day next preceding the date of mailing of such notice.

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

Neither the District nor the Paying Agent/Registrar will be required to issue, transfer, or exchange any Bonds during a (i) period beginning at the close of business on any Record Date and ending with the next interest payment date or, (ii) with respect to any Bond called for redemption, within 30 days of the date fixed for redemption, provided, however, such limitation of transfer will not be applicable to an exchange by the registered owner of the uncalled balance of a Bond called for redemption in part.

### **Replacement Bonds**

If any Bond is mutilated, destroyed, stolen or lost, a new Bond in the same principal amount, as the Bond so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Bond, such new Bond will be delivered only upon surrender and cancellation of such mutilated Bond. In the case of any Bond issued in lieu of and substitution for a Bond which has been destroyed, stolen or lost, such new Bond will be delivered only (a) upon filing with the District and the Paying Agent/Registrar a certificate to the effect that such Bond has been destroyed, stolen or lost and proof of the ownership thereof, and (b) upon furnishing the District

and the Paying Agent/Registrar with indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond must pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

### **Defeasance of Bonds**

The Order provides for the defeasance of the Bonds when payment of the principal amounts of the Bonds plus accrued interest on the Bonds to their due date (whether such due date be by reason of maturity, redemption or otherwise), is provided by irrevocably depositing with a paying agent, or other authorized escrow agent, in trust (1) money sufficient to make such payment and/or (2) Defeasance Securities (defined below) to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, and thereafter the District will have no further responsibility with respect to amounts available to such paying agent, or other authorized escrow agent, for the payment of such defeased Bonds, including any insufficiency therein caused by the failure of such paying agent, or other authorized escrow agent, to receive payment when due on the Defeasance Securities. The Order provides that Defeasance Securities means (i) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (iv) any other then authorized securities or obligations under applicable State law that may be used to defease obligations such as the Bonds. The District has additionally reserved the right in the Order, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance.

Upon such deposit as described above, the Bonds will no longer be regarded to be outstanding obligations for purposes of applying any limitation on indebtedness or for purposes of taxation. After firm banking and financial arrangements for the discharge and final payment of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or to take any action amending the terms of the Bonds are extinguished if the District has reserved the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption, at an earlier date, those Bonds which have been defeased to their stated maturity date, if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Upon such deposit as described above, the Permanent School Fund Guarantee will cease to apply to such Bonds after defeasance.

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## BOOK-ENTRY-ONLY SYSTEM

*This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, 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 Purchaser believes 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 notices to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or notices to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC 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 certificate will be issued for the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest 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, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a S&P rating of "AA+". The DTC Rules applicable to its Participants are on file with the United States Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

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

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and 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 Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, physical certificates for each maturity of the Bonds are required to be printed and delivered. The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, physical certificates for each maturity of the Bonds will be printed and delivered.

So long as Cede & Co. is the registered owner of the Bonds, the District will have no obligation or responsibility to the DTC Participants or Indirect Participants, or the persons for which they act as nominees, with respect to payment to or providing of notice to such Participants, or the persons for which they act as nominees.

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

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

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## THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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, 2016, the General Land Office (the "GLO") managed approximately 19% of the PSF, as reflected in the fund balance of the PSF at that date.

The Texas Constitution describes the PSF as "permanent" and "perpetual." 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 2016, distributions to the ASF amounted to an estimated \$214.52 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, 2016, as filed with the MSRB in accordance with the PSF undertaking and agreement made in accordance with Rule 15c2-12 ("Rule 15c2-12") of the federal Securities and Exchange Commission (the "SEC"), as described below, is hereby incorporated by reference into this disclosure. Information included herein for the year ended August 31, 2016 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, 2016 and for a description of the financial results of the PSF for the year ended August 31, 2016, the most recent year for which audited financial information regarding the Fund is available. The 2016 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2016 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, 2016, the Fund’s financial assets portfolio was invested as follows: 44.16% in public market equity investments; 13.27% in fixed income investments; 10.15% in absolute return assets; 6.03% in private equity assets; 7.02% in real estate assets; 6.84% in risk parity assets; 5.68% in real return assets; 6.61% in emerging market debt; and 0.24% in 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; 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, with a second increase to 3.75 times, which becomes effective on September 1, 2017. Based upon the cost basis of the Fund at August 31, 2016, the State Law Capacity increased from \$97,933,360,905 on August 31, 2016 to \$105,466,696,360 on March 1, 2017, and will increase to \$113,000,031,814 on September 1, 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#33.65>.

## **The Charter District Bond Guarantee Program**

The Charter District Bond Guarantee Program became effective March 3, 2014. The SBOE published final regulations in the Texas Register that provide for the administration of the Charter District Bond Guarantee Program (the "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 27, 2017 (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 5.10%. As of June 15, 2017, there were 182 active open-enrollment charter schools in the State and there were 697 charter school campuses operating under such charters (though as of such date, 25 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 CDBG 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 on March 1, 2017 and additional capacity will be available on September 1, 2017. In addition, legislation enacted during the 2017 regular session modifies the manner of calculating the capacity of the Charter District Bond Guarantee Program (the "CDBG Capacity"), which could further increase the amount of available capacity of the Charter District Bond Guarantee Program, as early as State fiscal year 2018. See "Capacity Limits for the Guarantee Program" and "2017 Legislative Changes to the Charter District Bond Guarantee Program." Other factors that could increase the capacity of the Charter District Bond Guarantee Program include Fund investment performance, future increases in the Guarantee Program multiplier, changes in State law that govern the calculation of the Charter District capacity, as described below, growth in the relative percentage of students enrolled in open-enrollment charter schools to the total State scholastic census, 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 CDBG 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 capacity of the CDBG 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 CDBG 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 May 31, 2017, the amount of outstanding bond guarantees represented approximately 66% of the State Capacity Limit for the Guarantee Program. SB 1480 amended the CDBG 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 CDBG 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 CDBG 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 CDBG Capacity, as that percentage has grown from 3.53% in September, 2012 to 5.10% in March 2017, representing a growth of 45%. 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 CDBG 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 CDBG 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 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 May 31, 2017, the Charter District Reserve Fund represented approximately .223% of the guaranteed charter district bonds.

### **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 do not receive a dedicated funding allocation from the State to assist with the construction and acquisition of new facilities. Charter schools generally issue revenue bonds to fund facility construction and acquisition, or fund facilities from cash flows of the school. Some charter districts have issued non-guaranteed debt in addition to debt guaranteed under the Charter District Bond Guarantee Program, and such non-guaranteed debt is likely to be secured by a deed of trust covering all or part of the charter district's facilities. In March 2017, the TEA began requiring charter districts to provide the TEA with a lien against charter district property as a condition to receiving a guarantee under the Charter District Bond Guarantee Program. However, charter district bonds issued and guaranteed under the Charter District Bond Guarantee Program prior to the implementation of the new requirement did not have the benefit of a security interest in real property, although other existing debts of such charter districts that are not guaranteed under the Charter District Bond Guarantee Program may be secured by real property that could be foreclosed on in the event of a bond default.

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

As described above, the Act includes a funding "intercept" function that applies to both the School District Bond Guarantee Program and the Charter District Bond Guarantee Program. However, school districts are viewed as the "educator of last resort" for students residing in the geographical territory of the district, which makes it unlikely that State funding for those school districts would be discontinued, although the TEA can require the dissolution and merger into another school district if necessary to ensure sound education and financial management of a school district. That is not the case with a charter district, however, and open-enrollment charter schools in the State have been dissolved by TEA from time to time. If a charter district that has bonds outstanding that are guaranteed by the Charter District Bond Guarantee Program should be dissolved, debt service on guaranteed bonds of the district would continue to be paid to bondholders in accordance with the Charter District Bond Guarantee Program,

but there would be no funding available for reimbursement of the PSF by the Comptroller for such payments. As described under "The Charter District Bond Guarantee Program," the Act establishes a Charter District Reserve Fund, which could in the future be a significant reimbursement resource for the PSF. At May 31, 2017, the Charter District Reserve Fund contained \$2,611,321.

## 2017 Legislative Session

On January 10, 2017, the 85th Texas Legislature convened in general session, which concluded on May 29, 2017. During the session a variety of bills were introduced that pertained to the Bond Guarantee Program, but in that regard, the primary legislation enacted was SB 1480 (see "The Charter District Bond Guarantee Program").

## Ratings of Bonds Guaranteed Under the Guarantee Program

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

## Valuation of the PSF and Guaranteed Bonds

### Permanent School Fund Valuations

Fiscal Year Ended 8/31	Book Value <sup>(1)</sup>	Market Value <sup>(1)</sup>
2012	\$25,164,537,463	\$31,287,393,884
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 <sup>(2)</sup>	37,279,799,335 <sup>(2)</sup>

<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. At August 31, 2016, mineral assets, sovereign and other lands and internally managed discretionary real estate, external discretionary real estate investments and cash managed by the SLB had book values of approximately \$13.42 million, \$271.09 million, \$2,741.66 million and \$2,315.36 million, respectively, and market values of approximately \$1,471.17 million, \$615.99 million, \$2,721.32 million and \$2,315.33 million, respectively.

<sup>(2)</sup> At May 31, 2017, the PSF had a book value of \$31,294,112,766 and a market value of \$39,882,131,051. May 31, 2017 values are based on unaudited data, which is subject to adjustment.

### Permanent School Fund Guaranteed Bonds

At 8/31	Principal Amount <sup>(1)</sup>
2012	\$53,634,455,141
2013	55,218,889,156
2014	58,364,350,783
2015	63,955,449,047
2016	68,303,328,445 <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, 2016, 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 is \$109,338,474,893, of which \$41,035,146,448 represents interest to be paid. As shown in the table above, at August 31, 2016, there were \$68,303,328,445 of bonds guaranteed under the Guarantee Program and the capacity of the Guarantee Program at that date was \$97,933,360,905 based on the 3.25 times cost value multiplier approved by the SBOE on November, 2015, which became effective on February 1, 2016. Such capacity figures include the Reserve Capacity for the Guarantee Program. As a result of the SBOE actions in November 2016 and February 2017 described under "Capacity Limits for the Guarantee Program," the State Law Capacity increased effective March 1, 2017 from a cost value multiplier of 3.25 times to 3.50 times, with a second increase approved and to be effective on September 1, 2017, from 3.50 times to 3.75 times.

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

<u>School District Bonds</u>			<u>Charter District Bonds</u>		<u>Totals</u>	
<u>Fiscal Year</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

<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. At May 31, 2017 (based on unaudited data, which is subject to adjustment), there were \$72,202,694,101 of bonds guaranteed under the Guarantee Program, representing 3,295 school district issues, aggregating \$71,033,324,101 in principal amount, and 38 charter district issues, aggregating \$1,169,370,000 in principal amount. At May 31, 2017, the CDBG Capacity was \$1,624,361,773 (based on unaudited data, which is subject to adjustment). See "Capacity Limits for the Guarantee Program" and "2017 Legislative Changes to the Charter District Bond Guarantee Program" for a discussion of other changes and possible changes to the State Capacity Limit and the CDBG Capacity).

### Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2016

The following discussion is derived from the Annual Report for the year ended August 31, 2016, 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, 2016, 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 2016, the Fund balance was \$37.3 billion, an increase of \$1.5 billion from the prior year after applying the effects resulting from adoption of Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application (GASB 72), primarily due to increases in value of most of the asset classes in which the Fund has invested and the addition of the fair value of minerals and sovereign lands to the Fund's balance sheet resulting from the adoption of GASB 72. During the year, the SBOE continued implementing the long term strategic asset allocation, diversifying the PSF(SBOE) with the intent to strengthen the Fund. The asset allocation is projected to increase returns over the long run while reducing risk and portfolio return volatility. The one year, three year, five year and ten year annualized total returns for the PSF(SBOE) assets were 7.61%, 6.44%, 7.77% and 5.71% 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 5.51%, 6.98%, and 8.04% 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, 2016, 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, 2016, the SBOE had approved and the PSF(SBOE) made capital commitments to real estate investments in the amount of \$2.60 billion and capital commitments to four private equity limited partnerships in the total amount of \$2.94 billion. Unfunded commitments at August 31, 2016 were \$840.0 million in real estate and \$1,150.4 million in private equity.

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, 2016, the remaining commitments totaled approximately \$1,564.2 million.

The PSF(SBOE)'s investment in domestic, international, and emerging market equity securities experienced returns of 12.45%, 3.36%, and 10.73%, respectively, during the fiscal year ended August 31, 2016. The PSF(SBOE)'s investment in domestic fixed income securities produced a return of 5.98% during the fiscal year and absolute return investments yielded a return of -0.88%.

The PSF(SBOE) real estate and private equity investments returned 12.23% and 12.76%, respectively. Risk parity assets produced a return of 8.17%, while real return assets yielded 0.26%. Emerging market debt produced a return of 9.97%. Combined, all PSF(SBOE) asset classes produced an investment return of 7.61% for the fiscal year ended August 31, 2016, outperforming the benchmark index of 6.84% by approximately 77 basis points. All PSF(SLB) real assets (including cash) returned 5.51% for the fiscal year ending August 31, 2016.

For fiscal year 2016, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled \$2,689.5 million, an increase of \$2,833.6 million from fiscal year 2015 earnings of \$-144.1 million. This increase reflects the performance of the securities markets in which the Fund was invested in fiscal year 2016. In fiscal year 2016, revenues earned by the Fund included lease payments, bonuses and royalty income received from oil, gas and mineral leases; lease payments from commercial real estate; surface lease and easement revenues; revenues from the resale of natural and liquid gas supplies; dividends, interest, and securities lending revenues; the net change in the fair value of the investment portfolio; and, other miscellaneous fees and income.

Expenditures are paid from the Fund before distributions are made under the total return formula. Such expenditures include the costs incurred by the SLB to manage the land endowment, as well as operational costs of the Fund, including external management fees paid from appropriated funds. Total operating expenditures, net of security lending rebates and fees, decreased 13.9% for the fiscal year ending August 31, 2016. This decrease is primarily attributable to a decrease in PSF(SLB) operational costs and generally lower costs of purchased gas 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 2015 and 2016, the distribution from the SBOE to the ASF totaled \$838.7 million and \$1,056.4 million, respectively. There was no contribution to the ASF by the SLB in fiscal year 2016.

At the end of the 2016 fiscal year, PSF assets guaranteed \$68.30 billion in bonds issued by 851 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 6,619 school district and charter district bond issues totaling \$152.6 billion in principal amount. During the 2016 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program increased by 162, or 5.2%. The dollar amount of guaranteed school and charter bond issues outstanding increased by \$4.3 billion or 6.8%. The guarantee capacity of the Fund increased by \$10.09 billion, or 12.2%, during fiscal year 2016 due to growth in the cost basis of the Fund and the increase in the cost multiplier (from 3.00 to 3.25, 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 2016, in accordance with the 2016-2017 Distribution Rate determination, the SBOE approved the distribution of \$1.056 billion to the ASF in fiscal year 2017, which represents a per student distribution of \$214.52, based on 2016 final student average daily attendance of 4,924,589. In November, 2016, the SBOE set the Distribution Rate for the 2018-2019 biennium at 3.70%

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, 2016, 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\\_State\\_ment\\_-\\_Bond\\_Guarantee\\_Program/](http://tea.texas.gov/Finance_and_Grants/Texas_Permanent_School_Fund/Texas_Permanent_School_Fund_Disclosure_State_ment_-_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 15c2-12 to make all disclosures and filings relating directly to guaranteed bonds, and the TEA takes no responsibility with respect to such undertakings. Under the TEA agreement, the TEA will be obligated to provide annually certain updated financial information and operating data, and timely notice of specified material events, to the MSRB.

The MSRB has established the Electronic Municipal Market Access ("EMMA") system, and the TEA is required to file its continuing disclosure information using the EMMA system. Investors may access continuing disclosure information filed with the MSRB at [www.emma.msrb.org](http://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.

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## 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.*, 490 SW 3d 826 (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 Changes in Law on District Bonds

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

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

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## 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 maintenance and operations ("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." For fiscal years 2007-08 through 2016-17, 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. The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. 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 RATE LIMITATIONS – 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 and an Instructional Facilities Allotment ("IFA") to subsidize debt service on newly issued bonds. IFA primarily addresses the debt service needs of property-poor school districts. A New Instructional Facilities Allotment ("NIFA") also is available to help pay operational expenses associated with the opening of a new instructional facility; however, NIFA awards were not funded by the Legislature for either the 2012-13 or the 2014-15 State fiscal biennium. In 2015, the 84th Texas Legislature did appropriate funds in the amount of \$1,445,100,000 for the 2016-17 State fiscal biennium for an increase in the Basic Allotment, EDA, IFA, and NIFA support, as further described below.

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 2014–15 fiscal biennium or the 2015-16 school year 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. For the 2016-17 school year, the Texas Legislature has appropriated \$55,500,000 for IFA allotments.

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 fiscal years 2015-16 and 2016-17, 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 and district-size adjustments 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 \$1.01 to \$1.06 per \$100 of taxable value) will, for most districts, generate a guaranteed yield of \$74.28 and \$77.53 per cent per weighted student in average daily attendance ("WADA") for the fiscal year 2015-16 and fiscal year 2016-17, 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 fiscal years 2015-16 and 2016-17. 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).

Because districts with compressed rates of less than \$1.00 have not been receiving the full Basic Allotment, the 84th Texas Legislature amended the Foundation School Program to enable some districts (known as "fractionally funded districts") to increase their Tier 1 participation by moving the district's local tax effort that would be equalized under Tier 2 at \$31.95 per penny to the Tier 1 Basic Allotment. The compressed tax rate of a school district that adopted a 2005 M&O Tax Rate below the maximum \$1.50 tax rate for the 2005 tax year can now include the portion of a 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, thereby eliminating the penalty against the Basic Allotment. For these districts, each 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 for the fiscal year 2015-16 and fiscal year 2016-17. These conversions are optional for each applicable district in the 2015-16 and 2016-17 fiscal years and are automatic beginning in the 2017-18 fiscal year.

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. To receive an IFA award, a school district must apply to the Commissioner in accordance with rules adopted by the Commissioner before issuing the bonds to be paid with IFA state assistance. The total amount of debt service assistance over a biennium for which a district may be awarded is limited to the lesser of (1) the actual debt service payments made by the district in the biennium in which the bonds are issued; or (2) the greater of (a) \$100,000 or (b) \$250 multiplied by the number of students in ADA. The IFA is also available for lease-purchase agreements and refunding bonds meeting certain prescribed conditions. Once a district receives an IFA award for bonds, it is entitled to continue receiving State assistance for such bonds without reapplying to the Commissioner. The guaranteed level of State and local funds per student per cent of local tax effort applicable to the bonds may not be reduced below the level provided for the year in which the bonds were issued. For the fiscal years 2011-12 through 2015-16, no funds were appropriated for new IFA awards by the Texas Legislature, although all prior awards were funded throughout such periods. The 84th Texas Legislature appropriated funds in the amount of \$55,500,000 for new IFA awards to be made during the 2016-17 fiscal year only.

State financial assistance is provided for certain existing eligible debt issued by school districts through the EDA program. The EDA guaranteed yield (the "EDA Yield") is the same as the IFA Guaranteed Yield (\$35 per cent of local tax effort per student in ADA), subject to adjustment as described below. For bonds that became eligible for EDA funding after August 31, 2001, and prior to August

31, 2005, EDA assistance was less than \$35 in revenue per student for each cent of debt service tax, as a result of certain administrative delegations granted to the Commissioner under State law. 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. For the 2012-13 and 2014-15 State fiscal biennia, no funds were appropriated by the Texas Legislature for new NIFA allotments. The 84th Texas Legislature did appropriate funds in the amount of \$23,750,000 for each of the 2015-16 and 2016-17 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. Under the Target Revenue system, each school district is generally entitled to receive the same amount of revenue per student as it did in either the 2005-2006 or 2006-07 fiscal year (under existing laws prior to the enactment of the Reform Legislation), as long as the district adopted an M&O tax rate that was at least equal to its compressed rate. The reduction in local M&O taxes resulting from the mandatory compression of M&O tax rates under the Reform Legislation, by itself, would have significantly reduced the amount of local revenue available to fund the Finance System. 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. Beginning with the 2017-18 school year, the statutes authorizing ASATR are repealed.

## **2015 Legislation**

As a general matter, the 84th Texas Legislature did not enact substantive changes to the Finance System. However, of note, Senate Joint Resolution 1, passed during the 84th Texas Legislature, proposed a constitutional amendment 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. The amendment was approved by the voters at an election held on November 3, 2015, and became effective for the tax year beginning January 1, 2015.

Senate Bill 1, which was also passed during the 84th Texas Legislature and was signed by the Governor on June 15, 2015, provides for additional state aid to hold school districts harmless for tax revenue losses resulting from the increased homestead exemption. Any hold-harmless funding for future biennia must be approved in a subsequent legislative session, and the District can make no representation that such funding will occur.

Senate Bill 1 also prohibits a school district from reducing the amount of or repealing an optional homestead exemption that was in place for the 2014 tax year (fiscal year 2015) for a period ending December 31, 2019. An optional homestead exemption reduces both the tax revenue and State aid received by a school district.

## **2017 Legislation**

On January 10, 2017, the 85th Texas Legislature convened in general session, and the legislative session concluded on May 29, 2017 (the "2017 Regular Session"). According to published reports, during the 2017 Regular Session, the Legislature adopted a State budget for 2018-2019 that generally did not make substantial changes to the Finance System or provide additional funding for public school districts; however, the District has not made a comprehensive review of how it may be affected by the 2018-2019 State budget or any other legislation adopted during the 2017 Regular Session that pertains to public school districts in the State.

On June 6, 2017, the Governor announced that he would call a special session so that the Legislature may consider legislation that it failed to pass during the 2017 Regular Session, and which provides for the continued operations of certain State agencies. On July 10, 2017, the Governor issued a formal proclamation directing that the special session will convene on July 18, 2017. Under the State Constitution, a special session can last up to 30 days. In a variety of public statements, the Governor has indicated that once the primary subject of the special session is addressed, he will add other business to the call, which may then be considered during the session. Among the other items that the Governor has indicated that he expects to subsequently add to the session is legislation to increase the average salary and benefits of Texas teachers; legislation to provide a more flexible

and rewarding salary and benefit system for Texas teachers; and legislation establishing a statewide commission to study and recommend improvements to the Finance System. Any changes in teacher salaries would be subject to the budget that was adopted during the 2017 Regular Session, which did not provide State funding for such increases. The District cannot predict whether any legislation included in the Governor's special session proclamations will be adopted during the special session, and if adopted, how the District would be affected by the legislation.

### **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, as well as receiving ASATR until their overall funding meets or exceeds their Target Revenue level of funding. Otherwise, Chapter 41 districts are not eligible to receive State funding. Furthermore, Chapter 41 districts must exercise certain options in order to reduce their wealth level to equalized wealth levels of funding, as determined by formulas set forth in the Reform Legislation. For most Chapter 41 districts, this equalization process entails paying the portion of the district's local taxes collected in excess of the equalized wealth levels of funding to the State (for redistribution to other school districts) or directly to other school districts with a wealth per student that does not generate local funds sufficient to meet the statutory level of funding, a process known as "recapture".

The equalized wealth levels that subject Chapter 41 districts to wealth equalization measures for fiscal year 2015–16 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). M&O taxes levied above \$1.00 but below \$1.07 per \$100 of taxable value are not subject to the wealth equalization provisions of Chapter 41. 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. Chapter 41 districts may be entitled to receive ASATR from the State in excess of their recapture liability of \$514,000 for the 2015-16 and 2016-17 school years, and certain of such districts may use their ASATR funds to offset their recapture liability.

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; certain Chapter 41 districts may apply ASATR funds to offset recapture and to achieve the statutory wealth equalization requirements, as described above, without approval from voters.

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

### **THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT**

The District's wealth per student for the 2016-2017 school year is less than the equalized wealth value. Accordingly, the District has not been required to exercise one of the permitted wealth equalization options. As a district with wealth per student less than the equalized wealth value, the District may benefit in the future by agreeing to accept taxable property or funding assistance from or agreeing to consolidate with a property-rich district to enable such district to reduce its wealth per student to the permitted level.

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

## INVESTMENT POLICIES

### Investments

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

### Investment Authority and Investment Practices of the District

Under Texas law, the District is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities, (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors; (8) certificates of deposit and share certificates issued by a depository institution that has its main office or branch office in the State of Texas, that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, or are secured as to principal by obligations described in 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 branch office in this state and is selected from a list adopted by the District; (ii) a depository institution that has a main office or branch office in this state and that is selected by the District; (b) the broker or depository institution selected by the District arranges for the deposit of funds in one or more federally insured depository institutions, wherever located; (c) the certificates of deposit are insured by the United States or an instrumentality of the United States; and (d) the District appoints the depository institution acts as a custodian for the District with respect to the certificates of deposit, an entity described by Section 2257.041(d) Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R., section 240.15c3-3), (9) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1) and require the security being purchased by the District to be pledged to the District, held in the District's name and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (10) bankers' acceptances with the remaining term of 270 days or less from the date of issuance, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency, (11) commercial paper with the remaining term of 270 days or less from the date of issuance that is rated at least "A-1" or "P-1" or the equivalent by at least (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (12) no-load money market funds registered with and regulated by the SEC that provide the District with a prospectus and other information required by SEC Rule 2a-7, (13) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations described in this paragraph or (ii) have a duration of less than one year and an investment portfolio limited to investment grade securities, excluding asset-backed securities and (14) public funds investment pools that have an advisory board which includes participants in the pool and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent or no lower than investment grade with a weighted average maturity no greater than 90 days. Texas law also permits the District to invest bond proceeds in a guaranteed investment contract subject to the limitations set forth in Chapter 2256, as amended, Texas Government Code.

A political subdivision such as the District may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (7) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (7) above, or clauses (11) through (14) above, 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 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 "AAA-m" 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 Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for District funds, the maximum allowable stated maturity of any individual investment 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.

Under Texas law, the District's 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 District's investment officers must submit an investment report to the Board of Trustees detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, and 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 strategies and (b) Texas law. No person may invest District funds without express written authority from the Board of Trustees.

Under Texas law, the District is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution, (3) require any investment officers with personal business relationships or family relationships with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the District, (4) require the registered principal of firms seeking to sell securities to the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements, (5) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the District's investment policy, (6) 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 repurchase agreement, (7) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements and (9) provide specific investment training for the Treasurer, the chief financial officer (if not the Treasurer) and the investment officer, (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\*** **TABLE 1**  
 As of April 30, 2017, all the Issuer's investable funds in the amount of \$1,034,166.21 were invested in the following categories of investments:

<u>Type of Investment</u>	<u>Amount</u>
Certificates of Deposit	\$1,034,166.21

\*Unaudited.

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

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## **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 of Texas an appraisal district and an appraisal review board responsible for appraising property for all taxable units within the County. The Hamilton County, Lampasas Central and Mills Central Appraisal Districts (each an "Appraisal District"), and collectively the "Appraisal Districts" are responsible for appraising property within the District generally as of January 1 of each year. The appraisal values set by the Appraisal Districts are subject to review and change by the Appraisal Review Board (the "Appraisal Review Board"), which is appointed by the respective Appraisal Districts. 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 Issuer**

Except for certain exemptions provided by Texas law, all real and certain tangible personal property with a tax situs in the District are subject to taxation by the Issuer. Principal categories of exempt property (including certain exemptions which are subject to local option by the Board of Trustees) include property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain improvements to real property and certain tangible personal property located in designated reinvestment zones on which the District has agreed to abate ad valorem taxes, certain household goods, family supplies and personal effects; farm products owned by the producers; certain property of a non-profit corporation used in scientific research and educational activities benefiting a college or university, and designated historical sites. Other principal categories of exempt property include tangible personal property not held or used for production of income, solar and wind-powered energy devices; most individually owned automobiles; certain varying amounts of valuation attributable to residential homesteads of persons ages 65 or over or disabled and property of disabled veterans or the surviving spouses or children of a deceased veteran who died while on active duty in the armed forces; \$25,000 in market value for all residential homesteads (See "Residential Homestead Exemptions" below and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2015 Legislation" herein); and certain classes of intangible property. In addition, except for increases attributable to certain improvements, the District is prohibited by State law from increasing the total ad valorem tax on the residence homestead of persons 65 years of age or older above the amount of tax imposed in the year such residence qualified for an exemption based on age of the owner.

The freeze on ad valorem taxes on the homesteads of persons who are 65 years of age or older and persons who are 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 taxpayer died in a year in which the taxpayer qualified for the exemption, (ii) the surviving spouse was at least 55 years of age when the taxpayer died and (iii) the property was the residence homestead of the surviving spouse when the taxpayer died and the property remains the residence homestead of the surviving spouse.

In addition, a disabled veteran who receives a 100% disability compensation from the United States Department of Veterans Affairs or its successor 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. Such exemption has been extended to include the surviving spouse of such a deceased veteran and permits such surviving spouse to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries. 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.

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 SCHOOL FINANCE SYSTEM - General" herein). The school property tax limitation provided by the constitutional amendment and enabling legislation apply to the 2007 and subsequent tax years.

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

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

in-transit until the action authorizing such taxation is rescinded or repealed. A taxpayer may only receive either the freeport exemption or the "goods-in-transit" exemption for items of personal property. Senate Bill 1, passed by the 82<sup>nd</sup> Texas Legislature, 1<sup>st</sup> Called Session, requires again that the governmental entities take affirmative action on or after October 1, 2011 to continue its taxation of goods-in-transit in the 2012 tax year and beyond. The District took affirmative action on or after October 1, 2011 to continue its taxation of goods-in-transit in the 2012 tax year and beyond.

A city or a county may create a tax increment financing district ("TIF") within the city or county, as applicable, with defined boundaries and establish a base value of taxable property in the TIF at the time of its creation. Overlapping taxing units, including school districts, may agree with the city or the 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. School districts may not enter into tax abatement agreements under the general statute that permits municipalities 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 tax increment financing zone created after May 31, 1999 (except in certain limited circumstances where the municipality creating the tax increment financing zone gave notice prior to May 31, 1999 to all other taxing units that levy ad valorem taxes in the zone of its intention to create the zone and the zone is created and has 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 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 "TAX RATE LIMITATIONS – 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. Once an appraisal role is prepared and finally approved by the Appraisal Review Board, it is used by the Issuer in establishing its tax rolls and tax rate. Assessments under the Tax Code are to be based on one hundred percent (100%) of market value, except as described below, and no assessment ratio can be applied.

State law limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the market value of the property or (2) the sum of (a) 10% of the appraised value of the property for the last year in which the property was appraised for taxation times the number of years since the property was last appraised, plus (b) the appraised value of the property for the last year in which the property was appraised, plus (c) the market value of all new improvements to the property. In determining the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. Oil and gas reserves are assessed on the basis of pricing information contained in the most recently published Early Release Overview of the Annual Energy Outlook published by the United States Energy Information Administration, as well as appraisal formulas developed by the State Comptroller of Public Accounts. Effective January 1, 2016, the valuation of assessment of oil and gas reserves will depend upon pricing information in either the standard edition of the Annual Energy Outlook or, if the most recently published edition of the Annual Energy Outlook was published before December 1 of the preceding calendar year, the Short-Term Energy Outlook report published in January of the current calendar year. State law 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 VIII of the Texas Constitution and the Tax Code permits land designated for agricultural use (Section 1-d), open space or timberland (Section 1-d-1) to be appraised at the lesser of its value based on the land's capacity to produce agricultural or timber products or its 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 agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the Issuer can collect taxes based on the new value, including three (3) years for agricultural use and five (5) years for agricultural open space land and timberland prior to the loss of the designation. The same land may not be qualified under both Section 1-d and 1-d-1.

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 (3) years. The Issuer, at its expense, has the right to obtain from the Appraisal District a current estimate of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimate of appraised 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 role.



## **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 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, following the approval by the voters at a November 8, 2011 statewide election, effective January 1, 2012, 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.

Following the approval by the voters at a November 5, 2013 statewide election, a partially disabled veteran or the surviving spouse of a partially disabled veteran is entitled to an exemption equal to the percentage of the veteran's disability, if the residence was donated at no cost to the veteran by a charitable organization.

Also approved by the November 5, 2013 election was a constitutional amendment providing that the surviving spouse of a member of the armed forces who is killed in action is entitled to a property tax exemption for all or part of the market value of such surviving spouse's residence homestead, if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

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.

In the case of residential 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 been previously pledged for the payment of debt if cessation of the levy would impair the obligation of the contract by which the debt was created.

See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2015 Legislation" for a description of recent legislative changes that resulted in an increase the minimum amount of residential homestead 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 collections of its taxes, unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Trustees of the District based upon the valuation of property within the District as of the preceding January 1. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty from six percent (6%) to twelve percent (12%) of the amount of the tax, depending on the time of payment, and accrued interest at the rate of one percent (1%) per month. If the tax is not paid by the

following July 1, an additional penalty of up to twenty percent (20%) of the total unpaid balance may under certain circumstances be imposed by the District. The Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances.

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

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

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

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## THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT

The Appraisal Districts have the responsibility for appraising property in the District as well as other taxing units in Hamilton, Lampasas and Mills Counties. The Appraisal Districts are governed by boards of directors appointed by members of the governing bodies of various political subdivisions within Hamilton, Lampasas and Mills Counties, respectively.

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

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

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

The District does not collect its own taxes; the District's taxes are collected by the respective Appraisal District of each county.

The Appraisal Districts do not allow split payments.

The Appraisal Districts do not give discounts for early payment of taxes.

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

The District does grant tax abatements; the District does grant a section 313 agreement.

The District does grant an exemption for freeport property from taxation.

The District does authorize a taxation of goods-in-transit.

The District does not grant the additional local option exemption of up to 20% of the market value of residence homesteads.

The District grants a state-mandated homestead exemption of \$25,000 for taxpayers.

The District grants a state-mandated over 65 or disability exemption of \$10,000 for taxpayers.

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

<u>Date</u>	<u>Cumulative Penalty</u>	<u>Cumulative Interest<sup>(b)</sup></u>	<u>Total</u>
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	32 <sup>(a)</sup>	6	38

(a) Includes additional penalty of 12% plus 20% for attorney collection expenses assessed after July 1.

(b) Interest continues to accrue after July 1 at the rate of 1% per month until paid.

### Chapter 313, Tax Code, Property Value Limitation Agreements

The District's M&O taxable value has been decreased by a value limitation agreement entered into with Goldthwaite Wind Energy, LLC ("GWE") pursuant to Chapter 313 of the Tax Code (the "GWE Value Limitation Agreement"). Commencing with the 2015 tax year, GWE's taxable property value for M&O purposes was decreased to \$10,000,000 through the 2022 tax year, after which the M&O property tax limitation expires. The current tax roll levy reflects the District's taxable value, which was decreased by the GWE Value Limitation Agreement.

The District has also entered into a value limitation agreement with Priddy Wind Energy, LLC. ("Priddy," and together with GWE, the "Chapter 313 Participants") under Chapter 313 of the Tax Code (the "Priddy Value Limitation Agreement," and together with the GWE Value Limitation Agreement, the "Value Limitation Agreements"). Under the Priddy Value Limitation Agreement, commencing with the 2018 tax year, Priddy's taxable value for M&O tax purposes will be capped at \$20,000,000 through the 2027 tax year, after which there will be no M&O property tax limitation.

The Value Limitation Agreements apply only to the M&O taxable property value. The taxable value for Interest and Sinking purposes is not subject to the limitation. The Chapter 313 Participants will compensate the District to offset any loss to M&O revenue over the term of the Value Limitation Agreements. The payments made by each of the Chapter 313 Participants pursuant to their respective Value Limitation Agreements contribute to the District's general fund above and beyond what is generated through the school finance system.

## TAX RATE LIMITATIONS

A school district is authorized to levy maintenance and operation ("M&O") taxes subject to approval of a proposition submitted to district voters. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the succeeding paragraphs. The maximum voted M&O tax rate for the District is \$1.50 per \$100 of assessed valuation as approved by the voters at an election held on April 1, 1991, pursuant to Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended ("Article 2784e-1").

A school district is authorized to levy maintenance and operation taxes ("M&O Tax") subject to approval of a proposition submitted to district voters. The maximum M&O Tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the next succeeding paragraph. The maximum voted M&O Tax rate for the District is \$1.50 per \$100 of assessed valuation as approved by the voters at an election held on January 31, 1953, pursuant to Article 2784e, Texas Revised Civil Statutes Annotated, as amended ("Article 2784e"). Article 2784e limits the District's annual M&O Tax rate to the difference between the voted maximum rate and the rate necessary to pay the District's unlimited tax bonds. Based on the District's taxable assessed valuation for tax year 2017, the estimated tax rate necessary to pay the District's outstanding unlimited tax bonds for the fiscal year 2018, including the Bonds, is \$0.4253. The District's M&O Tax rate for the 2016-2017 fiscal year was \$1.04.

The maximum tax rate per \$100 of assessed valuation that may be adopted by the District may not exceed the lesser of (A) \$1.50, or such lower rate as described in the preceding paragraph and (B) the sum of (1) the rate of \$0.17, and (2) the product of the "state compression percentage" multiplied by \$1.50. The State Compression Percentage has been set, and will remain, at 66.67% for fiscal year 2016-17 and 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 "TAX RATE LIMITATIONS - Public Hearing and Rollback Tax Rate.")

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

Section 45.0031, Texas Education Code, as amended ("Section 45.0031"), requires a district to demonstrate to the Texas Attorney General that it has the prospective ability to pay its maximum annual debt service on a proposed issue of bonds and all previously issued bonds, other than bonds approved by district voters at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds, collectively, "exempt bonds"), from a tax levied at a rate of \$0.50 per \$100 of assessed valuation before bonds may be issued. In demonstrating the ability to pay debt service at a rate of \$0.50, a district may take into account EDA and IFA allotments to the district, which effectively reduces the district's local share of debt service, and may also take into account Tier One funds allotted to the district. The District is required to deposit any State allotments provided solely for payment of debt service into the District's interest and sinking fund upon receipt of such amounts. In addition, the District must, prior to levying an interest and sinking fund tax rate that exceeds \$0.50 per \$100 of assessed valuation, credit to the interest and sinking fund other State assistance, including Tier One funds that may be used for either operating purposes or for payment of debt service, in an amount equal to the amount needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Once the prospective ability to pay such tax has been shown and the bonds are issued, a district may levy an unlimited tax to pay debt service. Taxes levied to pay refunding bonds issued pursuant to Chapter 1207, Texas Government Code, are not subject to the \$0.50 tax rate test; however, taxes levied to pay debt service on such bonds (other than bonds issued to refund exempt bonds) are included in maximum annual debt service for calculation of the \$0.50 threshold tax rate test when applied to subsequent bond issues. The Bonds are issued for school building purposes pursuant to Chapter 45, Texas Education Code as new debt and are subject to the threshold tax rate test. Under current law, a district may demonstrate its ability to comply with the \$0.50 threshold tax rate test by applying the \$0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a district uses projected future taxable values to meet the \$0.50 threshold tax rate test and subsequently imposes a tax at a rate greater than \$0.50 per \$100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Texas Attorney General must find that the district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the \$0.50 threshold tax rate test from a tax rate of \$0.45 per \$100 of valuation. The District has not used State assistance other than EDA or IFA allotment funding or projected property values to satisfy this threshold test.

## Tax Liens

Taxes levied by the District are a personal obligation of the owner of the property. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each taxing unit, including the District, having the power to tax the property. The District's tax lien is on a parity with tax liens of all other such taxing units. A tax lien on real property has priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty and interest. At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. The ability of the District to collect delinquent taxes by foreclosure may be adversely affected by the amount of taxes owed to other taxing units, adverse market conditions, taxpayer redemption rights, or bankruptcy proceedings which restrain the collection of a taxpayer's debt. **Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.**

## Public Hearing and Rollback Tax Rate

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

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

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

## 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. In demonstrating compliance with these requirements, a district may take into account State equalization payments. The State Attorney General reviews a district's calculations showing the compliance with these tests as a condition to the legal approval of the debt.

## **TAX MATTERS**

### **Opinion**

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, Bond Counsel to the Issuer, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Bonds will not be treated as "specified private activity bonds", the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above Bond Counsel to the Issuer will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. (See Appendix C - Form of Opinion of Bond Counsel).

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the District, including information and representations contained in the District's federal tax certificate, (b) covenants of the District contained in the Bond documents relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed therewith and (c) the certificate with respect to arbitrage by the Commissioner of Education regarding the allocation and investment of certain investments in the Permanent School Funds. Failure by the District to observe the aforementioned representations or covenants could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel is conditioned on compliance by the Issuer with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. The Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service by the Issuer with respect to the Bonds or the property financed with proceeds of the Bonds. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds. Bond Counsel's opinion is not binding on the Internal Revenue Service. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the Issuer as the taxpayer and the Bond Owners may have no right to participate in such procedure. No additional tax-exempt interest will be paid upon any determination of taxability.

### **Future and Proposed Legislation**

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under federal or state law and could affect the market price or marketability of the Bonds. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

### **Federal Income Tax Accounting Treatment of Original Issue Discount**

The initial public offering price to be paid for one or more maturities of the Bonds (the "Original Issue Discount Bonds") may be less than the principal amount thereof or one or more periods for the payment of interest on the bonds may not be equal to the accrual period or be in excess of one year. In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

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

Under Existing Law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each accrual period and ratably within each such accrual period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

### **Collateral Federal Income Tax Consequences**

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on Existing Law, which is subject to change or modification, retroactively. The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with Subchapter C earnings and profits, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Interest on the Bonds will be includable as an adjustment for "adjusted current earnings" to calculate the alternative minimum tax imposed on corporations by section 55 of the Code.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

### **State, Local and Foreign Taxes**

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

### **Information Reporting and Backup Withholding**

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the IRS. Payments of interest and principal may be subject to backup withholding under Section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

## **CONTINUING DISCLOSURE OF INFORMATION**

In the Order, the District has made the following agreement for the benefit of the holders and Beneficial Owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually and timely notice of specified events to the MSRB through its Electronic Municipal Market Access ("EMMA") system, when it will be available to the general public, free of charge at [www.emma.msrb.com](http://www.emma.msrb.com).

### **Annual Reports**

The District will file certain updated financial information and operating data with the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement as Table 1, in Appendix A (Numbered Tables 1-11), and in Appendix D. The District will update and provide this information within six months after the end of each Fiscal Year ending in or after 2017.

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 EMMA Internet Website or filed with the United States Securities and Exchange Commission (the "SEC"); as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial information by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix D or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation.

The District's current fiscal year end is August 31. Accordingly, it must provide updated information by the last day of February in each year following the end of its fiscal 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 Occurrence of Certain Events, Whether or Not Material**

The District will notify the MSRB through EMMA (in an electronic format as prescribed by the MSRB) within ten business days following the occurrence of any of the following events with respect to the Bonds, without regard to whether such event is material within the meaning of the federal securities laws: (1) principal and interest payment delinquencies; (2) unscheduled draws on debt service reserves reflecting financial difficulties; (3) unscheduled draws on credit enhancements reflecting financial difficulties; (4) substitution of credit or liquidity providers, or their failure to perform; (5) adverse tax opinions or 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 events affecting the tax status of the Bonds; (6) tender offers; (7) defeasances; (8) rating changes; and (9) bankruptcy, insolvency, receivership or similar event of an obligated person. (Neither the Bonds nor the Order make any provision for credit enhancement (other than the Permanent School Fund Guarantee), liquidity enhancement, or a debt service reserve with respect to the Bonds.)

### **Notice of Occurrence of Certain Events, If Material**

The District also will notify the MSRB through EMMA (in an electronic format as prescribed by the MSRB) within ten business days following the occurrence of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws: (1) non-payment related defaults; (2) modifications to rights of Bond Owners; (3) Bond calls (if applicable); (4) release, substitution, or sale of property securing repayment of the Bonds; (5) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; and (6) appointment of a successor or additional trustee or the change of name of a trustee.

### **Notice of Failure to Timely File**

The District also will notify the MSRB through EMMA, in a timely manner, of any failure by the District to provide financial information or operating data in accordance with the provisions described above.

### **Availability of Information**

Effective July 1, 2009 (the "EMMA Effective Date"), the SEC implemented amendments to the Rule which approved the establishment by the MSRB of EMMA, which is now the sole successor to the national municipal securities information repositories with respect to filings made in connection with undertakings made under the Rule. Commencing with the EMMA Effective Date, all information and documentation filing required to be made by the District in accordance with its undertaking made for the Bonds will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB.



With respect to debt of the District issued prior to the EMMA Effective Date, the District remains obligated to make annual required filings, as well as notices of certain events, under its continuing disclosure obligations relating to those debt obligations (which includes a continuing obligation to make such filings with the Texas state information depository (the "SID")). Prior to the EMMA Effective Date, the Municipal Advisory Council of Texas (the "MAC") had been designated by the State and approved by the SEC staff as a qualified SID. Subsequent to the EMMA Effective Date, the MAC entered into a Subscription Agreement with the MSRB pursuant to which the MSRB makes available to the MAC, in electronic format, all Texas-issuer continuing disclosure documents and related information posted to EMMA's website simultaneously with such posting. Until the District receives notice of a change in this contractual agreement between the MAC and EMMA or of a failure of either party to perform as specified thereunder, the District has determined, in reliance on guidance from the MAC, that making its continuing disclosure filings solely with the MSRB will satisfy its obligations to make filings with the SID pursuant to its continuing disclosure agreements entered into prior to the EMMA Effective Date.

### **Limitations and Amendments**

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

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

### **Compliance with Prior Undertakings**

During the past five years, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

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## **LEGAL MATTERS**

### **Legal Opinions and No-Litigation Certificate**

The Issuer will furnish the Purchaser with a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Initial Bond is a valid and legally binding obligation of the Issuer, and based upon examination of such transcript of proceedings, the legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "TAX MATTERS" herein. Though it represents the Financial Advisor and the Purchaser (if applicable) from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel was engaged by, and only represents, the District in connection with the issuance of the Bonds. McCall, Parkhurst & Horton L.L.P., also advises the TEA in connection with its disclosure obligations under the Federal securities laws, but such firm has not passed upon any TEA disclosures contained in this Official Statement. In its capacity as Bond Counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas has reviewed the information under the captions and subcaptions "THE BONDS" (except for the subcaption "Payment Record"), "REGISTRATION, TRANSFER AND EXCHANGE", "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM", "TAX RATE LIMITATIONS", "TAX MATTERS", "OTHER PERTINENT INFORMATION - Registration and Qualification of Bonds for Sale", "LEGAL MATTERS - Legal Investments and Eligibility to Secure Public Funds in Texas", "LEGAL MATTERS – Legal Opinions and No-Litigation Certificate", and CONTINUING DISCLOSURE OF INFORMATION (except the information under the subheading "Compliance with Prior Undertakings" as to which no opinion is expressed) in the Official Statement and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Bonds will also be furnished. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of Bonds are contingent on the sale and delivery of the Bonds. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System.

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.

### **Litigation**

On the date of delivery of the Bonds to the Purchaser, the District will execute and deliver to the Purchaser a certificate to the effect that, except as disclosed herein, no litigation of any nature has been filed or is pending, as of that date, to restrain or enjoin the issuance or delivery of the Bonds or which would affect the provisions made for their payment or security or in any manner question the validity of the Bonds.

In the opinion of various officials of the Issuer, there is no litigation or other proceeding pending against or, to their knowledge, threatened against the Issuer in any court, agency, or administrative body (either state or federal) wherein an adverse decision would materially adversely affect the financial condition of the Issuer.

### **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 and investment securities 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 of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency. (See "OTHER PERTINENT INFORMATION - 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 serve as 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.

## **OTHER PERTINENT INFORMATION**

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

The sale of the Bonds has not been registered under the Securities Act of 1933, as amended, in reliance upon exemptions provided in such Act; the Bonds have not been qualified under the Securities Act of Texas in reliance upon exemptions contained therein; nor have the Bonds been qualified under the securities acts of any other jurisdiction. The Issuer assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which they may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for 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.

### **Rating**

S&P Global Ratings ("S&P") has rated the Bonds "AAA" based on the payment of the Bonds being guaranteed by the State of Texas Permanent School Fund. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein. The unenhanced, underlying rating of the District's unlimited ad valorem tax-supported bonds, which includes the Bonds, is "A+" (stable outlook) by S&P. The rating of the Bonds by S&P reflect only the view of such company at the time the ratings are given and the District makes no representation as to the appropriateness of the rating. There is no assurance that the rating will continue for any given period of time, or that the ratings will not be revised downward or withdrawn entirely by S&P, if, in the judgment of said company, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

### **Authenticity of Financial Information**

The financial data and other information contained herein have been obtained from the Issuer's records, audited financial statements and other sources which are believed to be reliable. All of the summaries of the statutes, documents and Order contained in this Official Statement are made subject to all of the provisions of such statutes, documents and Order. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. All information contained in this Official Statement is subject, in all respects, to the complete body of information contained in the original sources thereof and no guaranty, warranty or other representation is made concerning the accuracy or completeness of the information herein. In particular, no opinion or representation is rendered as to whether any projection will approximate actual results, and all opinions, estimates and assumptions, whether or not expressly identified as such, should not be considered statements of fact.

### **Financial Advisor**

Frost Bank Capital Markets Division is employed as the Financial Advisor to the Issuer in connection with the issuance of the Bonds. In this capacity, the Financial Advisor has compiled certain data relating to the Bonds and has drafted 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 Issuer to determine the accuracy or completeness of this Official Statement. Because of its limited participation, the Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein. The fees for the Financial Advisor are contingent upon the issuance, sale and delivery of the Bonds.

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 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.

### **Forward Looking Statements**

The statements contained in this Official Statement, and in any other information provided by the Issuer, that are not purely historical, are forward-looking statements, including statements regarding the Issuer'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 Issuer on the date hereof, and the Issuer assumes no obligation to update any such forward-looking statements. It is important to note that the Issuer'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 Issuer. 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.

## Winning Bidder

After requesting competitive bids for the Bonds, the District accepted the bid from \_\_\_\_\_ (the "Purchaser") to purchase the Bonds at the interest rates shown on the page 2 of this Official Statement at a price of par, plus a cash premium of \$\_\_\_\_\_, (representing the par amount of the Bonds, plus a net original issue reoffering premium of \$\_\_\_\_\_, less Purchaser's discount of \$\_\_\_\_\_), plus accrued interest from the Dated Date. The District can give no assurance that any trading market will be developed for the District after their sale by the District to the Purchaser. The District has no control over the price at which the Bonds are subsequently sold and the initial yield at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Purchaser.

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

## Authorization of the Official Statement

The Official Statement has been approved as to form and content and the use thereof in the offering of the Bonds has been authorized, ratified and approved by the Board of Trustees in the Order, and the Purchaser will be furnished, upon request, at the time of payment for and the delivery of the Bonds, a certified copy of such approval, duly executed by the proper officials of the Issuer.

The Order also approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto issued on behalf of the Issuer, and authorized its further use in the reoffering of the Bonds by the Purchaser.

This Official Statement has been approved by the Board of Trustees of the Issuer for distribution in accordance with the provisions of the United States Securities and Exchange Commission's rule codified at 17 C.F.R. Section 240.15c2-12.

## GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT

/s/ \_\_\_\_\_  
President, Board of Trustees  
Goldthwaite Consolidated Independent School District

/s/ \_\_\_\_\_  
Secretary, Board of Trustees  
Goldthwaite Consolidated Independent School District

## **APPENDIX A**

Financial Information for the Goldthwaite Consolidated Independent School District

## FINANCIAL INFORMATION OF THE ISSUER

ASSESSED VALUATION - TABLE 1

TABLE 1

<b>2016 Total Appraised Value</b>	<b>\$1,006,425,600</b>
Less:	
Homestead Exemption Loss	\$22,712,015
Over-65 Homestead Exemption Loss	3,971,820
Disabled/Unemployable Veterans Homestead Exemptions	331,570
Veterans Exemption Loss	1,043,860
Productivity and Market Value Difference	559,964,800
Pollution Control	12,210
Minimum Value Loss	950,380
Construction Exemption	7,430,140
10% Cap Loss	334,380
<b>2016 Net Taxable Assessed Valuation</b>	<b>\$409,674,425 <sup>(1)</sup></b>

Note: The above figures were taken from the Hamilton, Lampasas and Mills Central Appraisal Districts which are compiled during the initial phase of the tax year and are subject to change.

<sup>(1)</sup> See APPENDIX A - "Chapter 313, Tax Code, Property Value Limitation Agreements" and "Tax Value Concentration."

## GENERAL OBLIGATION BONDED DEBT

[As of June 1, 2017]

### General Obligation Debt Outstanding:

#### Unlimited Tax Debt<sup>(1)&(2)</sup>:

Unlimited Tax Refunding Bonds, Series 2009	\$875,000
Unlimited Tax School Building Bonds, Series 2013	7,320,000
The Bonds <sup>(2)</sup>	<u>15,500,000</u>
Total Unlimited Tax Debt <sup>(2)</sup>	\$23,695,000
Total General Obligation Debt <sup>(2)</sup>	\$23,695,000
Audited, General Obligation Interest and Sinking Fund Balance as of August 31, 2016	\$149,184
2016 Net Taxable Assessed Valuation	\$409,674,425
Ratio of Total General Obligation Debt to 2016 Net Taxable Assessed Valuation <sup>(2)</sup>	5.78%

<sup>(1)</sup> See "AD VALOREM TAX PROCEDURES" in the Official Statement for a description of the Issuer's taxation procedures.

<sup>(2)</sup> Preliminary, subject to change.

Area of District:	420 Square Miles
Estimated Population:	3,091 in Year 2016
Per Capita 2016 Net Assessed Valuation:	\$132,538
Per Capita 2016 General Obligation Debt:	\$7,666

**ESTIMATED GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS**

Year Ending 8/31	Current Total Debt Service	The Bonds <sup>(1)</sup>			Combined Debt Service <sup>(1)</sup>
		Principal	Interest <sup>(2)</sup>	Total	
2017	\$606,793				\$606,793
2018	606,888	\$255,000	\$697,500	\$952,500	1,559,388
2019	611,433	265,000	686,025	951,025	1,562,458
2020	605,153	280,000	674,100	954,100	1,559,253
2021	608,433	290,000	661,500	951,500	1,559,933
2022	610,843	305,000	648,450	953,450	1,564,293
2023	610,585	315,000	634,725	949,725	1,560,310
2024	459,488	330,000	620,550	950,550	1,410,038
2025	459,488	345,000	605,700	950,700	1,410,188
2026	458,988	360,000	590,175	950,175	1,409,163
2027	460,188	380,000	573,975	953,975	1,414,163
2028	460,988	395,000	556,875	951,875	1,412,863
2029	461,388	410,000	539,100	949,100	1,410,488
2030	461,388	430,000	520,650	950,650	1,412,038
2031	460,988	450,000	501,300	951,300	1,412,288
2032	460,188	470,000	481,050	951,050	1,411,238
2033	458,988	490,000	459,900	949,900	1,408,888
2034	462,388	515,000	437,850	952,850	1,415,238
2035	460,188	535,000	414,675	949,675	1,409,863
2036	462,588	560,000	390,600	950,600	1,413,188
2037	463,563	585,000	365,400	950,400	1,413,963
2038	458,900	615,000	339,075	954,075	1,412,975
2039	458,813	640,000	311,400	951,400	1,410,213
2040	462,625	670,000	282,600	952,600	1,415,225
2041	460,563	700,000	252,450	952,450	1,413,013
2042	462,844	730,000	220,950	950,950	1,413,794
2043	459,250	765,000	188,100	953,100	1,412,350
2044		800,000	153,675	953,675	953,675
2045		835,000	117,675	952,675	952,675
2046		870,000	80,100	950,100	950,100
2047		910,000	40,950	950,950	950,950
	<u>\$13,473,919</u>	<u>\$15,500,000</u>	<u>\$13,047,075</u>	<u>\$28,547,075</u>	<u>\$42,020,994</u>

<sup>(1)</sup> Preliminary, subject to change.

<sup>(2)</sup> Preliminary, subject to change. Calculated at an assumed rate for illustration purposes only.

**TAX ADEQUACY**

2016 Net Taxable Assessed Valuation		\$409,674,425
Estimated Maximum Annual Debt Service Requirements for Year Ending:	8/31/2022	\$1,564,293
Less: Existing Debt Allotment		0
Less: Instructional Facilities Allotment		0
Net Debt Service Requirement		<u>\$1,564,293</u>
Indicated Interest and Sinking Fund Tax Rate		\$0.3897
Indicated Interest and Sinking Fund Tax Levy at the following Collections:	98%	\$1,564,413

Note: See "Tax Data" herein.

**INTEREST AND SINKING FUND MANAGEMENT INDEX**

Audited, Interest and Sinking Fund Balance, Fiscal Year Ending: 8/31/2016	\$149,184
2016 Interest and Sinking Fund Tax Levy at 98% Collections Produce	664,852
Plus: Existing Debt Allotment	0
Plus: Instructional Facilities Allotment	0
Total Available for Debt Service	<u>\$814,036</u>
Less: General Obligation Debt Service Requirements, Fiscal Year Ending: 8/31/2017	<u>606,793</u>
Estimated Balance at Fiscal Year Ended 8/31/2017	<u><u>\$207,244</u></u>

**ESTIMATED GENERAL OBLIGATION PRINCIPAL REPAYMENT SCHEDULE**

<b>Year Ending 8/31</b>	<b>Currently Outstanding Obligations Principal Repayment Schedule</b>	<b>The Bonds Principal Repayment Schedule*</b>	<b>Combined Principal Repayment Schedule*</b>	<b>Obligations Remaining Outstanding End of the Year*</b>	<b>Percent of Principal Retired*</b>
2017	\$260,000		\$260,000	\$23,435,000	
2018	270,000	\$255,000	525,000	22,910,000	
2019	285,000	265,000	550,000	22,360,000	
2020	290,000	280,000	570,000	21,790,000	
2021	305,000	290,000	595,000	21,195,000	10.55%
2022	320,000	305,000	625,000	20,570,000	
2023	335,000	315,000	650,000	19,920,000	
2024	200,000	330,000	530,000	19,390,000	
2025	210,000	345,000	555,000	18,835,000	
2026	220,000	360,000	580,000	18,255,000	22.96%
2027	230,000	380,000	610,000	17,645,000	
2028	240,000	395,000	635,000	17,010,000	
2029	250,000	410,000	660,000	16,350,000	
2030	260,000	430,000	690,000	15,660,000	
2031	270,000	450,000	720,000	14,940,000	36.95%
2032	280,000	470,000	750,000	14,190,000	
2033	290,000	490,000	780,000	13,410,000	
2034	305,000	515,000	820,000	12,590,000	
2035	315,000	535,000	850,000	11,740,000	
2036	330,000	560,000	890,000	10,850,000	54.21%
2037	345,000	585,000	930,000	9,920,000	
2038	355,000	615,000	970,000	8,950,000	
2039	370,000	640,000	1,010,000	7,940,000	
2040	390,000	670,000	1,060,000	6,880,000	
2041	405,000	700,000	1,105,000	5,775,000	75.63%
2042	425,000	730,000	1,155,000	4,620,000	
2043	440,000	765,000	1,205,000	3,415,000	
2044		800,000	800,000	2,615,000	
2045		835,000	835,000	1,780,000	
2046		870,000	870,000	910,000	96.16%
2047		910,000	910,000	0	100.00%
	<u>\$8,195,000</u>	<u>\$15,500,000</u>	<u>\$23,695,000</u>		

<sup>(\*)</sup> Preliminary, subject to change.

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The District has no capital leases.

*Note: The above information was taken from the Issuer's 2016 Annual Financial Report.*

## TAXABLE ASSESSED VALUATION FOR TAX YEARS 2012-2016

TABLE 3

Tax Year	Net Taxable Assessed Valuation	Change From Preceding Year	
		Amount (\$)	Percent
2012	\$160,451,677	\$20,690,487	14.80%
2013	199,044,574	38,592,897	24.05%
2014	397,702,391	198,657,817	99.81%
2015	222,029,624	(175,672,767)	-44.17%
2016	409,674,425	187,644,801	84.51%

*Note: The above figures were taken from the Issuer's 2016 Annual Financial Report and the Hamilton, Lampasas and Mills Central Appraisal Districts. See "CHAPTER 313, TAX CODE, PROPERTY VALUE LIMITATION AGREEMENTS" and "TAX VALUE CONCENTRATION," below.*

## PRINCIPAL TAXPAYERS

TABLE 4

Name	Type of Property	2016 Net Taxable Assessed Valuation	% of Total 2016 Assessed Valuation
Invenergy - Goldthwaite Wind	Windmill Power	\$185,140,700	45.19%
Oncor Electric Delivery Company LLC	Electric Utility	14,637,920	3.57%
BNSF Railway Company	Railroad	11,010,730	2.69%
LCRA Transmission Service Corp.	Powerplant	7,513,950	1.83%
Central Texas Telephone Cooperative	Telephone Cooperate	4,626,810	1.13%
James Lee Hoffpauir	Real Estate	1,626,680	0.40%
O.P. Jr. & Nancy Alice Leonard	Real Estate	1,582,120	0.39%
Schusters of Texas, Inc.	Dried Flowers Retail	1,311,820	0.32%
Teresa Turner	Real Estate	1,279,260	0.31%
Clarence E. & Allene M. Shillings	Real Estate	1,172,970	0.29%
Total (56.12% of 2016 Net Taxable Assessed Valuation)		\$229,902,960	56.12%

*Note: The above information was taken from the Hamilton, Lampasas and Mills Central Appraisal Districts. See "TAX VALUE CONCENTRATION" herein below.*

## TAX VALUE CONCENTRATION

As shown in Table 4 above, the top ten taxpayers in the District currently account for approximately fifty-six percent (56%) of the District's tax base. The top taxpayer alone accounts for approximately forty-five percent (45%) of the District's tax base. Adverse developments in economic conditions, particularly in the energy industry, could impact these taxpayers and the tax values in the District, resulting in less local tax revenues. If any major taxpayer were to default in the payment of taxes, the ability of the District to make timely payment of debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax lien, which is a time-consuming process which can only occur annually, or, perhaps, to sell tax anticipation notes until such amounts could be collected, if ever. See "REGISTERED OWNERS' REMEDIES" in this Official Statement.

## CHAPTER 313, TAX CODE, PROPERTY VALUE LIMITATION AGREEMENTS

The District's M&O taxable value has been decreased by a value limitation agreement entered into with Goldthwaite Wind Energy, LLC ("GWE") pursuant to Chapter 313 of the Tax Code (the "GWE Value Limitation Agreement"). Commencing with the 2015 tax year, GWE's taxable property value for M&O purposes was decreased to \$10,000,000 through the 2022 tax year, after which the M&O property tax limitation expires. The current tax roll levy reflects the District's taxable value, which was decreased by the GWE Value Limitation Agreement.

The District has also entered into a value limitation agreement with Priddy Wind Energy, LLC. ("Priddy," and together with GWE, the "Chapter 313 Participants") under Chapter 313 of the Tax Code (the "Priddy Value Limitation Agreement," and together with the GWE Value Limitation Agreement, the "Value Limitation Agreements"). Under the Priddy Value Limitation Agreement, commencing with the 2018 tax year, Priddy's taxable value for M&O tax purposes will be capped at \$20,000,000 through the 2027 tax year, after which there will be no M&O property tax limitation.

The Value Limitation Agreements apply only to the M&O taxable property value. The taxable value for Interest and Sinking purposes is not subject to the limitation. The Chapter 313 Participants will compensate the District to offset any loss to M&O revenue over the term of the Value Limitation Agreements. The payments made by each of the Chapter 313 Participants pursuant to their respective Value Limitation Agreements contribute to the District's general fund above and beyond what is generated through the school finance system.

**CLASSIFICATION OF ASSESSED VALUATION<sup>(1)</sup>**
**TABLE 5**

Category	2016	% of Total	2015	% of Total	2014	% of Total
Real, Residential, Single-Family	\$65,281,620	6.49%	\$64,359,600	6.37%	\$63,277,650	6.88%
Real, Residential, Multi-Family	553,880	0.06%	691,420	0.07%	545,050	0.06%
Real, Vacant Lots/Tracts	779,780	0.08%	767,840	0.08%	720,890	0.08%
Real, Acreage (Land Only)	583,379,740	57.97%	583,205,970	57.70%	520,766,310	56.66%
Real, Farm and Ranch Improvements	2,970,870	0.30%	2,056,720	0.20%	1,507,110	0.16%
Real, Rural Land (NQ)/Residential Improvements	87,744,600	8.72%	84,958,430	8.41%	76,794,240	8.36%
Real, Commercial	19,369,760	1.92%	16,258,270	1.61%	15,509,250	1.69%
Real, Industrial	186,131,280	18.49%	201,894,770	19.98%	180,397,150	19.63%
Real & Tangible, Personal Utilities	39,781,370	3.95%	44,454,610	4.40%	43,109,450	4.69%
Tangible Personal, Commercial	7,221,200	0.72%	7,279,080	0.72%	7,474,350	0.81%
Tangible Personal, Industrial	1,632,200	0.16%	1,351,480	0.13%	1,386,260	0.15%
Tangible Personal, Mobile Homes	958,510	0.10%	863,060	0.09%	886,170	0.10%
Residential Inventory	52,500	0.01%	52,500	0.01%	52,500	0.01%
Special Inventory	2,936,620	0.29%	2,540,270	0.25%	6,679,840	0.73%
Total Exempt	7,631,670	0.76%	0	0.00%	0	0.00%
<b>Total Appraised Value</b>	<b>\$1,006,425,600</b>	<b>100.00%</b>	<b>\$1,010,734,020</b>	<b>100.00%</b>	<b>\$919,106,220</b>	<b>100.00%</b>
Less:						
Homestead Exemption Loss	\$22,712,015		\$22,585,720		\$13,872,930	
Over-65 Homestead Exemption Loss	3,971,820		3,963,050		4,274,130	
Disabled/Unemployable Veterans Homestead Exemptions	331,570		587,610		608,130	
Veterans Exemption Loss	1,043,860		337,020		371,730	
Productivity and Market Value Difference	559,964,800		559,820,850		499,090,590	
Pollution Control	12,210		12,210		0	
Minimum Value Loss	950,380		0		0	
Construction Exemption	7,430,140		0		0	
10% Cap Loss	334,380		302,800		261,580	
<b>Net Taxable Assessed Valuation</b>	<b>\$409,674,425</b>		<b>\$423,124,760</b>		<b>\$400,627,130</b>	

Note: The above figures were taken from the Lampasas and Mills Central Appraisal Districts which is compiled during the initial phase of the tax year and are subject to change.

<sup>(1)</sup> See APPENDIX A - "Chapter 313, Tax Code, Property Value Limitation Agreements" and "Tax Value Concentration."

**TAX DATA**
**TABLE 6**

Taxes are due October 1 and become delinquent after January 31. No split payments or discounts are allowed. Penalties and Interest: (a) a delinquent tax incurs a penalty of six percent of the amount of the tax for the first calendar month it is delinquent plus one percent for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. However, a tax delinquent on July 1 incurs a total penalty of twelve percent of the amount of the delinquent tax without regard to the number of months the tax has been delinquent; (b) a delinquent tax accrues interest at a rate of one percent for each month or portion of a month the tax remains unpaid; and an additional penalty up to a maximum of 15% of taxes, penalty and interest may be imposed to defray costs of collection for taxes delinquent after July 1. All percentage of collections set forth below exclude penalties and interest.

Tax Year	Net Taxable Assessed Valuation	Tax Rate	Tax Levy	% Collections		Year Ended
				Current	Total	
2012	\$160,451,677	\$1.1153	\$1,792,705	98.90	100.47	8/31/2013
2013	199,044,574	1.3063	2,498,824	98.98	100.23	8/31/2014
2014	397,702,391	1.0539	4,198,255	98.97	99.54	8/31/2015
2015	222,029,624	1.1911	2,647,226	98.72	99.55	8/31/2016
2016	409,674,425	1.1856	4,854,277	(in process)		8/31/2017

Note: The above figures were taken from the Issuer's 2016 Annual Financial Report and the Lampasas and Mills Central Appraisal Districts.

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**TAX RATE DISTRIBUTION**
**TABLE 7**

<b>Tax Year</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
General Fund	\$1.0200	\$1.0400	\$0.9089	\$1.0400	\$1.0400
I & S Fund	<u>0.1656</u>	<u>0.1511</u>	<u>0.1450</u>	<u>0.2663</u>	<u>0.0753</u>
Total Tax Rate	\$1.1856	\$1.1911	\$1.0539	\$1.3063	\$1.1153

Note: The above information was taken from the Issuer's 2016 Annual Financial Report and the Hamilton, Lampasas and Mills Central Appraisal Districts.

**GENERAL FUND COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES AND ANALYSIS OF CHANGES IN FUND BALANCES**
**TABLE 8**

<b>Fiscal Year Ended</b>	<b>8/31/2016</b>	<b>8/31/2015</b>	<b>8/31/2014</b>	<b>8/31/2013</b>	<b>8/31/2012</b>
<b>Revenues:</b>					
Local and Intermediate Sources	\$3,843,728	\$3,724,214	\$2,321,133	\$1,856,728	\$1,777,865
State Program Revenues	<u>2,880,758</u>	<u>3,255,450</u>	<u>3,382,523</u>	<u>3,127,605</u>	<u>3,171,393</u>
<b>Total Revenues</b>	<b>\$6,724,486</b>	<b>\$6,979,664</b>	<b>\$5,703,656</b>	<b>\$4,984,333</b>	<b>\$4,949,258</b>
<b>Expenditures:</b>					
Instruction	\$3,024,219	\$2,847,973	\$3,130,673	\$2,662,928	\$2,484,030
Instruction Resources and Media Services	279,629	250,565	213,545	210,543	195,398
Curriculum and Staff Development	18,721	19,797	18,825	17,982	17,885
School Leadership	284,607	231,738	318,914	207,744	204,807
Guidance, Counseling & Evaluation Services	128,865	86,486	116,257	113,790	112,436
Health Services	93,381	50,038	42,195	44,969	80,915
Student (Pupil) Transportation	247,784	260,230	234,687	239,989	233,964
Cocurricular/Extracurricular Activities	410,953	445,995	343,735	368,487	333,263
General Administration	567,003	530,913	666,280	424,854	414,573
Plant Maintenance and Operations	701,250	703,899	624,387	517,086	575,100
Security and Monitoring Services	0	0	1,701	0	0
Data Processing Services	0	0	28,575	0	0
Capital Outlay	11,203	119,872	907,207	327,320	111,080
Other Intergovernmental Charges	0	0	140,204	137,660	114,239
Payments to Fiscal Agent/Member Dist.-SSA	<u>148,928</u>	<u>157,795</u>	<u>16,045</u>	<u>0</u>	<u>0</u>
<b>Total Expenditures</b>	<b>\$5,916,543</b>	<b>\$5,705,301</b>	<b>\$6,803,230</b>	<b>\$5,273,352</b>	<b>\$4,877,690</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$807,943	\$1,274,363	(\$1,099,574)	(\$289,019)	\$71,568
<b>Other Financing Sources (Uses):</b>					
Proceeds from Capital Leases	\$0	\$0	\$0	\$0	\$0
Sale of Real or Personal Property	0	0	158,599	0	0
Other Resources	0	0	13,754	0	0
Transfer In	0	0	0	0	19,378
Transfers Out	<u>(53,110)</u>	<u>(36,511)</u>	<u>(2,022,299)</u>	<u>(44,000)</u>	<u>(19,684)</u>
<b>Total Other Financing Sources (Uses):</b>	<b>(\$53,110)</b>	<b>(\$36,511)</b>	<b>(\$1,849,946)</b>	<b>(\$44,000)</b>	<b>(\$306)</b>
Net Change in Fund Balance	\$754,833	\$1,237,852	(\$2,949,520)	(\$333,019)	\$71,262
Fund Balance - Beginning	\$2,392,457	\$1,154,604	\$3,746,483	\$4,079,500	\$4,008,238
Prior Period Adjustment	0	0	357,641	0	0
Fund Balance - Beginning, as Restated	<u>0</u>	<u>0</u>	<u>4,104,124</u>	<u>0</u>	<u>0</u>
<b>Fund Balance - Ending</b>	<b>\$3,147,290</b>	<b>\$2,392,456</b>	<b>\$1,154,604</b>	<b>\$3,746,481</b>	<b>\$4,079,500</b>

Note: The above information was taken from the Issuer's Annual Reports dated August 31, 2012-2016.

## OVERLAPPING DEBT DATA AND INFORMATION

(As of June 1, 2017)

The following table indicates the indebtedness, defined as outstanding bonds payable from ad valorem taxes, of governmental entities overlapping the District and the estimated percentages and amounts of such indebtedness attributable to property within the District. Expenditures of the various taxing bodies overlapping the territory of the Issuer are paid out of ad valorem taxes levied by these taxing bodies on properties overlapping the Issuer. These political taxing bodies are independent of the Issuer and may incur borrowings to finance their expenditures.

The following statements of direct and estimated overlapping ad valorem bonds were developed from information contained in the "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the Issuer, the Issuer 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 below may have authorized or issued additional bonds since the date stated below, and such entities may have programs requiring the authorization and/or issuance of substantial amounts of additional bonds, the amount of which cannot be determined.

<b>Taxing Body</b>	<b>Gross Debt</b>	<b>% Overlapping</b>	<b>Amount Overlapping</b>
Goldthwaite, City of	\$0	100.00%	\$0
Hamilton County	291,000	2.59%	7,537
Lampasas County	2,740,000	1.68%	46,032
Mills County	7,390,000	58.19%	4,300,241
Total Gross Overlapping Debt			\$4,353,810
Goldthwaite ISD	\$23,695,000 *	100.00%	\$23,695,000
Total Direct and Overlapping Debt			\$28,048,810
Ratio of Direct and Overlapping Debt to the 2016 Assessed Valuation			6.85%
Per Capita Direct and Overlapping Debt			\$9,074

Source: Texas Municipal Reports published by the Municipal Advisory Council of Texas.

\*Includes the Bonds. Preliminary, subject to change.

## ASSESSED VALUATION AND TAX RATE OF OVERLAPPING ISSUERS

<b>Governmental Subdivision</b>	<b>2016 Assessed Valuation</b>	<b>2016 Tax Rate</b>
Goldthwaite, City of	\$77,468,200	\$0.4840
Hamilton County	552,718,945	0.5605
Lampasas County	1,262,863,057	0.6689
Mills County	461,309,842	0.7996

Source: The Hamilton, Lampasas and Mills Central Appraisal Districts.

## AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS OF DIRECT AND OVERLAPPING GOVERNMENTAL SUBDIVISIONS

<b>Issuer</b>	<b>Date of Authorization</b>	<b>Purpose</b>	<b>Amount Authorized</b>	<b>Issued To-Date</b>	<b>Unissued</b>
Goldthwaite, City of	07/08/72	Sewer Improvements	\$130,000	\$0	\$130,000
Hamilton County	None				
Lampasas County	05/06/17		18,750,000	0	18,750,000
Mills County	None				
Goldwaite ISD	5/6/2017	School Building Bonds	15,500,000	15,500,000 *	0 *

Source: Texas Municipal Reports published by the Municipal Advisory Council of Texas.

\*Represents the issuance of the Bonds. Preliminary, subject to change.

**1. Plan Description:**

The District participates in a cost-sharing multiple-employer defined benefit pension plan that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). TRS' defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. The TRS 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.

**2. Pension Plan Fiduciary Net Position:**

Detailed information about the TRS' 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 [www.trs.state.tx.us/about/documents/cafr.pdf#CAFR](http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR): by writing to TRS at 1000 Red River Street, Austin, TX 78701-2698; or by calling (512) 542-6592.

**3. Benefits Provided:**

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes, including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs, can be granted by the Texas Legislature, as noted in the plan description in (1.) above.

**4. 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.

**Contribution Rates**

	2015	2016
Member	6.7%	7.2%
Non-Employer Contributing Entity (NECE - State)	6.8%	6.8%
Employers	6.8%	6.8%
District's 2016 Employer Contributions	\$162,484	
District's 2016 Member Contributions	\$343,235	
NECE 2015 On-Behalf Contributions to District	\$211,697	

(Remainder of this page intentionally left blank.)

**PENSION PLAN (continuation from previous page)**

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

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

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

In addition to the employer contributions listed above, when employing a retiree of the TRS the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

- When employing a retiree of the 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.

**5. Actuarial Assumptions:**

The total pension liability in the August 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2015
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8%
Long-term expected Investment Rate of Return	8%
Inflation	2.5%
Salary Increases including Inflation	3.5% to 9.5%
Payroll Growth Rate	2.5%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

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.

*(To be continued on next page.)*

**PENSION PLAN (continuation from previous page)****6. 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 fiscal 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 expected rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2015 are summarized below:

**Teacher Retirement System of Texas**  
**Asset Allocation and Long-Term Expected Real Rate of Return**  
**As of August 31, 2015**

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-term Expected Geometric Real Rate of Return</b>	<b>Expected Contribution to Long-term Portfolio Returns*</b>
<b>Global Equity</b>			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directorial Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
<b>Stable Value</b>			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Hedge Funds (Stable Value)	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
<b>Real Return</b>			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
<b>Risk Parity</b>			
Risk Parity	5%	6.7%	0.3%
Inflation Expectations			2.2%
Alpha			1.0%
<b>Total</b>	<b>100%</b>		<b>8.7%</b>

\*The expected contribution to returns incorporates the volatility drag resulting from the conversion between arithmetic and geometric mean returns.

**7. 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 2015 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	\$3,002,178	\$1,916,110	\$1,011,477

(To be continued on next page.)

**PENSION PLAN (continuation from previous page)**

**8. Pension Liabilities, Pension Expense, and Deferred Outflows and Deferred Inflows of Resources Related to Pensions :**

At August 31, 2016, the District reported a liability of \$1,916,110 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	\$1,916,110
State's proportionate share of the net pension liability associated with the District	<u>2,526,468</u>
Total	\$4,442,578

The net pension liability was measured as of August 31, 2015 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, 2014 through August 31, 2015.

At August 31, 2015 the employer's proportion of the collective net pension liability was 0.0054206%. which was an increase (decrease) of 0.00021751% from its proportion measured as of August 31, 2014.

**Changes Since the Prior Actuarial Valuation - The following are changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period:**

**Economic Assumptions**

- a. The inflation assumption was decreased from 3.00% to 2.50%.
- b. The ultimate merit assumption for long-service employees was decreased from 1.25% to 1.00%.
- c. In accordance with the observed experience, there were small adjustments in the service-based promotional/longevity component of the salary scale.
- d. The payroll growth assumption was lowered from 3.50% to 2.50%.

**Mortality Assumptions**

- e. The post-employment mortality tables for non-disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
- f. The post-retirement mortality tables for disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
- g. The pre-retirement mortality tables for active employees were updated to use 90% of the recently published RP-2014 mortality table for active employees. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.

**Other Demographics Assumptions**

- h. Previously, it was assumed 10% of all members who had contributed in the past 5 years to be an active member. This was an implicit rehire assumption because teachers have historically had a high incidence of terminating employment for a time and then returning to the workforce at a later date. This methodology was modified to add a more explicit valuation of the rehire incidence in the termination liabilities, and therefore these 10% are no longer being counted as active members.
- i. There were adjustments to the termination patterns for members consistent with experience and future expectations. The termination patterns were adjusted to reflect the rehire assumption. The timing of the termination decrement was also changed from the middle of the year to the beginning to match the actual pattern in the data.
- j. Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.
- k. Small adjustments to the disability patterns were made for members consistent with experience and future expectations. Two separate patterns were created based on whether the member has 10 years of service or more.
- l. For members that become disabled in the future, it is assumed 20% of them will choose a 100% joint and survivor annuity option.

**Actuarial Methods and Policies**

- m. The method of using celled data in the valuation process was changed to now using individual data records to allow for better reporting of some items, such as actuarial gains and losses by source.

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, 2016, the District recognized pension expense of \$359,981 and revenue of \$359,981 for support provided by the State.

*(To be continued on next page.)*



**PENSION PLAN (conclusion)**

At August 31, 2016, the District reported its proportionate share of the TRS' deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$11,150	\$73,638
Changes in actuarial assumptions	56,174	68,358
Difference between projected and actual investment earnings	240,296	126,779
Changes in proportion and differences between the District's contributions and the proportionate share of contributions	497,085	581
District contributions paid to TRS subsequent to the measurement date	<u>162,484</u>	<u>0</u>
Total	\$967,189	\$269,356

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

Year Ended August 31,	Pension Expense Amount
2017	\$94,619
2018	94,619
2019	94,619
2020	171,499
2021	79,993
Thereafter	0

*Note: The above information was taken from the Issuer's Annual Financial Reports dated August 31, 2016.*

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**Retiree Health Care Plans****1. TRS-Care:****a. 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 the Teacher Retirement System of Texas (TRS). TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The 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 web site at [www.trs.state.tx.us](http://www.trs.state.tx.us) under the TRS Publications heading, by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling the TRS Communications Department at 1-800-223-8778.

**b. Funding Policy:**

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. The State of Texas contribution rate was 1% for fiscal years 2015 and 2014, and 0.5% for fiscal year 2013. The active public school employee contributions rates were 0.65% of public school payroll, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2016, 2015 and 2014. For the years ended August 31, 2016, 2015, and 2014, the State's contributions to TRS-Care were \$47,671, \$45,483, and \$50,302, respectively, the active member contributions were \$30,987, \$29,564, and \$30,710, respectively, and the District's contributions were \$26,219, \$29,564, and \$30,710, respectively, which equaled the required contributions each year.

**2. Medicare Part D Subsidies**

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 the Texas Public School Retired Employee Group Insurance Program (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, 2016, 2015, and 2014, the subsidy payments received by TRS-Care on behalf of the District were \$18,803, \$20,353, and \$12,194, respectively.

*Note: The above information was taken from the Issuer's 2016 Annual Financial Report.*

**EMPLOYEE HEALTH CARE COVERAGE****TABLE 11**

During the year ended August 31, 2016, employees of the District were covered by State TRS Active Care. The District paid premiums of \$225 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer.

*Note: The above information was taken from the Issuer's 2016 Annual Financial Report.*

## **APPENDIX B**

General Information Regarding the Goldthwaite Independent School District, the City of Goldthwaite, Texas  
and Hamilton, Lampasas and Mills Counties, Texas

**GENERAL INFORMATION REGARDING THE GOLDTHWAITE INDEPENDENT SCHOOL DISTRICT,  
THE CITY OF GOLDTHWAITE AND  
HAMILTON, LAMPASAS AND MILLS COUNTIES, TEXAS**

**The District:**

Goldthwaite Consolidated Independent School District (the "Issuer" or the "District") is a ranching area that includes the City of Goldthwaite, the Mills County seat and principal commercial center, located at the intersection of U.S. Highways 84 and 183 and State Highway 16. The City serves as a ranch market for the District's farmers.

**The Schools:**

**Historical Enrollment for the District**

School Year	Enrollment
2012-13	593
2013-14	593
2014-15	587
2015-16	585
2016-17	562

**Enrollment and School Facilities**

School	Grades	2016-2017 Enrollment	Teachers
Goldthwaite High School	9-12	168	22
Goldthwaite Middle School	6-8	123	12
Goldthwaite Elementary School	EE-5	271	24
TOTAL:		562	58

**Educational status of the teachers is as follows:**

Master's degree	9.7
Bachelor's degree	49
Average years of classroom experience per teacher	11.9

**Personnel distribution is as follows:**

District Level Administrators	2
Building Level Administrators	3
Instructional Staff	58
Professional Support Staff (Counselors, Librarians, Nurses, Social Workers, Etc.)	8.3
General Personnel (Secretaries, Aides, Clerks, Bus Drivers, Food Service, Maintenance, Etc.)	<u>36</u>
TOTAL	107.3

Teacher salaries are competitive with surrounding districts. Teacher salaries range from \$31,080 for beginning teachers to a maximum of \$68,627.

**THE CITY OF GOLDTHWAITE AND  
HAMILTON, LAMPASAS AND MILLS COUNTIES, TEXAS**

**City of Goldthwaite, Texas:**

The City of Goldthwaite is the county seat and principal commercial center for Mills County. The City is located at the intersection of U.S. Highways 84 and 183 and State Highway 16 FM 574 and FM 2005. The estimated 2016 population was 1,868.

**Hamilton County:**

Hamilton County is a central Texas county traversed by U.S. Highways 84 and 281, State Highways 22 and 36 and nine farm-to-market roads. The County was the state's 2nd largest producer of oats for 2015. The estimated 2016 population was 8,517.

**County seat:** Lampasas



Economic Base: Mineral: Oil and gas.

Industry: Varied manufacturing, tourism, hunting leases and agribusiness.

Agricultural: Wheat, Sorghums, sheep, pecans, oats, horses, hay, dairy and beef cattle.

Oil and Gas – 2016: The county ranks 207 out of all the counties in Texas for oil production. The county ranks 162 out of all the counties in Texas for gas production.

Oil Production:	<u>Year</u>	<u>Description</u>	<u>Volume</u>	<u>% Change from Previous Year</u>
(Texas Railroad Commission)	2015	Oil	231 BBL	-14.13
	2016	Oil	57 BBL	-75.32

Gas Well Production:	<u>Year</u>	<u>Description</u>	<u>Volume</u>	<u>% Change from Previous Year</u>
(Texas Railroad Commission)	2015	GW Gas	87,882 MCF	-9.75
	2016	GW Gas	98,932 MCF	12.57

Condensate:	<u>Year</u>	<u>Description</u>	<u>Volume</u>	<u>% Change from Previous Year</u>
(Texas Railroad Commission)	2015	Condensate	47 BBL	-45.98
	2016	Condensate	178 BBL	278.72

Retail Sales & Effective Buying Income:	<u>Year</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Retail Sales		\$136.3M	\$108.1M	\$111.1M
Effective Buying Income (EBI)		\$177.2M	\$162.4M	\$151.4M
County Median Household Income		\$40,015	\$37,286	\$36,809
State Median Household Income		\$55,352	\$53,037	\$50,464
% of Households with EBI below \$25K		13.6%	13.3%	14.1%
% of Households with EBI above \$25K		66.3%	66.8%	67.1%

Employment Data:	<u>2016</u>		<u>2015</u>		<u>2014</u>	
	<u>Employed</u>	<u>Earnings</u>	<u>Employed</u>	<u>Earnings</u>	<u>Employed</u>	<u>Earnings</u>
1st Quarter:	2,454	\$20.4M	2,459	\$19.2M	2,463	\$19.3M
2nd Quarter:	2,485	\$22.3M	2,461	\$20.6M	2,512	\$20.4M
3rd Quarter:	N/A	N/A	2,443	\$20.4M	2,547	\$20.5M
4th Quarter:	N/A	N/A	2,384	\$20.7M	2,577	\$22.1M

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**Lampasas County:**

Lampasas County is a central Texas county traversed by U.S. Highways 183, 190 and 281 and four farm-to-market roads. The estimated 2016 population was 19,677.

**County seat:** Lampasas

Economic Base: Mineral: Sand, gravel and building stone.  
 Industry: Tourism, industrial plants and agribusiness.  
 Agricultural: Hay, goats, exotic wildlife and beef cattle.

Gas Well Production:	<u>Year</u>	<u>Description</u>	<u>Volume</u>	<u>% Change from Previous Year</u>
(Texas Railroad Commission)	2015	GW Gas	2,575 MCF	-70.99
	2016	GW Gas	0 MCF	-100.00

Retail Sales & Effective Buying Income:	Year	<u>2016</u>	<u>2015</u>	<u>2014</u>
	Retail Sales	\$415.9M	\$415.8M	\$317.8M
	Effective Buying Income (EBI)	\$416.2M	\$479.5M	\$485.1M
	County Median Household Income	\$42,283	\$45,254	\$46,170
	State Median Household Income	\$55,352	\$53,037	\$50,464
	% of Households with EBI below \$25K	14.2%	11.5%	10.1%
	% of Households with EBI above \$25K	65.7%	68.9%	70.6%

Employment Data:	<u>2016</u>		<u>2015</u>		<u>2014</u>	
	<u>Employed</u>	<u>Earnings</u>	<u>Employed</u>	<u>Earnings</u>	<u>Employed</u>	<u>Earnings</u>
1st Quarter:	4,459	\$35.6M	4,609	\$35.0M	4,407	\$33.8M
2nd Quarter:	4,496	\$36.8M	4,735	\$37.5M	4,584	\$34.6M
3rd Quarter:	N/A	N/A	4,659	\$37.1M	4,510	\$35.6M
4th Quarter:	N/A	N/A	4,614	\$39.0M	4,576	\$37.9M

**Mills County:**

Mills County is a central Texas county traversed by U.S. Highways 84, 183, State Highway 16 and four farm-to-market roads. The estimated 2016 population was 4,870.

**County seat:** Goldthwaite

Economic Base: Mineral: Insignificant.  
 Industry: Hunting leases and agribusiness.  
 Agricultural: Sheep, pecans, hay, goats and beef cattle.

Oil & Gas 2016: The county ranks 181 out of all the counties in Texas for gas production.

Gas Well Production:	<u>Year</u>	<u>Description</u>	<u>Volume</u>	<u>% Change from Previous Year</u>
(Texas Railroad Commission)	2015	GW Gas	3,067 MCF	-30.50
	2016	GW Gas	1,725 MCF	-43.76

Retail Sales & Effective Buying Income:	Year	<u>2016</u>	<u>2015</u>	<u>2014</u>
	Retail Sales	\$187.6M	\$115.5M	\$68.9M
	Effective Buying Income (EBI)	\$110.3M	\$96.8M	\$96.5M
	County Median Household Income	\$41,110	\$35,348	\$35,607
	State Median Household Income	\$55,352	\$53,037	\$50,464
	% of Households with EBI below \$25K	12.8%	16.6%	16.8%
	% of Households with EBI above \$25K	65.5%	61.8%	64.6%

Employment Data:	<u>2016</u>		<u>2015</u>		<u>2014</u>	
	<u>Employed</u>	<u>Earnings</u>	<u>Employed</u>	<u>Earnings</u>	<u>Employed</u>	<u>Earnings</u>
1st Quarter:	1,280	\$10.2M	1,353	\$10.7M	1,319	\$9.6M
2nd Quarter:	1,260	\$10.3M	1,379	\$11.2M	1,342	\$10.2M
3rd Quarter:	N/A	N/A	1,389	\$11.1M	1,329	\$10.2M
4th Quarter:	N/A	N/A	1,424	\$12.1M	1,361	\$11.1M

Source: Texas Municipal Reports published by the Municipal Advisory Council of Texas.

\*DemographicsUSA County Edition. Any data on population, value added by manufacturing or production of minerals or agricultural products are from US Census or other official sources.

### **Labor Force Statistics for Hamilton County**

<b>Labor Force Statistics*</b>	<b><u>May 2017</u></b>	<b><u>April 2017</u></b>	<b><u>May 2016</u></b>	<b><u>Monthly Change</u></b>	<b><u>Year Ago Change</u></b>
% Unemployment (U.S.)	4.3	4.4	4.7	-0.1	-0.4
% Unemployment (Texas)	4.8	5.0	4.7	-0.2	0.1
% Unemployment (Hamilton)	4.1	4.0	4.4	0.1	-0.3

*\*Amended format: Texas Labor Market Review.*

<b>Labor Force Statistics</b>	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>
Civilian Labor Force	N/A	N/A	N/A	N/A	N/A
Total Employed	N/A	N/A	N/A	N/A	N/A
Unemployed	N/A	N/A	N/A	N/A	N/A
% Unemployment (U.S.)	4.5	4.8	5.4	6.5	7.6
% Unemployment (Texas)	4.5	4.2	4.2	5.4	6.2
% Unemployment (Hamilton County)	4.7	4.6	3.8	5.2	5.8

*Source: Texas Labor Market Review.*

### **Employment and Wages by Industry for Hamilton County**

	<b><u>2016*</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>
Natural Resources and Mining	104	119	178	179	184
Construction	158	115	171	153	265
Manufacturing	166	180	220	188	195
Trade, Transportation & Utilities	580	557	541	532	523
Information	8	8	7	11	12
Financial Activities	62	57	58	54	61
Professional & Business Services	62	64	152	71	83
Education & Health Services	282	271	296	260	236
Leisure & Hospitality	248	216	212	213	219
Other Services	46	53	49	85	50
Unclassified	0	0	0	2	1
Federal Government	33	33	29	26	24
State Government	57	56	49	76	43
Local Government	<u>674</u>	<u>655</u>	<u>616</u>	<u>595</u>	<u>616</u>
Total Employment	2,480	2,385	2,578	2,443	2,514
Total Wages	\$21,472,733	\$20,686,730	\$22,132,664	\$20,397,117	\$21,022,496

*Source: Texas Quarterly Census of Employment & Wages.*

*\*3rd Quarter only.*

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### **Labor Force Statistics for Lampasas County**

<b>Labor Force Statistics*</b>	<b><u>May 2017</u></b>	<b><u>April 2017</u></b>	<b><u>May 2016</u></b>	<b><u>Monthly Change</u></b>	<b><u>Year Ago Change</u></b>
% Unemployment (U.S.)	4.3	4.4	4.7	-0.1	-0.4
% Unemployment (Texas)	4.8	5.0	4.7	-0.2	0.1
% Unemployment (Lampasas)	3.7	3.7	3.8	0.0	-0.1

\*Amended format: Texas Labor Market Review.

<b>Labor Force Statistics</b>	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>
Civilian Labor Force	N/A	N/A	N/A	N/A	N/A
Total Employed	N/A	N/A	N/A	N/A	N/A
Unemployed	N/A	N/A	N/A	N/A	N/A
% Unemployment (U.S.)	4.5	4.8	5.4	6.5	7.6
% Unemployment (Texas)	4.5	4.2	4.2	5.4	6.2
% Unemployment (Lampasas County)	3.8	4.0	4.3	6.4	6.8

Source: Texas Labor Market Review.

### **Employment and Wages by Industry for Lampasas County**

	<b><u>2016*</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>
Natural Resources and Mining	68	36	35	36	41
Construction	440	484	505	443	428
Manufacturing	564	590	563	563	605
Trade, Transportation & Utilities	8575	908	871	867	867
Information	28	27	31	32	31
Financial Activities	144	134	143	148	169
Professional & Business Services	274	202	187	202	176
Education & Health Services	420	528	623	581	570
Leisure & Hospitality	430	432	393	410	382
Other Services	175	182	173	190	189
Unclassified	5	1	7	0	3
Federal Government	41	41	43	40	44
State Government	62	63	63	63	72
Local Government	<u>890</u>	<u>988</u>	<u>934</u>	<u>924</u>	<u>916</u>
Total Employment	4,417	4,614	4,572	4,502	4,493
Total Wages	\$36,668,248	\$38,968,587	\$37,843,917	\$35,283,661	\$35,566,275

Source: Texas Quarterly Census of Employment & Wages.

\*3rd Quarter only.

(Remainder of this page intentionally left blank.)



### **Labor Force Statistics for Mills County**

<b>Labor Force Statistics*</b>	<b><u>May 2017</u></b>	<b><u>April 2017</u></b>	<b><u>May 2016</u></b>	<b><u>Monthly Change</u></b>	<b><u>Year Ago Change</u></b>
% Unemployment (U.S.)	4.3	4.4	4.7	-0.1	-0.4
% Unemployment (Texas)	4.8	5.0	4.7	-0.2	0.1
% Unemployment (Mills)	3.6	3.6	3.9	0.0	-0.3

*\*Amended format: Texas Labor Market Review.*

<b>Labor Force Statistics</b>	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>
Civilian Labor Force	N/A	N/A	N/A	N/A	N/A
Total Employed	N/A	N/A	N/A	N/A	N/A
Unemployed	N/A	N/A	N/A	N/A	N/A
% Unemployment (U.S.)	4.5	4.8	5.4	6.5	7.6
% Unemployment (Texas)	4.5	4.2	4.2	5.4	6.2
% Unemployment (Mills County)	4.0	3.8	3.3	4.8	5.2

*Source: Texas Labor Market Review.*

### **Employment and Wages by Industry for Mills County**

	<b><u>2016*</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>
Natural Resources and Mining	86	85	93	100	111
Construction	47	44	47	33	26
Manufacturing	87	95	97	93	84
Trade, Transportation & Utilities	271	267	250	239	243
Information	0	0	0	0	0
Financial Activities	56	57	56	59	58
Professional & Business Services	49	39	38	40	36
Education & Health Services	132	276	271	261	276
Leisure & Hospitality	67	47	48	48	50
Other Services	34	43	39	38	45
Unclassified	88	83	86	80	76
Federal Government	14	14	14	15	16
State Government	17	17	18	17	20
Local Government	<u>345</u>	<u>358</u>	<u>305</u>	<u>316</u>	<u>312</u>
Total Employment	1,291	1,424	1,361	1,339	1,354
Total Wages	\$10,214,665	\$10,686,801	\$11,113,103	\$10,584,536	\$10,166,323

*Source: Texas Quarterly Census of Employment & Wages.*

*\*3rd Quarter only.*

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## **APPENDIX C**

Form of Opinion of Bond Counsel

September \_\_, 2017

**GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT  
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2017  
DATED AS OF SEPTEMBER 1, 2017  
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$\_\_\_\_\_**

**AS BOND COUNSEL FOR THE GOLDTHWAITE INDEPENDENT SCHOOL DISTRICT** (the "**District**") in connection with the issuance of the bonds described above (the "**Bonds**"), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds until maturity or prior redemption at the rates and are payable on the dates as stated in the text of the Bonds, all in accordance with the terms and conditions stated in the text of the Bonds.

**WE HAVE EXAMINED** the applicable and pertinent provisions of the Constitution and laws of the State of Texas and a transcript of certified proceedings of the District, and other pertinent instruments authorizing and relating to the issuance of the Bonds including (i) the order authorizing the issuance of the Bonds (the "**Order**"), (ii) one of each of the executed Bonds, and (iii) the District's Federal Tax Certificate of even date herewith.

**BASED ON SAID EXAMINATION, IT IS OUR OPINION** that the Bonds have been authorized, issued and delivered in accordance with law; that the Bonds constitute valid and legally binding general obligations of the District 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; that the District has the legal authority to issue the Bonds and to repay the Bonds; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of the Bonds, as such interest comes due, and as such principal matures, have been levied and ordered to be levied against all taxable property in the District, and have been pledged for such payment, without limit as to rate or amount.

**IT IS FURTHER OUR OPINION**, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "**Code**"). In expressing the aforementioned opinions, we have relied on, and assumed compliance by the District with, certain representations and covenants regarding the use and investment of the proceeds of the Bonds. We call your attention to the fact that failure by the District to comply with such representations and covenants may cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance of the Bonds.



***EXCEPT AS STATED ABOVE***, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Bonds.

***WE CALL YOUR ATTENTION TO THE FACT*** that the interest on tax-exempt obligations, such as the Bonds, is included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by section 55 of the Code.

***OUR OPINIONS ARE BASED ON EXISTING LAW***, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "***Service***"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem 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. We observe that the District has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

***OUR SOLE ENGAGEMENT*** in connection with the issuance of the Bonds is as Bond Counsel for the District, and, in that capacity, we have been engaged by the District for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the District, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the District as to the current outstanding indebtedness of, and assessed valuation of taxable property within, the District. Our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

Respectfully,

#### **APPENDIX D**

Excerpts (Table of Contents, Independent Auditor's Report, General Financial Statements and Notes to the Financial Statements), from the Goldthwaite Independent School District, Texas Audited Financial Statements for the fiscal year ended August 31, 2016, and is not intended to be a complete statement of the Issuer's financial condition. Reference is made to the complete Annual Financial Report for further information.

**GOLDTHWAITE CONSOLIDATED  
INDEPENDENT SCHOOL DISTRICT**

***ANNUAL FINANCIAL REPORT***

***FOR THE YEAR ENDED AUGUST 31, 2016***

## *Introductory Section*

Goldthwaite Consolidated Independent School District  
Annual Financial Report  
For The Year Ended August 31, 2016

TABLE OF CONTENTS

	Page	Exhibit
<b>INTRODUCTORY SECTION</b>		
Certificate of Board.....	1	
<b>FINANCIAL SECTION</b>		
Independent Auditor's Report.....	2	
Management's Discussion and Analysis (Required Supplementary Information).....	5	
<b><u>Basic Financial Statements</u></b>		
Government-wide Financial Statements:		
Statement of Net Position.....	12	A-1
Statement of Activities.....	13	B-1
Fund Financial Statements:		
Balance Sheet - Governmental Funds.....	14	C-1
Reconciliation of the Governmental Funds		
Balance Sheet to the Statement of Net Position.....	15	C-1R
Statement of Revenues, Expenditures, and Changes in		
Fund Balances - Governmental Funds.....	16	C-2
Reconciliation of the Statement of Revenues, Expenditures, and Changes in		
Fund Balances of Governmental Funds to the Statement of Activities.....	17	C-3
Statement of Net Position - Internal Service Fund.....	18	D-1
Statement of Revenues, Expenses, and Changes in		
Fund Net Position - Internal Service Fund.....	19	D-2
Statement of Cash Flows - Proprietary Funds.....	20	D-3
Statement of Fiduciary Net Position - Fiduciary Funds.....	21	E-1
Statement of Changes in Fiduciary Net Position - Fiduciary Funds.....	22	E-2
Notes to the Financial Statements .....	23	
<b><u>Required Supplementary Information</u></b>		
Budgetary Comparison Schedules:		
General Fund.....	42	G-1
SSA Special Education.....	43	G-2
Schedule of the District's Proportionate Share of the		
Net Pension Liability - Texas Teacher Retirement System.....	44	G-3
Schedule of District's Contributions - Texas Teacher Retirement System.....	45	G-4
Notes to Required Supplementary Information.....	46	
<b><u>Combining Statements and Budgetary Comparison Schedules as Supplementary Information:</u></b>		
Combining Balance Sheet - All Nonmajor Governmental Funds.....	47	H-1
Combining Statement of Revenues, Expenditures and Changes in		
Fund Balances - All Nonmajor Governmental Funds.....	48	H-2
<b>Special Revenue Funds:</b>		



Goldthwaite Consolidated Independent School District  
Annual Financial Report  
For The Year Ended August 31, 2016

**TABLE OF CONTENTS**

	<u>Page</u>	<u>Exhibit</u>
Combining Balance Sheet - Nonmajor Special Revenue Funds.....	49	H-3
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Special Revenue Funds.....	51	H-4
Capital Projects Funds:		
Budgetary Comparison Schedule:		
Capital Projects Fund.....	53	H-5
OTHER SUPPLEMENTARY INFORMATION SECTION		
Schedule of Delinquent Taxes Receivable.....	54	J-1
Budgetary Comparison Schedules Required by the Texas Education Agency:		
National School Breakfast and Lunch Program.....	56	J-2
Debt Service Fund.....	57	J-3
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	58	
Report on Compliance for Each Major Program and on Internal Control over Compliance Required by Title 2 CFR Part 200 (Uniform Guidance).....	60	
Schedule of Findings and Questioned Costs .....	62	
Summary Schedule of Prior Audit Findings.....	63	
Corrective Action Plan.....	64	
Schedule of Expenditures of Federal Awards .....	65	K-1
Notes to the Schedule of Expenditures of Federal Awards.....	66	
Schedule of Required Responses to Selected School First Indicators.....	67	K-2

CERTIFICATE OF BOARD

Goldthwaite Consolidated Independent School District  
Name of School District

Mills  
County

167-901  
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) X approved \_\_\_\_\_disapproved for the year ended August 31, 2016, at a meeting of the board of trustees of such school district on the 24th day of January, 2017\_ .

Macla Watson  
Signature of Board Secretary

[Signature]  
Signature of Board President

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

## *Financial Section*

**Burl D. Lowery**  
Certified Public Accountant  
311 Center Avenue  
Brownwood, Texas 76801

**Independent Auditor's Report**

To the Board of Trustees  
Goldthwaite Consolidated Independent School District  
P.O. Box 608  
Goldthwaite, Texas 76844

**Report on the Financial Statements**

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Goldthwaite Consolidated Independent School District ("the District") as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

**Auditor's Responsibility**

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, I 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.

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

**Opinions**

In my 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 Goldthwaite Consolidated Independent School District as of August 31, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Goldthwaite Consolidated Independent School District's basic financial statements. The introductory section and combining and individual nonmajor fund financial statements 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 (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, Subpart F -- Audit Requirements (Uniform Guidance) and is also not a required part of the basic financial statements. The accompanying other supplementary information is presented for purposes of additional analysis and is also not a required part of the basic financial statements.

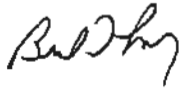
The combining and individual nonmajor fund financial statements and other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic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

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, I have also issued my report dated January 12, 2017 on my consideration of Goldthwaite Consolidated Independent School District's internal control over financial reporting and on my 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 my 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 Goldthwaite Consolidated Independent School District's internal control over financial reporting and compliance.

Respectfully submitted,



Burl D. Lowery  
Certified Public Accountant

Brownwood, TX  
January 12, 2017

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Goldthwaite Consolidated Independent School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended August 31, 2015. Please read it in conjunction with the District's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

- The District's total combined net assets were \$8,965,911 at August 31, 2016.
- During the year, the District's expenses were \$583,682, less than the \$9,740,269 generated in taxes and other revenues for governmental activities.
- The general fund reported a fund balance this year of \$3,147,290.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts-*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial 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.
- *Proprietary fund* statements offer *short-* and *long-term* financial information about the activities the government operates *like businesses*, such as food service.
- *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 resources in question belong.

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

#### Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report information about the District's net assets and how they have changed. Net assets-the difference between the District's assets and liabilities- is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial health improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional nonfinancial factors such as changes in the District's tax base.

The government-wide financial statements of the District include the *Governmental activities*. Most of the District's basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services and general administration. Property taxes and grants finance most of these activities.

### **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 accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has the following kinds of funds:

- *Governmental funds*—Most of the District's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- *Proprietary funds*—Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information. The District has no Proprietary Fund Types.
- We use *internal service funds* to report activities that provided workers compensation insurance for the District's employees in prior years.
- *Fiduciary funds*—The District is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that—because of a trust arrangement—can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We excluded these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations. These funds consist of student activity funds and scholarship funds and belong to clubs and organizations or are restricted in purpose.



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

**Net assets.** The District's combined net assets were \$ 8,965,911 at August 31, 2016 and \$8,382,226 at August 31, 2015.

The District has restricted net assets of \$149,585, which are restricted to future bond payments, which leaves \$3,084,597 of unrestricted net assets at August 31, 2016. The \$3,084,597 of unrestricted net assets represents resources available to fund the programs of the District next year.

**Changes in net assets.** The District's total revenues were \$9,740,269. A significant portion, 30%, of the District's revenue comes from taxes. 39% comes from state available and foundation grants, while only 1% relates to charges for services.

The total cost of all programs and services was \$9,156,587; 55.3% of these costs are for instruction and instructional related services. (Expenditure Functions 11 and 12).

### **Governmental Activities**

- Property tax rates increased and taxable values decreased during the current year, which generated tax revenues of \$2,966,581.

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

Revenues from governmental fund types in the individual funds totaled \$9,603,746.

### **General Fund Budgetary Highlights**

Over the course of the year, the District revised its budget several times. Even with these adjustments, actual expenditures were \$35,087 below final budget amounts of the General Fund.

On the other hand, resources available were \$570,037 more than the final budgeted amount.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of 2015, the District had invested \$21,501,400 in a broad range of capital assets, including land, equipment buildings, and vehicles. There was an increase of \$56,442 during the current year.

### **Long Term Debt**

At year-end the District had \$8,195,000 in bonds payable outstanding. More detailed information about the District's debt is presented in the notes to the financial statements.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

- Appraised value used for the 2016-2017 budget preparation will increase from the 2015-2016 value.
- General operating fund spending decreases in the 2016-2017 budget from \$5,951,630 to \$5,858,591. This is a decrease of 1.6%.

- The District's 2016-2017 refined average daily attendance is expected to be approximately the same as than the 2015-2016 average daily attendance.

These indicators were taken into account when adopting the general fund budget for 2016-2017. Amounts available for appropriation in the general fund budget are \$6,103,474, a decrease of 0.8% over the final 2015-2016 budget of \$6,154,449. State revenue will increase or decrease as the student population changes in size.

General fund expenditures are budgeted to decrease 1.6% to \$5,858,591. The District has added no major new programs or initiatives to the 2016-2017 general fund budget.

If these estimates are realized, the District's budgetary general fund balance is to increase by approximately \$244,000 by the close of 2016-2017.

#### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Business Services Department.

**GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS - TABLES  
FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**TABLE 1**

	Governmental Activities Year Ended September 30	
	2016	2015
Current Assets:		
Cash and cash equivalents	\$3,696,985	\$3,654,651
Due from other governments	\$1,020,279	\$129,919
Property taxes receivable net of uncollectible	\$54,930	\$45,995
Other receivables	\$4,617	\$6,665
Total Current Assets	<u>\$4,776,811</u>	<u>\$3,837,230</u>
Noncurrent Assets:		
Land	\$525,051	\$525,051
Buildings	\$18,685,269	\$18,685,269
Equipment and vehicles	\$2,291,080	\$2,234,638
Construction in progress		\$0
	<u>\$21,501,400</u>	<u>\$21,444,958</u>
Less accumulated depreciation	<u>\$7,468,237</u>	<u>\$6,964,063</u>
Total Noncurrent Assets	<u>\$14,033,163</u>	<u>\$14,480,895</u>
Total Assets	<u><u>\$18,809,974</u></u>	<u><u>\$18,318,125</u></u>
Deferred Outflow Related to Pensions	<u>\$967,189</u>	<u>\$241,457</u>
Current Liabilities:		
Accounts payable and accrued expenses	\$324,351	\$279,474
Due to other governments	\$0	\$0
Due to other funds		
Unearned revenue	<u>\$0</u>	<u>\$0</u>
Total Current Liabilities	<u>\$324,351</u>	<u>\$279,474</u>
Long-term Liabilities:		
Bonds payable	\$8,195,000	\$8,445,000
Unamortized premium on bonds	\$106,435	\$111,602
Net pension liability	<u>\$1,916,110</u>	<u>\$1,006,031</u>
Total Long-term Liabilities	<u>\$10,217,545</u>	<u>\$9,562,633</u>
Total Liabilities	<u>\$10,541,896</u>	<u>\$9,842,107</u>
Deferred Inflows	<u>\$269,356</u>	<u>\$335,248</u>
Net Assets:		
Invested in capital assets	\$5,731,728	\$5,924,292
Restricted for capital projects	\$402	\$0
Restricted for debt service	\$149,184	\$119,179
Unrestricted	<u>\$3,084,597</u>	<u>\$2,338,755</u>
Total Net Position	<u><u>\$8,965,911</u></u>	<u><u>\$8,382,226</u></u>

**GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS - TABLES  
TABLE 2**

**CHANGES IN NET ASSETS**

	<u>\$2,016</u>	<u>\$2,015</u>
Program Revenues:		
Charges for services	\$97,820	\$77,076
Operating grants and contributions	\$1,372,288	\$1,357,270
Capital grants and contributions		
General Revenues:		
Property taxes	\$2,966,581	\$4,219,163
State aid	\$3,812,091	\$4,006,814
Investment earnings	\$13,323	\$14,243
Other revenues	\$1,478,166	\$67,702
Special item in		
Total Revenues	<u>\$9,740,269</u>	<u>\$9,742,268</u>
Expenditures:		
Instruction	\$4,773,971	\$4,298,182
Instructional resources and media services	\$295,217	\$265,971
Curriculum and staff development	\$19,658	\$20,979
Instructional leadership	\$109,352	\$108,245
School leadership	\$310,648	\$244,816
Guidance and counseling services	\$610,477	\$514,832
Social work services	\$0	\$0
Health services	\$99,107	\$53,060
Student transportation	\$232,733	\$242,462
Food services	\$299,017	\$268,925
Cocurricular/Extracurricular activities	\$446,685	\$472,680
General administration	\$646,850	\$621,539
Plant maintenance & operation	\$812,758	\$826,951
Security and monitoring services	\$0	\$0
Data processing services	\$0	\$0
Community services	\$0	\$0
Debt services	\$351,186	\$356,181
Payments to fiscal agent/member districts 5SA	\$148,928	\$157,795
Other intergovernmental charges	\$0	\$0
Total Expenditures	<u>\$9,156,587</u>	<u>\$8,452,618</u>
Excess (Deficiency) Before Other Resources, Uses, and Transfers	\$583,682	\$1,289,650
Other Resources (Uses)		
Transfers In (Out)	<u>\$0</u>	<u>\$0</u>
Increase (Decrease) in Net Assets	\$583,682	\$1,289,650
Net Position - Beginning	\$8,382,229	\$8,232,415
Prior period adjustments	<u>\$0</u>	<u>(\$1,139,839)</u>
Net Position - Ending	<u><u>\$8,965,911</u></u>	<u><u>\$8,382,226</u></u>

**GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS - TABLES  
TABLE 3**

**CAPITAL ASSETS**

	<u>\$2,016</u>	<u>\$2,015</u>
Land	\$525,051	\$525,051
Construction in progress		\$0
Buildings and improvements	\$18,685,269	\$18,685,269
Equipment and vehicles	<u>\$2,291,080</u>	<u>\$2,234,638</u>
Total Capital Assets	\$21,501,400	\$21,444,958
Total Accumulated Depreciation	<u>\$7,468,237</u>	<u>\$6,964,063</u>
Net Capital Assets	<u><u>\$14,033,163</u></u>	<u><u>\$14,480,895</u></u>

**TABLE 4**

**LONG-TERM DEBT**

	<u>\$2,016</u>	<u>\$2,015</u>
Bonds payable	\$8,195,000	\$8,445,000
Unamortized bond premiums	\$106,435	\$111,602
Net pension liability	<u>\$1,916,110</u>	<u>\$1,006,031</u>
Total Long-term Debt	<u><u>\$10,217,545</u></u>	<u><u>\$9,562,633</u></u>

## *Basic Financial Statements*

**GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**AUGUST 31, 2016**

Data Control Codes		1	Governmental Activities
<b>ASSETS:</b>			
1110	Cash and Cash Equivalents	\$	2,453,890
1120	Current Investments		1,243,095
1225	Property Taxes Receivable (Net)		54,930
1240	Due from Other Governments		1,020,279
1290	Other Receivables (Net)		4,617
Capital Assets:			
1510	Land		525,050
1520	Buildings and Improvements, Net		12,706,495
1530	Furniture and Equipment, Net		801,618
1000	Total Assets		<u>18,809,974</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>			
1705	Deferred Outflow Related to Pensions		<u>967,189</u>
1700	Total Deferred Outflows of Resources		<u>967,189</u>
<b>LIABILITIES:</b>			
2110	Accounts Payable		48,059
2165	Accrued Liabilities		276,292
Noncurrent Liabilities:			
2501	Due Within One Year		260,000
2502	Due in More Than One Year		8,041,435
2540	Net Pension Liability		<u>1,916,110</u>
2000	Total Liabilities		<u>10,541,896</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
2605	Deferred Inflow Related to Pensions		<u>269,356</u>
2600	Total Deferred Inflows of Resources		<u>269,356</u>
<b>NET POSITION:</b>			
3200	Net Investment in Capital Assets		5,731,728
Restricted For:			
3850	Debt Service		149,184
3860	Capital Projects		402
3900	Unrestricted		3,084,597
3000	Total Net Position	\$	<u>8,965,911</u>

The accompanying notes are an integral part of this statement.

**GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED AUGUST 31, 2016**

Data Control Codes	Functions/Programs	1	3	4	Net (Expense) Revenue and Changes in Net Position
		Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Governmental Activities
	Governmental Activities:				
11	Instruction	\$ 4,773,971	\$ --	\$ 940,992	\$ (3,832,979)
12	Instructional Resources and Media Services	295,217	--	--	(295,217)
13	Curriculum and Staff Development	19,658	--	--	(19,658)
21	Instructional Leadership	109,352	--	--	(109,352)
23	School Leadership	310,648	--	--	(310,648)
31	Guidance, Counseling, & Evaluation Services	610,477	--	273,187	(337,290)
33	Health Services	99,107	--	--	(99,107)
34	Student Transportation	232,733	--	--	(232,733)
35	Food Service	299,017	71,743	150,414	(76,860)
36	Cocurricular/Extracurricular Activities	446,685	26,077	--	(420,608)
41	General Administration	646,850	--	--	(646,850)
51	Facilities Maintenance and Operations	812,758	--	--	(812,758)
72	Interest on Long-term Debt	350,786	--	7,695	(343,091)
73	Bond Issuance Costs and Fees	400	--	--	(400)
93	Payments Related to Shared Services Arrangements	148,928	--	--	(148,928)
TG	Total Governmental Activities	<u>9,156,587</u>	<u>97,820</u>	<u>1,372,288</u>	<u>(7,686,479)</u>
TP	Total Primary Government	<u>\$ 9,156,587</u>	<u>\$ 97,820</u>	<u>\$ 1,372,288</u>	<u>(7,686,479)</u>
	General Revenues:				
MT	Property Taxes, Levied for General Purposes				2,338,987
DT	Property Taxes, Levied for Debt Service				627,594
IE	Investment Earnings				13,323
GC	Grants and Contributions Not Restricted to Specific Programs				3,812,091
MI	Miscellaneous				1,478,166
TR	Total General Revenues				<u>8,270,161</u>
CN	Change in Net Position				<u>593,682</u>
NB	Net Position - Beginning				<u>8,382,229</u>
NE	Net Position - Ending				<u>\$ 8,965,911</u>

The accompanying notes are an integral part of this statement.



**GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT****BALANCE SHEET - GOVERNMENTAL FUNDS**

AUGUST 31, 2016

Data Control Codes	10		98	
	General Fund	Special Education	Other Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>				
1110 Cash and Cash Equivalents	\$ 1,492,310	\$ 797,554	\$ 163,920	\$ 2,453,784
1120 Current Investments	1,034,166	208,929	--	1,243,095
1225 Taxes Receivable, Net	47,884	--	7,046	54,930
1240 Due from Other Governments	887,417	56,788	76,074	1,020,279
1260 Due from Other Funds	22,715	12,862	--	35,577
1290 Other Receivables	4,617	--	--	4,617
1000 Total Assets	<u>3,489,109</u>	<u>1,076,133</u>	<u>247,040</u>	<u>4,812,282</u>
<b>LIABILITIES:</b>				
Current Liabilities:				
2110 Accounts Payable	\$ 35,273	\$ 9,892	\$ 2,129	\$ 47,294
2150 Payroll Deductions & Withholdings	275	--	--	275
2160 Accrued Wages Payable	217,182	2,139	48,289	267,610
2170 Due to Other Funds	37,241	--	35,577	72,818
2200 Accrued Expenditures	3,964	31	4,412	8,407
2000 Total Liabilities	<u>293,935</u>	<u>12,062</u>	<u>90,407</u>	<u>396,404</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
Deferred Revenue	47,884	--	7,047	54,931
2600 Total Deferred Inflows of Resources	<u>47,884</u>	<u>--</u>	<u>7,047</u>	<u>54,931</u>
<b>FUND BALANCES:</b>				
Restricted Fund Balances:				
3480 Retirement of Long-Term Debt	--	--	149,184	149,184
3490 Other Restrictions of Fund Balance	--	1,064,071	402	1,064,473
3600 Unassigned	3,147,290	--	--	3,147,290
3000 Total Fund Balances	<u>3,147,290</u>	<u>1,064,071</u>	<u>149,586</u>	<u>4,360,947</u>
Total Liabilities, Deferred Inflow of Resources and Fund Balances	<u>\$ 3,489,109</u>	<u>\$ 1,076,133</u>	<u>\$ 247,040</u>	<u>\$ 4,812,282</u>

The accompanying notes are an integral part of this statement.

**GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**AUGUST 31, 2016**

Total fund balances - governmental funds balance sheet	\$ 4,360,947
Amounts reported for governmental activities in the Statement of Net Position ("SNP") are different because:	
Capital assets used in governmental activities are not reported in the funds.	14,033,163
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	54,931
The assets and liabilities of internal service funds are included in governmental activities in the SNP.	36,581
Payables for bond principal which are not due in the current period are not reported in the funds.	(8,195,000)
Recognition of the District's proportionate share of the net pension liability is not reported in the funds.	(1,916,110)
Deferred Resource Inflows related to the pension plan are not reported in the funds.	(269,356)
Deferred Resource Outflows related to the pension plan are not reported in the funds.	967,189
Bond premiums are amortized in the SNA but not in the funds.	(106,435)
Rounding difference	1
Net position of governmental activities - Statement of Net Position	<u>\$ 8,965,911</u>

The accompanying notes are an integral part of this statement.

**GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED AUGUST 31, 2016**

Data Control Codes	10		98	
	General Fund	Special Education	Other Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>				
5700 <i>Local and Intermediate Sources</i>	\$ 3,843,728	\$ 2,600	\$ 700,624	\$ 4,546,952
5800 <i>State Program Revenues</i>	2,880,758	776,091	85,448	3,742,297
5900 <i>Federal Program Revenues</i>	--	--	1,314,497	1,314,497
5020 <i>Total Revenues</i>	<u>6,724,486</u>	<u>778,691</u>	<u>2,100,569</u>	<u>9,603,746</u>
<b>EXPENDITURES:</b>				
Current:				
0011 <i>Instruction</i>	3,024,219	316,153	968,642	4,309,014
0012 <i>Instructional Resources and Media Services</i>	279,629	--	--	279,629
0013 <i>Curriculum and Staff Development</i>	18,721	--	--	18,721
0021 <i>Instructional Leadership</i>	--	102,811	--	102,811
0023 <i>School Leadership</i>	284,607	--	--	284,607
0031 <i>Guidance, Counseling, &amp; Evaluation Services</i>	128,865	117,718	273,194	519,777
0033 <i>Health Services</i>	93,381	--	--	93,381
0034 <i>Student Transportation</i>	247,784	--	--	247,784
0035 <i>Food Service</i>	--	--	275,484	275,484
0036 <i>Cocurricular/Extracurricular Activities</i>	410,953	--	--	410,953
0041 <i>General Administration</i>	567,003	32,212	--	599,215
0051 <i>Facilities Maintenance and Operations</i>	701,250	81,408	--	782,658
0071 <i>Principal on Long-term Debt</i>	--	--	250,000	250,000
0072 <i>Interest on Long-term Debt</i>	--	--	355,953	355,953
0073 <i>Bond Issuance Costs and Fees</i>	--	--	400	400
0081 <i>Capital Outlay</i>	11,203	--	--	11,203
0093 <i>Payments to Shared Service Arrangements</i>	148,928	--	--	148,928
6030 <i>Total Expenditures</i>	<u>5,916,543</u>	<u>650,302</u>	<u>2,123,673</u>	<u>8,690,518</u>
1100 <i>Excess (Deficiency) of Revenues Over (Under)</i>				
1100 <i>Expenditures</i>	<u>807,943</u>	<u>128,389</u>	<u>(23,104)</u>	<u>913,228</u>
Other Financing Sources and (Uses):				
7915 <i>Transfers In</i>	--	--	53,110	53,110
8911 <i>Transfers Out</i>	(53,110)	--	--	(53,110)
7080 <i>Total Other Financing Sources and (Uses)</i>	<u>(53,110)</u>	<u>--</u>	<u>53,110</u>	<u>--</u>
1200 <i>Net Change in Fund Balances</i>	<u>754,833</u>	<u>128,389</u>	<u>30,006</u>	<u>913,228</u>
0100 <i>Fund Balances - Beginning</i>	2,392,457	935,682	119,580	3,447,719
3000 <i>Fund Balances - Ending</i>	<u>\$ 3,147,290</u>	<u>\$ 1,064,071</u>	<u>\$ 149,586</u>	<u>\$ 4,360,947</u>

The accompanying notes are an integral part of this statement.

**GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**

*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2016*

Net change in fund balances - total governmental funds	\$ 913,228
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	56,442
The depreciation of capital assets used in governmental activities is not reported in the funds.	(504,174)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	8,937
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	250,000
The net revenue (expense) of internal service funds is reported with governmental activities.	36
Bond premiums are amortized in the SOA.	5,167
Pension expense relating to GASB 68 is recorded in the SOA but not in the funds.	<u>(145,955)</u>
Change in net position of governmental activities - Statement of Activities	\$ <u>583,682</u>

The accompanying notes are an integral part of this statement.

**GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT****STATEMENT OF NET POSITION****INTERNAL SERVICE FUND****AUGUST 31, 2016**

Data Control Codes		Nonmajor Internal Service Fund	Public Entity Risk Pool
	<b>ASSETS:</b>		
	Current Assets:		
1110	Cash and Cash Equivalents	\$	105
	Receivables:		
1260	Due from Other Funds		37,241
	Total Current Assets		37,346
1000	Total Assets		37,346
	<b>LIABILITIES:</b>		
	Current Liabilities:		
2110	Accounts Payable	\$	765
	Total Current Liabilities		765
2000	Total Liabilities		765
	<b>NET POSITION:</b>		
3900	Unrestricted		36,581
3000	Total Net Position	\$	36,581

The accompanying notes are an integral part of this statement.

**GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES**  
**IN FUND NET POSITION - INTERNAL SERVICE FUND**  
**FOR THE YEAR ENDED AUGUST 31, 2016**

		Nonmajor Internal Service Fund	
Data Control Codes		Public Entity Risk Pool	
<b>OPERATING REVENUES:</b>			
5700	Local and Intermediate Sources	\$	36
5020	Total Revenues		36
1300	Change in Net Position		36
0100	Total Net Position - Beginning		36,545
9900	Total Net Position - Ending	\$	36,581

The accompanying notes are an integral part of this statement.

**GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED AUGUST 31, 2016**

	Internal Service Funds
<b>Cash Flows from Operating Activities:</b>	
Cash Received from Customers	\$ --
Cash Received from Grants	--
Cash Receipts (Payments) for Quasi-external Operating Transactions with Other Funds	36
Cash Payments to Employees for Services	--
Cash Payments to Other Suppliers for Goods and Services	(98)
Cash Payments for Grants to Other Organizations	--
Other Operating Cash Receipts (Payments)	--
Net Cash Provided (Used) by Operating Activities	<u>(6,168)</u>
<b>Cash Flows from Non-capital Financing Activities:</b>	
Proceeds (Payments) from (for) Borrowings	--
Operating Grants Received	--
Transfers From (To) Primary Government	--
Transfers From (To) Other Funds	--
Net Cash Provided (Used) by Non-capital Financing Activities	<u>--</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Proceeds from Issuance of Long-term Debt	--
Principal and Interest Paid	--
Acquisition or Construction of Capital Assets	--
Proceeds from Sale of Capital Assets	--
Contributed Capital	--
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>--</u>
<b>Cash Flows from Investing Activities:</b>	
Purchase of Investment Securities	--
Proceeds from Sale and Maturities of Securities	--
Interest and Dividends on Investments	--
Net Cash Provided (Used) for Investing Activities	<u>--</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(62)
Cash and Cash Equivalents at Beginning of Year	167
Cash and Cash Equivalents at End of Year	<u>\$ 106</u>
<b>Reconciliation of Operating Income to Net Cash</b>	
<b>Provided by Operating Activities:</b>	
Operating Income (Loss)	\$ 36
Adjustments to Reconcile Operating Income to Net Cash	
Provided by Operating Activities	
Depreciation	--
Provision for Uncollectible Accounts	--
Change in Assets and Liabilities:	
Decrease (Increase) in Receivables	--
Decrease (Increase) in Inventories	--
Decrease (Increase) in Prepaid Expenses	--
Increase (Decrease) in Accounts Payable	(98)
Increase (Decrease) in Unearned Revenue	--
Total Adjustments	<u>(98)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (62)</u>

The accompanying notes are an integral part of this statement.

**GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**AUGUST 31, 2016**

			Agency Fund
Data Control Codes		Investment Trust Fund	Student Activity
<b>ASSETS:</b>			
1110	Cash and Cash Equivalents	\$ 79,005	\$ 69,603
1000	Total Assets	<u>79,005</u>	<u>69,603</u>
<b>LIABILITIES:</b>			
Current Liabilities:			
2190	Due to Student Groups	\$ --	\$ 69,603
2000	Total Liabilities	<u>--</u>	<u>69,603</u>
<b>NET POSITION:</b>			
3800	Held in Trust	79,005	--
3000	Total Net Position	<u>\$ 79,005</u>	<u>\$ --</u>

The accompanying notes are an integral part of this statement.



**GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**FOR THE YEAR ENDED AUGUST 31, 2016**

	Private- Purpose Trusts
<b>Additions:</b>	
Investment Income	\$ 211
Net (Decrease) in Fair Value of Investments	--
Employer Contributions	--
Contributions	4,933
Total Additions	<u>5,144</u>
<b>Deductions:</b>	
Scholarship Awards	9,700
Benefits	--
Refunds of Contributions	--
Administrative Expenses	--
Total Deductions	<u>9,700</u>
<b>Change in Net Position</b>	(4,556)
Net Position-Beginning of the Year	83,561
Net Position-End of the Year	<u><u>\$ 79,005</u></u>

The accompanying notes are an integral part of this statement.

**GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2016**

**A. Summary of Significant Accounting Policies**

The basic financial statements of Goldthwaite Consolidated Independent School District (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide ("Resource Guide"). The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

**1. Reporting Entity**

The Board of School Trustees ("Board"), a seven-member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency ("TEA") or to the State Board of Education are reserved for the Board, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District receives funding from local, state and federal government sources and must comply with the requirements of those funding entities. However, the District is not included in any other governmental reporting entity and there are no component units included within the District's reporting entity.

**2. Basis of Presentation, Basis of Accounting**

**a. Basis of Presentation**

**Government-wide Financial Statements:** The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**Fund Financial Statements:** The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The District reports the following major governmental funds:

**General Fund:** This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

**Special Education Fund:** The District is fiscal agent for the special education cooperative. This fund is used to account for the local funds of the special education cooperative.

**GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2016**

In addition, the District reports the following fund types:

**Internal Service Funds:** These funds are used to account for revenues and expenses related to services provided to parties inside the District. These funds facilitate distribution of support costs to the users of support services on a cost-reimbursement basis. Because the principal users of the internal services are the District's governmental activities, this fund type is included in the "Governmental Activities" column of the government-wide financial statements.

**Private-Purpose Trust Funds:** These funds are used to report trust arrangements under which principal and income benefit individuals, private organizations, or other governments not reported in other fiduciary fund types.

**Agency Funds:** These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements.

b. **Measurement Focus, Basis of Accounting**

**Government-wide, Proprietary, and Fiduciary Fund Financial Statements:** These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

**Governmental Fund Financial Statements:** Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

3. **Financial Statement Amounts**

a. **Cash and Cash Equivalents**

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

b. **Property Taxes**

**GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2016**

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 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.

c. **Inventories and Prepaid Items**

The District records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory in accordance with the Resource Guide.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

d. **Capital Assets**

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair 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 Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30
Buildings	50
Building Improvements	20
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

e. **Deferred Outflows and Inflows of Resources**

In addition to assets, the statements of financial position (the government-wide Statement of Net Position and governmental funds balance sheet) 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 and/or fund balance that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements 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 one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time.

f. **Receivable and Payable Balances**

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided

**GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2016**

which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

g. **Interfund Activity**

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

h. **Use of Estimates**

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

i. **Data Control Codes**

Data Control Codes appear in the rows and above the columns of certain financial statements. The TEA requires the display of these codes in the financial statements filed with TEA in order to ensure accuracy in building a statewide database for policy development and funding plans.

j. **Fund Balances - Governmental Funds**

Fund balances of the governmental funds are classified as follows:

**Nonspendable Fund Balance** - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

**Restricted Fund Balance** - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

**Committed Fund Balance** - represents amounts that can only be used for a specific purpose because of a formal action by the District's Board of Trustees. Committed amounts cannot be used for any other purpose unless the Board of Trustees removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the Board of Trustees. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

**Assigned Fund Balance** - represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the Board of Trustees or by an official or body to which the Board of Trustees delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund convey that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

**Unassigned Fund Balance** - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

**GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2016**

k. Net Position Flow Assumption

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

l. 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.

4. 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' 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.

5. New Accounting Standards Adopted

In fiscal year 2016, the District adopted three new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 72, *Fair Value Measurement and Application*
- Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Government*
- Statement No. 77, *Tax Abatement Disclosures*

- a. Statement No. 72 requires state and local governments to measure investments at fair value using a consistent definition and valuation techniques; also defines what assets and liabilities governments should measure at fair value and expands fair value disclosures in financial disclosure notes. While the Statement generally requires restatement of prior period balances in the year of implementation, the nature of the District's investments was such that their carrying amount was not affected.
- b. The GAAP hierarchy prioritizes guidance governments follow when preparing U.S. GAAP financial statements. Statement No. 76 reduces authoritative GAAP hierarchy from four categories to two and lists the order of priority for pronouncements to which a government should look for guidance.
- c. Statement No. 77 requires governments granting tax abatements to individuals and businesses to disclose program information in the notes to the financial statements through the agreement's duration and also requires disclosures about tax abatements entered into by other governments that reduce the reporting government's tax revenue. Prior year balances were not restated because there are no tax abatements associated with the District or any other government which affect the District's tax revenue. Early application was not elected.

**GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2016**

**B. Compliance and Accountability**

**1. Finance-Related Legal and Contractual Provisions**

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

**2. Deficit Fund Balance or Fund Net Position of Individual Funds**

Following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

**C. Deposits and Investments**

The District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the District's agent bank approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

**1. Cash Deposits:**

At August 31, 2016, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$3,845,590 and the bank balance was \$3,855,434. The District's cash deposits at August 31, 2016 and during the year ended August 31, 2016, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

**2. Investments:**

The District is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

The Act determines the types of investments which are allowable for the District. These include, with certain restrictions, 1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, 2) certificates of deposit, 3) certain municipal securities, 4) securities lending program, 5) repurchase agreements, 6) bankers acceptances, 7) mutual funds, 8) investment pools, 9) guaranteed investment contracts, and 10) commercial paper.

**GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2016**

The District's investment at August 31, 2016 is shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
Certificates of Deposit	Less Than One Year	\$ 1,243,095
Total Investments		<u>\$ 1,243,095</u>

3. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District was not significantly exposed to credit risk.

At August 31, 2016, the District's investments, other than those which are obligations of or guaranteed by the U. S. Government, are rated as to credit quality as follows:

Certificates of deposit	\$1,243,095	Secured by pledged securities and FDIC.
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b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name.

At year end, the District was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

Investment Accounting Policy

The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a



**GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2016**

cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

**D. Capital Assets**

Capital asset activity for the year ended August 31, 2016, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Governmental activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 525,051	\$ --	\$ --	\$ 525,051
Construction in progress	--	--	--	--
Total capital assets not being depreciated	525,051	--	--	525,051
<i>Capital assets being depreciated:</i>				
Buildings and improvements	18,685,269	--	--	18,685,269
Equipment	2,234,638	56,442	--	2,291,080
Vehicles	--	--	--	--
Total capital assets being depreciated	20,919,907	56,442	--	20,976,349
Less accumulated depreciation for:				
Buildings and improvements	(5,619,055)	--	359,720	(5,978,774)
Equipment	(1,345,008)	--	144,454	(1,489,462)
Vehicles	--	--	--	--
Total accumulated depreciation	(6,964,063)	--	504,174	(7,468,237)
Total capital assets being depreciated, net	13,955,844	56,442	504,174	13,508,113
Governmental activities capital assets, net	\$ 14,480,894	\$ 56,442	\$ 504,174	\$ 14,033,163

Depreciation was charged to functions as follows:

Instruction	\$ 274,165
Instructional Resources and Media Services	17,792
Curriculum and Staff Development	1,191
Instructional Leadership	6,541
School Leadership	18,108
Guidance, Counseling, & Evaluation Services	33,071
Health Services	5,941
Student Transportation	15,765
Food Services	17,528
Extracurricular Activities	26,147
General Administration	38,126
Plant Maintenance and Operations	49,797
	<u>\$ 504,174</u>

**GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2016**

**E. Interfund Balances and Activities**

**1. Due To and From Other Funds**

Balances due to and due from other funds at August 31, 2016, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Other Governmental Funds	\$ 22,715	Short-term loans
Special Education Fund	Special Revenue Fund	12,862	For transfer of federal receipts
Major fund (specify fund name)	General Fund	--	Capital projects expenditures
Internal Service Fund	General Fund	37,241	Short-term loan
	Other Balances	--	
	Total	<u>\$ 72,819</u>	

All amounts due are scheduled to be repaid within one year.

**2. Transfers To and From Other Funds**

Transfers to and from other funds at August 31, 2016, consisted of the following:

Transfers From	Transfers To	Amount	Reason
General fund	Debt service fund	\$ --	Provide resources for repayment of certificates of participation
General fund	Other Governmental Funds	--	Pay debt service on health insurance financing bonds
General fund	Other Governmental Funds	53,110	Supplement other funds sources
Major fund (specify fund name)	General Fund	--	Reimburse expenditures
Other Governmental Funds	Other Governmental Funds	--	Supplement other funds sources
	Total	<u>\$ 53,110</u>	

**F. Short-Term Debt Activity**

The District accounts for short-term debts for maintenance purposes through the General Fund. The proceeds from loans are shown in the financial statements as Other Resources. The District has no short-term debt.

**G. Long-Term Obligations**

**1. Long-Term Obligation Activity**

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended August 31, 2016, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<b>Governmental activities:</b>					
General obligation bonds	\$ 8,445,000	\$ --	\$ 250,000	\$ 8,195,000	\$ 260,000
Premiums on bonds	111,602	--	5,167	106,435	--
Notes	--	--	--	--	--
Compensated absences *	--	--	--	--	--
Claims and judgments *	--	--	--	--	--
Net Pension Liability *	1,006,031	910,079	--	1,916,110	--
Total governmental activities	<u>\$ 9,562,633</u>	<u>\$ 910,079</u>	<u>\$ 255,167</u>	<u>\$ 10,217,545</u>	<u>\$ 260,000</u>

**GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2016**

Interest rates on the District's bonds range from 1.45% to 5%.

\* Other long-term liabilities

The funds typically used to liquidate other long-term liabilities in the past are as follows:

<u>Liability</u>	<u>Activity Type</u>	<u>Fund</u>
Compensated absences	Governmental	N/A
Claims and judgments	Governmental	General
Net Pension Liability *	Governmental	General
Compensated absences	Business-type	N/A
Claims and judgments	Business-type	N/A

**2. Debt Service Requirements**

Debt service requirements on long-term debt at August 31, 2016, are as follows:

<u>Year Ending August 31.</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 260,000	\$ 346,793	\$ 606,793
2018	270,000	336,888	606,888
2019	285,000	326,433	611,433
2020	290,000	315,153	605,153
2021	305,000	303,433	608,433
2022-2026	1,285,000	1,314,390	2,599,390
2027-2031	1,250,000	1,054,938	2,304,938
2032-2036	1,520,000	784,338	2,304,338
2037-2041	1,865,000	439,463	2,304,463
2042-2046	865,000	57,094	922,094
Totals	<u>\$ 8,195,000</u>	<u>\$ 5,278,919</u>	<u>\$ 13,473,919</u>

**3. Capital Leases**

The District does not have any capital leases.

**H. Commitments Under Noncapitalized Leases**

The district does not have any noncapitalized leases.

**I. Risk Management**

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2016, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

**J. Pension Plan**

**1. Plan Description**

The District participates in a cost-sharing multiple-employer defined benefit pension plan that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). TRS' defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. The TRS pension trust fund is a qualified pension

**GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2016**

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.

**2. Pension Plan Fiduciary Net Position**

Detailed information about the TRS' 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 [www.trs.state.tx.us/about/documents/cafr.pdf#CAFR](http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR); by writing to TRS at 1000 Red River Street, Austin, TX 78701-2698; or by calling (512) 542-6592.

**3. Benefits Provided**

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes, including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs, can be granted by the Texas Legislature, as noted in the plan description in (1.) above.

**4. 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.

<b>Contribution Rates</b>		
	<b>2015</b>	<b>2016</b>
Member	6.7%	7.2%
Non-Employer Contributing Entity (NECE - State)	6.8%	6.8%
Employers	6.8%	6.8%
District's 2016 Employer Contributions	\$ 162,484	
District's 2016 Member Contributions	\$ 343,235	
NECE 2015 On-Behalf Contributions to District	\$ 211,697	

**GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2016**

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

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

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

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

- When employing a retiree of the 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.

**5. Actuarial Assumptions**

The total pension liability in the August 31, 2015 actuarial evaluation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2015
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8%
Long-term expected Investment Rate of Return	8%
Inflation	2.5%
Salary Increases including inflation	3.5% to 9.5%
Payroll Growth Rate	2.5%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

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.

**6. Discount Rate**

**GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2016**

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. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2015 are summarized below:

<b>Teacher Retirement System of Texas</b> <b>Asset Allocation and Long-Term Expected Real Rate of Return</b> <b>As of August 31, 2015</b>			
	<b>Target Allocation</b>	<b>Long-term Expected Geometric Real Rate of Return</b>	<b>Expected Contribution to Long-term Portfolio Returns *</b>
<b>Global Equity</b>			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
<b>Stable Value</b>			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Hedge Funds (Stable Value)	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
<b>Real Return</b>			
Global Inflat. Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy & Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
<b>Risk Parity</b>			
Risk Parity	5%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			1.0%
<b>Total</b>	<b>100%</b>		<b>8.7%</b>
* The expected contribution to returns incorporates the volatility drag resulting from the conversion between arithmetic and geometric mean returns.			

**7. 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 2015 net pension liability.

**GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2016**

	1% Decrease in Discount Rate 7%	Discount Rate 8%	1% Increase in Discount Rate 9%
District's proportionate share of the net pension liability	\$ 3,002,178	\$ 1,916,110	\$ 1,011,477

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

At August 31, 2016, the District reported a liability of \$1,916,110 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	\$ 1,916,110
State's proportionate share of the net pension liability associated with the District	<u>2,526,468</u>
Total	<u>\$ 4,442,578</u>

The net pension liability was measured as of August 31, 2015 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, 2014 through August 31, 2015.

At August 31, 2015 the employer's proportion of the collective net pension liability was 0.0054206%, which was an increase (decrease) of 0.0021751% from its proportion measured as of August 31, 2014.

**Changes Since the Prior Actuarial Valuation - The following are changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period:**

*Economic Assumptions*

- The inflation assumption was decreased from 3.00% to 2.50%
- The ultimate merit assumption for long-service employees was decreased from 1.25% to 1.00%.
- In accordance with the observed experience, there were small adjustments in the service-based promotional/longevity component of the salary scale.
- The payroll growth assumption was lowered from 3.50% to 2.50%

*Mortality Assumptions*

- The post-retirement mortality tables for non-disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
- The post-retirement mortality tables for disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
- The pre-retirement mortality tables for active employees were updated to use 90% of the recently published RP-2014 mortality table for active employees. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.

**GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2016**

*Other Demographic Assumptions*

- h. Previously, it was assumed 10% of all members who had contributed in the past 5 years to be an active member. This was an implicit rehire assumption because teachers have historically had a high incidence of terminating employment for a time and then returning to the workforce at a later date. This methodology was modified to add a more explicit valuation of the rehire incidence in the termination liabilities, and therefore these 10% are no longer being counted as active members.
- i. There were adjustments to the termination patterns for members consistent with experience and future expectations. The termination patterns were adjusted to reflect the rehire assumption. The timing of termination decrement was also changed from the middle of the year to the beginning to match the actual pattern in the data.
- j. Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.
- k. Small adjustments to the disability patterns were made for members consistent with experience and future expectations. Two separate patterns were created based on whether the member has 10 years of service or more.
- l. For members that become disabled in the future, it is assumed 20% of them will choose a 100% joint and survivor annuity option.

*Actuarial Methods and Policies*

- m. The method of using celled data in the valuation process was changed to now using individual data records to allow for better reporting of some items, such as actuarial gains and losses by source.

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, 2016, the District recognized pension expense of \$359,981 and revenue of \$359,981 for support provided by the State.

At August 31, 2016, the District reported its proportionate share of the TRS' deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 11,150	\$ 73,638
Changes in actuarial assumptions	56,174	68,358
Difference between projected and actual investment earnings	240,296	126,779
Changes in proportion and differences between the District's contributions and the proportionate share of contributions	497,085	581
District contributions paid to TRS subsequent to the measurement date	162,484	
Total	<u>\$ 967,189</u>	<u>\$ 269,356</u>

The net amounts of the District's balances of deferred outflows and inflows of resources related to pensions will



**GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2016**

be recognized in pension expense as follows:

Year Ended August 31	Pension Expense Amount
2017	\$ 94,619
2018	\$ 94,619
2019	\$ 94,619
2020	\$ 171,499
2021	\$ 79,993
Thereafter	\$ --

**K. Retiree Health Care Plans**

**1. TRS-Care**

**a. 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 the Teacher Retirement System of Texas (TRS). TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The 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 web site at [www.trs.state.tx.us](http://www.trs.state.tx.us) under the TRS Publications heading, by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling the TRS Communications Department at 1-800-223-8778.

**b. Funding Policy**

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. The State of Texas contribution rate was 1% for fiscal years 2015 and 2014, and 0.5% for fiscal year 2013. The active public school employee contributions rates were 0.65% of public school payroll, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2016, 2015 and 2014. For the years ended August 31, 2016, 2015, and 2014, the State's contributions to TRS-Care were \$47,671, \$45,483, and \$50,302, respectively, the active member contributions were \$30,987, \$29,564, and \$30,710, respectively, and the District's contributions were \$26,219, \$29,564, and \$30,710, respectively, which equaled the required contributions each year.

**2. Medicare Part D Subsidies**

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 the Texas Public School Retired Employee Group Insurance Program (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, 2016, 2015, and 2014, the subsidy payments received by TRS-Care on behalf of the District were \$18,803, \$20,353, and \$12,194, respectively.

**GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2016**

**L. Employee Health Care Coverage**

During the year ended August 31, 2016, employees of the District were covered by State TRS Active Care. The District paid premiums of \$225 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer.

**M. Commitments and Contingencies**

**1. Contingencies**

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

**2. Litigation**

No reportable litigation was pending against the District at August 31, 2016.

**N. Shared Services Arrangements**

**Shared Services Arrangement - Fiscal Agent**

The District is the fiscal agent for a Shared Services Arrangement ("SSA") which provides locally funded special education services beginning July 1, 2003 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 SSA Fund 437, 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>Expenditures</u>
Evant ISD	\$ 28,699
Goldthwaite Consolidated ISD	127,535
Hamilton ISD	201,376
Hico ISD	132,821
Jonesboro ISD	58,418
Lometa ISD	69,400
Priddy ISD	32,053
Total	<u>\$ 650,302</u>

**O. Subsequent Events**

Management has reviewed all transactions and events from August 31, 2016 to January 12, 2017. There were no items identified that require disclosure.

**P. Workers Compensation Insurance**

During the year ended August 31, 2016, the District met its statutory workers' compensation obligations through participation in the TASB Risk Management Fund. (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Workers Compensation Program is authorized by Chapter 504, Texas Labor Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members and their injured employees.

**GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2016**

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

The Fund and its members are protected against higher than expected claims through the purchase of stop loss coverage for any claim in excess of the Fund's self-insured retention of \$1.5 million. The fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2015, the Fund carries a discounted reserve of \$58,364,320 for future development on reported claims and claims that have been incurred but not yet reported. For the year-ended August 31, 2016, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contributions.

The fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is approved by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2015, are available at the TASB offices and have been filed with the Texas State Board of Insurance in Austin.

**Q. Unemployment Compensation**

During the year ended August 31, 2016, Goldthwaite Consolidated ISD provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

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

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2015, are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

**R. Property and Casualty Insurance**

During the year ended August 31, 2016, the Goldthwaite CISD participated in the TASB Risk Management Fund's (the Fund's) Property Casualty Program with coverage in:

Auto Liability  
Auto Physical Damage  
Crime  
General Liability  
Property  
Sexual Misconduct Endorsement  
SP Legal Liability

The Fund was created and is operated under the provision of the Interlocal Cooperation 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

**GOLDTHWAITE CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2016**

anticipated claims for the Property Casualty Program. 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 the reserves and fully funds those reserves. For the year ended August 31, 2016, the Fund anticipates Goldthwaite ISD 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 accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2015, are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

**S. Due from Other Governments**

The following is a summary of amounts due from other governmental entities as of August 31, 2016:

	State Revenue Sources	Federal Revenue Sources	Total
General Fund	\$887,417	--	\$887,417
Special Revenue Funds	\$79,320	\$53,543	\$132,863
Total Due from Other Governmental Entities	<u>\$966,737</u>	<u>\$53,543</u>	<u>\$1,020,280</u>

**T. Unearned Revenue in Individual Funds**

The District had unearned revenue as follows in its individual funds as of August 31, 2016:

General Fund:	
Property tax revenue	\$47,884
Other revenue	--
Special Revenue Fund:	
Federal revenue	--
Debt Service Fund:	
Property tax revenue	<u>\$7,047</u>
Total Unearned Revenue	<u>\$54,931</u>