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NEW ISSUE: BOOK-ENTRY-ONLY

PRELIMINARY OFFERING MEMORANDUM
August 15, 2019

Ratings: S&P: "Applied For"
Fitch: "Applied For"
PSF Guarantee: "Conditionally Approved"
(See "RATINGS" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM".)

In the opinion of Bond Counsel (identified below), assuming continuing compliance by the District (defined below) after the date of initial delivery of the Bonds (defined below) with certain covenants contained in the Order (defined below) and subject to the matters set forth under "TAX MATTERS" herein, interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) is not included in gross income of the owners thereof pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Bonds, and (2) is not an item of tax preference for purposes of the federal alternative minimum tax. See "TAX MATTERS" herein. Additionally, see "THE BONDS - Determination of Interest Rate; Rate Mode Changes" identifying circumstances when an opinion of nationally recognized bond counsel is required as a condition for an interest mode conversion. Bond Counsel expresses no opinion as to the effect on the excludability from gross income for federal income tax purposes of any action requiring such an opinion.

\$15,000,000*

EANES INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Travis County, Texas)
VARIABLE RATE UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2019B
INITIAL TERM RATE PERIOD OF ___ YEARS AT A PER ANNUM INITIAL RATE OF ___%
(PRICED TO YIELD ___% TO MANDATORY TENDER DATE)

Dated Date: July 15, 2019 (interest will accrue from the Delivery Date)

Mandatory Tender Date: August 1, ___

CUSIP No. ⁽¹⁾: _____

Stated Maturity: August 1, 2039

The Eanes Independent School District (the "District") is issuing its \$15,000,000* Variable Rate Unlimited Tax School Building Bonds, Series 2019B (the "Bonds") in accordance with the Constitution and general laws of the State of Texas, including, particularly, Chapter 45, Texas Education Code, as amended, Chapter 1371, Texas Government Code, as amended, an order adopted by the Board of Trustees of the District (the "Order") on June 18, 2019 authorizing the issuance of the Bonds and delegating authority to certain officers of the District to complete the sale of the Bonds through the execution of a pricing certificate (the "Pricing Certificate"), and an election held within the District on May 4, 2019 (the "Election"). The Bonds constitute direct obligations of the District and are payable as to principal, and interest from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, against all taxable property located within the District.

During the Initial Rate Period (defined below), interest on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months and will be payable on each February 1 and August 1, commencing February 1, 2020. No physical delivery of the Bonds will be made to the owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the beneficial owners of the Bonds (see "THE BONDS - Book-Entry-Only System" herein). The initial Tender Agent and Paying Agent/Registrar for the Bonds is UMB Bank, N.A., Austin, Texas, (see "THE BONDS - General Description").

The Bonds are issued as a single Term Bond scheduled to mature as shown above and subject to optional and mandatory redemption prior to maturity, in whole or in part, as described herein (see "THE BONDS - Redemption").

The Bonds will bear interest initially at the Initial Rate from the date of the initial delivery to the initial purchaser thereof named below (the "Underwriter"), anticipated to occur on or about September 12, 2019 (the "Closing Date"), through July 31, ___ (the "Initial Rate Period"), at the rate of ___% (being the rate so determined by the Underwriter identified below). Thereafter, the Bonds will convert to a Term Mode of like duration and bear interest at a Term Rate determined by the Remarketing Agent (defined below); provided, however, that the interest rate mode applicable to the Bonds may be (a) changed from time to time to a Term Mode during which the Bonds bear interest at a Term Rate for a period of different duration, or (b) converted to a Fixed Rate until stated maturity (as such terms are defined and described herein). This Offering Memorandum describes the Bonds only in the Initial Rate Period during which the Bonds bear interest at the Initial Rate (and, after conclusion of such Initial Rate Period and if at all, the period during which the Bonds bear interest at the Stepped Rate) and not the Bonds remarketed and sold into another interest rate period during which the Bonds bear interest in another interest rate mode.

The Bonds will be subject to mandatory tender without the right of retention on the Conversion Date immediately following the end of the Initial Rate Period, which occurs on August 1, ___. During the Initial Rate Period, the Bonds are not subject to the benefit of a liquidity facility provided by a third party. Accordingly, a failure by the Remarketing Agent to remarket Bonds subject to mandatory tender on the Conversion Date at the end of the Initial Rate Period will result in the rescission of the notice of mandatory tender with respect thereto and the District not having any obligation to purchase such Bonds at that time. The occurrence of the foregoing will not result in an event of default under the Order or the Bonds. Until such time as the District redeems or remarkets Bonds that have been unsuccessfully remarketed as described above, such Bonds shall bear interest at the "Stepped Rate", which is defined herein to mean ___% per annum, calculated on the basis of twelve 30-day months and the number of days actually elapsed (see "THE BONDS - Tender Provisions" herein).

All tenders of Bonds must be made to the Tender Agent at its designated office in Austin, Texas. In the Order, the District has covenanted to identify and enter into a contract with a remarketing agent (the "Remarketing Agent") for the Bonds prior to the commencement of the remarketing period applicable to the Bonds. Bonds tendered for purchase on the initial Conversion Date will be bought from the proceeds derived from the remarketing of the Bonds, if any; provided, however, that should the date for tender of the Bonds occur on an Interest Payment Date, the accrued interest portion of the Purchase Price is to be paid by the District.

Proceeds from the sale of the Bonds will be used for (i) construction, acquisition, rehabilitation, renovation, expansion, improvement, and equipment of school buildings in the District, including safety and security improvements; student programs and support, including technology systems and equipment; instructional, co-curricular and extra-curricular spaces, including robotics, wrestling and aquatics; promotion of energy efficiency and conservation; facility systems and site improvements throughout the District (including plumbing, roofing, heating, ventilation, air conditioning, surfaces and other systems); and the purchase of new school buses, and (ii) paying the costs of issuing the Bonds. (See "THE BONDS - Authorization and Purpose").

The Bonds are offered when, as and if issued, and accepted by the initial purchaser thereof named below (the "Underwriter"), subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Hunton Andrews Kurth LLP, Houston, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas. The Bonds are expected to be available for initial delivery through the services of DTC on or about September 12, 2019 (the "Delivery Date").

STIFEL

*Preliminary, subject to change.

⁽¹⁾ CUSIP is a registered trademark of the American Bankers Association. CUSIP numbers have been assigned to the Bonds by CUSIP Global Services, managed by S&P Capital IQ on behalf of The American Bankers Association and are included solely for the convenience of owners of the Bonds. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. None of the District, the Financial Advisor, or the Underwriter shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

USE OF INFORMATION

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

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

No dealer, broker, salesperson or other person has been authorized to give information or to make any representation other than those contained in this Offering Memorandum, and, if given or made, such other information or representations must not be relied upon as having been authorized by the District, the Financial Advisor or the Underwriter.

This Offering Memorandum contains, in part, estimates and matters of opinion and certain forward-looking statements which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

The Underwriter has provided the following sentence for inclusion in this Offering Memorandum. The Underwriter has reviewed the information in this Offering Memorandum pursuant to its responsibilities to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

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

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

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

None of the District, the Financial Advisor or the Underwriter make any representation or warranty with respect to the information contained in this Offering Memorandum regarding the Depository Trust Company (“DTC”) or its Book-Entry-Only System or the affairs of the TEA described under “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” as such information has been provided by DTC and TEA, respectively.

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

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

EANES INDEPENDENT SCHOOL DISTRICT

ELECTED OFFICIALS

<u>Name</u>	<u>Term Expires (May)</u>	<u>Occupation</u>
Jennifer Champagne, President	2021	Real Estate Agent
John Havenstrite, Vice President	2020	Senior Account Manager, LCRA
Jason Paull, Secretary	2020	CEO, Zippity, Inc.
Ellen Balthazar, Trustee	2022	Retired
Christie Bybee, Trustee	2020	Community Volunteer
Heather Sheffield, Trustee	2022	Business Development, Capital Title
James Spradley, Trustee	2022	Supply Chain Project Manager, Apple

CERTAIN DISTRICT OFFICIALS

<u>Name</u>	<u>Position</u>	<u>Years in Current Position</u>	<u>Years of Experience</u>
Dr. Tom Leonard	Superintendent of Schools	5	32
Mr. Christopher Scott	Executive Director for Business Services	3	25

CONSULTANTS AND ADVISORS

Hunton Andrews Kurth LLP Houston, Texas	Bond Counsel
RBC Capital Markets, LLC San Antonio, Texas	Financial Advisor
Maxwell Locke & Ritter LLP Austin, Texas	Independent Auditor

For additional information regarding the District, please contact:

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Executive Director for Business Services
Eanes Independent School District
601 Camp Craft Road
Austin, Texas 78746
Phone: (512) 732-9000

R. Dustin Traylor or
Robert V. Henderson
RBC Capital Markets, LLC
303 Pearl Parkway, Suite 220
San Antonio, Texas 78215
Phone: (210) 805-1117

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The cover page hereof, the section entitled "Selected Data from the Official Statement," this Table of Contents and Appendices attached 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.

The District

Eanes Independent School District (the “District”) is a political subdivision located in Travis County, Texas. The District is governed by a seven-member Board of Trustees (the “Board”). Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools, who is the chief administrative officer of the District. Support services are supplied by consultants and advisors. For more information regarding the District, see “Appendix A – Financial Information Regarding Eanes Independent School District” and “Appendix B – General Information Regarding Eanes Independent School District and Its Economy.”

Authority for Issuance and Use of Proceeds

The District is issuing its \$15,000,000* Variable Rate Unlimited Tax School Building Bonds, Series 2019B (the “Bonds”) in accordance with the Constitution and general laws of the State of Texas, including, particularly, Chapter 45, Texas Education Code, as amended, Chapter 1371, Texas Government Code, as amended, an order adopted by the Board (the “Order”) on June 18, 2019 authorizing the issuance of the Bonds and delegating authority to certain officers of the District to complete the sale of the Bonds through the execution of a pricing certificate (the “Pricing Certificate”), and an election held within the District on May 4, 2019 (the “Election”).

Proceeds from the sale of the Bonds will be used for (i) construction, acquisition, rehabilitation, renovation, expansion, improvement, and equipment of school buildings in the District, including safety and security improvements; student programs and support, including technology systems and equipment; instructional, co-curricular and extra-curricular spaces, including robotics, wrestling and aquatics; promotion of energy efficiency and conservation; facility systems and site improvements throughout the District (including plumbing, roofing, heating, ventilation, air conditioning, surfaces and other systems); and the purchase of new school buses, and (ii) paying the costs of issuing the Bonds. (See “THE BONDS – Authorization and Purpose”).

Rate Periods

The Bonds will initially bear interest at an Initial Rate during the Initial Rate Period, at the rate determined by the Underwriter, which will be in effect from the Closing Date (as defined in the Pricing Certificate, but anticipated to occur on or about September 12, 2019) through July 31, ____, with interest being payable on February 1 and August 1, beginning February 1, 2020, at a rate of ____% calculated on the basis of a 360-day year of twelve 30-day months. Thereafter, the Bonds will convert to a Term Mode of like duration and bear interest at a Term Rate determined by the Remarketing Agent; provided, however, that the interest rate mode for the Bonds may be (a) changed from time to time to a Term Mode during which the Bonds bear interest at a Term Rate for a period of different duration or (b) converted to a Fixed Rate until stated maturity (as such terms are defined and described herein). (See “THE BONDS - Interest Rate Modes” herein.) The Stepped Rate for the Bonds is ____%. (See “THE BONDS – Tender Provisions” herein)

Paying Agent/Registrar and Tender Agent

The initial Paying Agent/Registrar and Tender Agent for the Bonds is UMB Bank, N.A., Austin, Texas.

Payment of Interest

Interest on the Bonds will accrue from the Delivery Date, and will be payable on February 1 and August 1 each year, commencing February 1, 2020 until stated maturity or prior redemption. (See “THE BONDS – General Description - Calculation of Interest; Interest Payment Dates”).

Security

The Bonds will constitute direct obligations of the District payable as to principal and interest, from a continuing, direct annual ad valorem tax levied, without legal limit as to rate or amount, by the District against all taxable property located within the District. (See “THE BONDS - Security”). Also see “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS” and “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” for a discussion of recent developments in State law affecting the financing of school districts in Texas. Additionally, the payment of the principal of and interest on the Bonds is expected to be guaranteed by the Permanent School Fund of the State of Texas which guarantee will automatically become effective when the Texas Attorney

* Preliminary, subject to change.

General approves the Bonds. (See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.”)

Permanent School Fund Guarantee Program

In connection with the sale of the Bonds, the District made application to the Texas Education Agency and has received conditional approval from the Commissioner of Education for the payment on the Bonds to be guaranteed by the corpus of the Permanent School Fund of the State of Texas under the Guarantee Program for School District Bonds (Chapter 45, Subchapter C, of the Texas Education Code, as amended). (See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.”)

Redemption Provisions

After the Initial Rate Period and prior to conversion to a Fixed Rate, the Bonds are subject to optional and mandatory redemption at par, on the dates and in the manner, as described herein. (See “THE BONDS - Redemption”.)

During the Initial Rate Period the Bonds are not subject to optional redemption.

Ratings

It is anticipated that the Bonds will be rated “AAA” by S&P Global Ratings (“S&P”) and “AAA” by Fitch Ratings, Inc. (“Fitch”) by virtue of the Guarantee of the Permanent School Fund of the State of Texas. S&P and Fitch generally rate all bond issues guaranteed by the Permanent School Fund of the State of Texas “AAA” and “AAA”, respectively. The presently outstanding unenhanced tax-supported debt of the District is rated “AA+” and “AA+” by S&P and Fitch, respectively. (See “RATINGS” and “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.”)

Tax Exemption

In the opinion of Bond Counsel, interest on the Bonds is not included in gross income for federal income tax purposes under existing statutes, regulations, published rulings and court decisions, subject to the matters described under “TAX MATTERS” herein, and is not an item of tax preference for purposes of the federal alternative minimum tax. See “TAX MATTERS” for a discussion of the opinion of Bond Counsel.

Book-Entry-Only System

The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 in principal amount or integral multiples thereof. No physical delivery of the Bonds will be made to the purchasers thereof (the “Beneficial Owners”). The principal of 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.”)

Additional Obligations Issued in Close Proximity to the Bonds

On August 14, 2019 the District sold its \$46,550,000 “Eanes Independent School District, Unlimited Tax School Building Bonds, Series 2019A” (the “Series 2019A Bonds”) to generate an additional \$54,000,000 in construction proceeds for the purposes, and pursuant to the authorization, approved at the Election. The Bonds and Series 2019A Bonds are separate and distinct securities offerings being issued and sold independently, and, while the Bonds and Series 2019A Bonds share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including, without limitation, the type of obligation being offered, its terms for payment, the security for its payment, credit enhancement, the treatment of interest for federal income tax purposes, and the rights of the holders. Investors interested in purchasing any of the Series 2019A Bonds should review the offering document relating thereto.

Payment Record

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

Legal Opinion

Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the approval of certain legal matters by Hunton Andrews Kurth LLP, Houston, Texas, Bond Counsel. (See “LEGAL MATTERS” and “APPENDIX D - Form of Legal Opinion of Bond Counsel”.)

Delivery

When issued, anticipated on or about September 12, 2019.

OFFICIAL STATEMENT RELATING TO
EANES INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Travis County, Texas)

\$15,000,000*
VARIABLE RATE UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2019B

INTRODUCTORY STATEMENT

This Official Statement, including Appendices A, B and C hereto, has been prepared by the Eanes Independent School District (the "District") located in Travis County, Texas in connection with the offering by the District of its \$15,000,000* Variable Rate Unlimited Tax School Building Bonds, Series 2019B (the "Bonds") identified on the cover page hereof.

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

There follows in this Official Statement descriptions of the Bonds and the Order (as defined herein), and certain other information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained upon request by electronic mail or upon payment of reasonable copying, mailing, and handling charges by writing the Eanes Independent School District, 601 Camp Craft Road, Austin, Texas 78746, and, during the offering period, from the District's Financial Advisor, RBC Capital Markets LLC, 303 Pearl Parkway, Suite 220, San Antonio, Texas 78215, by electronic mail or upon payment of reasonable handling, mailing and delivery charges.

This Official Statement speaks only as of 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 undertakings of the District to provide certain information on a continuing basis.

Additional Obligations Issued in Close Proximity to the Bonds

On August 14, 2019 the District sold its \$46,550,000 "Eanes Independent School District, Unlimited Tax School Building Bonds, Series 2019A" (the "Series 2019A Bonds") to generate an additional \$54,000,000 in construction proceeds for the purposes, and pursuant to the authorization, approved at the Election. The Bonds and Series 2019A Bonds are separate and distinct securities offerings being issued and sold independently, and, while the Bonds and Series 2019A Bonds share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including, without limitation, the type of obligation being offered, its terms for payment, the security for its payment, credit enhancement, the treatment of interest for federal income tax purposes, and the rights of the holders. Investors interested in purchasing any of the Series 2019A Bonds should review the offering document relating thereto.

THE BONDS

Authorization and Purpose

The Bonds are being issued in accordance with the Constitution and general laws of the State of Texas (the "State"), including, particularly, Chapter 45, Texas Education Code, as amended, Chapter 1371, Texas Government Code, as amended, an order adopted on June 18, 2019 by the Board of Trustees (the "Board") of the District (the "Order") authorizing the issuance of the Bonds and delegating authority to certain officers of the District to complete the sale of the Bonds through the execution of a pricing certificate (the "Pricing Certificate"), and an election held within the District on May 4, 2019 (the "Election"). Capitalized terms used herein have the same meanings assigned to such terms in the Order, except as otherwise indicated.

Proceeds from the sale of the Bonds will be used for (i) construction, acquisition, rehabilitation, renovation, expansion, improvement, and equipment of school buildings in the District, including safety and security improvements; student programs and support, including technology systems and equipment; instructional, co-curricular and extra-curricular spaces, including robotics, wrestling and aquatics; promotion of energy efficiency and conservation; facility systems and site improvements throughout the District (including plumbing, roofing, heating, ventilation, air conditioning, surfaces and other systems); and the purchase of new school buses, (ii) paying the costs of issuing the Bonds.

* Preliminary, subject to change.

General Description

Initial Issuance in Initial Rate Period. The Bonds are multi-modal variable rate bonds (convertible upon mandatory tender and remarketing into a Term Rate interest mode of different duration or a Fixed Rate interest mode), initially issued in a Term Mode effective upon initial delivery of the Bonds (anticipated to occur on or about September 12, 2019) and continuing through July 31, 20__ (such period referred to herein and in the Order as the "Initial Rate Period"). Upon expiration of the Initial Rate Period, the Bonds will be remarketed into a successive Term Mode interest period of the like duration, unless changed as described herein.

THE BONDS ARE SUBJECT TO CONVERSION AND REMARKETING INTO A SUBSEQUENT TERM RATE OR FIXED RATE INTEREST PERIOD AT THE TIMES AND UPON THE CONDITIONS DESCRIBED IN THE ORDER FOLLOWING A MANDATORY TENDER FOR PURCHASE OF SUCH BONDS. THIS OFFERING MEMORANDUM DESCRIBES THE BONDS ONLY IN THE INITIAL RATE PERIOD AND IS, THEREFORE, NOT INTENDED TO PROVIDE INFORMATION WITH RESPECT TO THE BONDS AFTER CONVERSION TO ANY NEW INTEREST RATE MODE OR INTEREST RATE PERIOD (INCLUDING ANY SUBSEQUENT TERM RATE PERIOD). PURCHASERS OF THE BONDS SHOULD NOT RELY ON THIS OFFERING MEMORANDUM FOR INFORMATION CONCERNING ANY INTEREST RATE MODE OR INTEREST RATE PERIOD FOR THE BONDS OTHER THAN IN THE INITIAL RATE PERIOD.

Authorized Denominations. During the Initial Rate Period, the Bonds are issued in denominations of \$5,000.

Calculation of Interest; Interest Payment Dates. Interest on the Bonds is calculated on the basis of a 360-day year of twelve 30-day months. Interest accruing on the Bonds during the Initial Rate Period will be paid on each February 1 and August 1 commencing February 1, 2020.

Interest Payment Methods. While the Bonds bear interest at the Initial Rate, interest will be paid by check, sent by first class mail, to the owner of record on the Record Date or by such other customary banking arrangement acceptable to the Paying Agent/Registrar requested by and at the risk and expense of the Owner.

Book-Entry System of Registration and Payment. The Bonds will be issued as Book-Entry-Only securities through The Depository Trust Company ("DTC"). Use of the DTC Book-Entry-Only System will effect the timing and receipt of payment of interest on and principal of the Bonds. See "THE BONDS – Book-Entry-Only System."

Paying Agent/Registrar. The initial Paying Agent/Registrar is UMB Bank, N.A., Austin, Texas. In the Order, the District retains the right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Tender Agent. UMB Bank, N.A., Austin, Texas will serve as the initial tender agent (the "Tender Agent"), for the Bonds. All notices and Bonds required to be delivered to the Tender Agent shall be delivered to Jose Gaytan, UMB Bank, N.A., 6034 W. Courtyard Dr., Ste. 370, Austin, Texas 78730. In the event that the Book-Entry-Only System herein is discontinued and registered bonds are issued, all notices and Bonds are required to be delivered to Jose Gaytan, UMB Bank, N.A., 6034 W. Courtyard Dr., Ste. 370, Austin, Texas 78730.

Remarketing Agent and Remarketing Agreement. In the Order, the District has covenanted to identify and enter into a contract with a qualified financial institution to serve as remarketing agent for the Bonds (the "Remarketing Agent") prior to the commencement of the remarketing of the Bonds, and to retain such Remarketing Agent for so long, as required by the provisions of the Order. The District anticipates identifying the initial Remarketing Agent for the Bonds at or about the time the Board, prior to the expiration of the Initial Rate Period, adopts the order authorizing the remarketing of the Bonds from the Initial Rate Period into a subsequent interest rate mode. The offering memorandum prepared by the District in conjunction with such remarketing of the Bonds will describe the terms of the agreement between the District and the Remarketing Agent, serving the District in such capacity.

Legality. The Bonds are offered when, as and if issued, and subject to the approving opinion of the Attorney General of the State of Texas and the opinion of Hunton Andrews Kurth LLP, Houston, Texas, Bond Counsel. (See "LEGAL MATTERS" and "Appendix D – Form of Legal Opinion of Bond Counsel").

Payment Record. The District has never defaulted with respect to the payment of its bonded indebtedness.

Interest Rate Modes

The Bonds may be remarketed into a new Term Rate interest period or converted and remarketed into a new Term Rate interest period of different duration or to a Fixed Rate interest period. While the Bonds bear interest at a Term Rate, the interest rate will be determined in effect for a term of one year or any integral multiple of one year selected by the District commencing on the first calendar day of the Term Rate Period.

The interest rate mode selected by the District will remain in effect until changed by the District by notice to the Paying Agent/Registrar, the Tender Agent and the Remarketing Agent, in accordance with the Order. Notice of changes in interest rate modes will be given as described below. See "Determination of Interest Rates; Rate Mode Changes".

Determination of Interest Rates; Rate Mode Changes

Initial Rate. The Bonds will bear interest at the Initial Rate for an Initial Rate Period, beginning on the date of initial authentication and delivery (anticipated to occur on or about September 12, 2019) and ending on July 31, ____ (the "Initial Rate Period"). The Interest Payment Dates during the Initial Rate Period will be on February 1 and August 1, commencing on February 1, 2020. Following the Initial Rate Period, the Bonds will bear interest at the rate or rates, as determined by the Remarketing Agent, dependent upon the interest rate mode in which the Bonds are remarketed and which mode may thereafter be changed from time to time, prior to conversion to a Fixed Rate, in the manner described below.

Rate Mode Changes after Initial Rate. While the Bonds bear interest at the Initial Rate or a Term Rate, the Paying Agent/Registrar is required to give notice to the Owners of all Bonds of the conversion from one interest rate mode to another at least 30 days prior to the Conversion Date. Each notice of a change between interest rate modes will be sent by first class mail to each Owner's address as it appears in the registration books of the Paying Agent/Registrar and will state: (a) the effective date and the type of interest rate mode to which the change will be made; (b) the dates by which the Remarketing Agent will determine the Term Rate and the dates by which the Owners will be notified thereof; (c) if the Bonds will be subject to optional or mandatory tender on the effective date of the change in the interest rate mode, the procedure for such tender, including the date and time that any notices must be received; and (d) the procedure (including form of notice) to be followed if the Owner desires to retain his Bonds and such option to retain has been granted by the District.

Any conversion (a) from a Term Rate Period of one duration to a Term Rate period of a different duration; or (b) to a Fixed Rate will be conditioned on delivery of an opinion of nationally recognized bond counsel to the effect that the conversion will not adversely affect the excludability of interest on the Bonds from gross income of the owners thereof for federal income tax purposes if such conversion results in a reissuance of the remarketed Bonds under applicable federal tax law. The opinion of Bond Counsel expresses no opinion as to the effect on excludability from gross income for federal income tax purposes of any action taken which requires the receipt of an opinion of a nationally recognized bond counsel. No opinion of Bond Counsel is required for a conversion of the interest rate mode applicable to the Bonds from the Initial Rate mode to a Term Rate mode.

Conversion of interest rate modes must take place only on an interest payment date for the interest rate mode then in effect. While in a Term Rate mode, Bonds may be converted to a different interest rate mode only at the expiration of a Term Rate period.

Any Owner of Bonds who may be unable to take timely action on any notice should consider whether to make arrangements for another person to act in his or her stead.

Determination of Interest Rates. During each Rate Period after the Initial Rate Period, the rate of interest on the Bonds will be the rate that the Remarketing Agent determines, under prevailing market conditions on the date of such determination, would result in the market value of the Bonds being not less than 100% of the principal amount thereof. The date of such determination is defined herein as the "Rate Determination Date".

The determination by the Remarketing Agent of the rate or rates of interest to be borne by the Bonds will be conclusive and binding on the holders of the Bonds, the District, the Paying Agent/Registrar and the Tender Agent. Failure by the Paying Agent/Registrar to give notice to the Bondholders, or any defect therein, will not affect the interest rate borne by the Bonds or the rights of the Owners thereof. In the event that the Remarketing Agent fails to determine the new interest rate or rates for any reason, the then-effective Term Rate will continue to be such rate or rates in effect for any subsequent Interest Rate Period. In no event will the interest rate borne by the Bonds exceed the "Highest Rate", which (as provided in the Order) is the lesser of __% and the maximum net effective interest rate permitted under Chapter 1204, Texas Government Code, as amended.

Notice of Rates. Owners will be notified by the Paying Agent/Registrar first-class mail of the Term Rate applicable to the Bonds promptly after the applicable Rate Determination Date.

Tender Provisions

No Optional Tender. The Bonds are not subject to optional tender during the Initial Rate Period.

Mandatory Tender. The Bonds are required to be tendered for purchase to the Tender Agent, without the right of retention, at the end of the Initial Rate Period on August 1, ____.

Payment of the Purchase Price (defined in the Order to mean, with respect to each Bond (or any portion thereof) tendered for purchase, the par amount thereof, plus accrued but unpaid interest thereon to the date of purchase) of Bonds to be purchased upon mandatory tender as described herein will be made by the Tender Agent at its Corporate Trust Office or by wire transfer in immediately available funds.

If the Bonds are not converted and remarketed to new purchasers on the scheduled date of mandatory tender, the District shall have no obligation to purchase the Bonds tendered on such date, the failed conversion and remarketing shall not constitute an event of default under the Order or the Bonds, the mandatory tender will be deemed to have been rescinded for that date with respect to the Bonds subject to such failed remarketing only, and such Bonds (i) will continue to be Outstanding, (ii) will be purchased upon the availability of funds to be received from the subsequent remarketing of such Bonds, (iii) will bear interest at the Stepped Rate during the Stepped Rate Period, (iv) will be subject to redemption and mandatory tender for purchase on any date during the Stepped Rate Period upon which a conversion occurs (which shall occur at the District's discretion upon delivery of at least one day's notice to the holders of Bonds bearing interest at the Stepped Rate), and (v) will be deemed to continue in the then-applicable Initial Rate Period or Term Rate period for all other purposes of the Order, though bearing interest during such time at the Stepped Rate until remarketed or redeemed in accordance with the terms of the Order. In the event of a failed conversion and remarketing as described above, the District has covenanted in the Order to cause the Bonds to be converted and remarketed on the earliest reasonably practicable date on which they can be sold at par, in such interest rate mode or modes as the District directs, at a rate not exceeding the Maximum Rate. The Pricing Certificate provides that the Stepped Rate means a rate per annum equal to ____%, calculated on the basis of twelve 30 day months and the number of days actually elapsed.

Interest on any Bond that the Owner has not elected to continue to own after a mandatory purchase date and that is not tendered on the mandatory purchase date, but for which there has been irrevocably deposited with the Tender Agent an amount sufficient to pay the Purchase Price thereof, will cease to accrue on the mandatory Purchase Date. Thereafter, the Owner of such Bond will not be entitled to any payment other than the Purchase Price for such Bond from money held by the Tender Agent for such payment, and such Bond will not otherwise be outstanding or entitled to the benefits of the Order. On the mandatory Purchase Date, the Tender Agent will authenticate and deliver substitute Bonds in lieu of such untendered Bonds.

Remarketing and Purchase. The Remarketing Agent is required, at a minimum, to use its best efforts to sell such Bonds at a price equal to not less than 100% of the principal amount thereof plus accrued interest, if any, on the forthcoming optional or mandatory purchase date or as quickly as possible thereafter.

The Purchase Price of Bonds tendered for purchase is required to be paid by the Tender Agent from money derived from the remarketing of such Bonds by the Remarketing Agent. If sufficient funds are not available for the purchase of all tendered Bonds, no purchase will be consummated.

Conversion to Fixed Rate

The Order provides that at the option of the District and pursuant to an order of the Board, the Bonds bearing interest at the Initial Rate or a Term Rate may be converted in whole or in part to a Fixed Rate or Rates on the first Business Day immediately following the last day of the then-expiring Initial Rate or Term Rate Period. In the event of a partial conversion, the Paying Agent/Registrar shall select by lot or other customary random method the Bonds to be converted to a Fixed Rate. Solely and exclusively with respect to the Remarketing Agent's setting of Fixed Rates on the Bonds to be converted on the Fixed Rate Conversion Date, the Remarketing Agent shall determine the rates for such converted Bonds that will cause such Bonds to have a market value, net of costs of issuance and remarketing fees, at least equal to the principal amount of Bonds. In addition, the District may reserve the right, exercisable at its sole option, to seek competitive bids on the Fixed Rate Conversion Date.

To exercise its option, the District must deliver to the Paying Agent/ Registrar, the Remarketing Agent (if any), and the Tender Agent written notice at least 30 calendar days prior to the interest payment date on which the Fixed Rate mode is to become effective (the "Fixed Rate Conversion Date"). The Bonds converted to a Fixed Rate on a Fixed Rate Conversion Date shall mature, be subject to redemption and have the same terms and features (other than the right of Owners to tender their Bonds for purchase) as set forth in the Order with respect to Bonds bearing interest at an Initial Rate or a Term Rate. Notwithstanding the previous sentence, in connection with a conversion to a Fixed Rate, the District may elect, at its sole option, to provide for serial maturities, revised redemption provisions and other terms applicable to the pricing of the Bonds on and after the Fixed Rate Conversion Date. If the District so elects, the serial maturities for the Bonds converted to a Fixed Rate shall be determined on the basis of providing

similar relative principal payments on such Bonds (after giving pro rata effect for any prior sinking fund redemptions of the Bonds, if any, not then converted) in order to effectuate a pro rata allocation of the mandatory redemption schedule as set forth in "THE BONDS – Mandatory Redemption" below between the Bonds to be converted to a Fixed Rate and the Bonds remaining in a Term Rate. In addition, the District must deliver to the Paying Agent/Registrar prior to the Fixed Rate Mode Conversion Date an opinion of nationally recognized bond counsel to the effect that the conversion to the Fixed Rate Mode is authorized under the provisions of the Order and will not adversely affect the exclusion of interest on the Bonds from gross income of the owners thereof for federal income tax purposes.

The Paying Agent/Registrar is required to give notice by mail to all Owners of the conversion to a Fixed Rate Mode not less than 20 calendar days prior to the Fixed Rate Conversion Date. Such notice is required to (a) specify the Fixed Rate Conversion Date and the dates by which the District will determine and the Paying Agent/Registrar will notify the Owners of the Fixed Rate Bonds; (b) state that the Bonds will be subject to mandatory tender for purchase on the Fixed Rate Conversion Date without the right of the Owners to retain their Bonds, and (c) specify the redemption provisions and other terms applicable to the Bonds after the Fixed Rate Conversion Date.

In advance of the Fixed Rate Conversion Date in accordance with the Order, the Remarketing Agent will, in consultation with and subject to the approval of the District, determine the Fixed Rate or Rates and give notice thereof to the Paying Agent/Registrar. The Paying Agent/Registrar will then give notice of such Fixed Rate or Rates by first class mail to the Tender Agent and the Owners of the Bonds.

After the Fixed Rate Conversion Date, the Owners of converted Bonds will have no right to tender their Bonds for purchase.

Redemption

Optional Redemption. The Bonds are not subject to optional redemption during the Initial Rate Period, but are subject to redemption, at the District’s option, on the first Interest Payment Date immediately succeeding the conclusion of the Initial Rate Period and on the last day of any Term Rate Period.

The Paying Agent/Registrar is required to cause notice of any redemption of Bonds to be mailed to each Owner of Bonds to be redeemed at the respective addresses appearing in the registration books for the Bonds. Notice of redemption is required to be mailed at least 30 days prior to the redemption date when Bonds bear interest at the Initial Rate or a Term Rate; (ii) identify the Bonds to be redeemed; (iii) specify the redemption date and the redemption price; and (iv) state that (a) on the redemption date the Bonds called for redemption will be payable at the corporate trust office of the Paying Agent/Registrar and (b) from the redemption date interest will cease to accrue. If notice of redemption is given as described above and if due provision for the payment of the redemption price is made, then the Bonds that are to be redeemed thereby will automatically be deemed to have been redeemed prior to their scheduled maturities and will not bear interest after the redemption date, nor will they be regarded as being outstanding except for the right of the Owner thereof to receive the redemption price from the Paying Agent/Registrar.

Scheduled Mandatory Redemption. The Bonds are subject to mandatory redemption prior to stated maturity as follows:

<u>Mandatory Redemption*</u>	
<u>Date</u>	<u>Amount</u>
August 1, 2036	\$
August 1, 2037	
August 1, 2038	
August 1, 2039	

*Preliminary, subject to change.

The principal amount of Bonds required to be redeemed pursuant to the operation of such mandatory redemption provisions shall be reduced, at the option of the District, by the principal amount of any Bonds which, at least 45 days prior to the mandatory redemption date (1) shall have been defeased or acquired by the District and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the District with money in the Bond Fund, or (3) shall have been redeemed pursuant to the optional redemption provisions set forth above and not theretofore credited against a mandatory redemption requirement.

Special Mandatory Redemption. Pursuant to the Order, and any Liquidity Agreement acquired in the future, under certain circumstances, Bonds held by a bank may be subject to special mandatory redemption. No such provision shall apply to the Bonds while in the Initial Rate Period.

On or before January 1 of each year preceding each mandatory redemption date the Bonds are to be mandatorily redeemed, the District will notify the Paying Agent/Registrar in writing of the principal amount of Bonds to be mandatorily redeemed with Excess Interest Funds on the following August 1, and instruct the Paying Agent/Registrar to select by lot or other customary random selection method the Bonds or portions thereof to be redeemed.

Notice of Redemption. As discussed under “THE BONDS – Redemption”, all notices of redemption shall (i) specify the date of redemption for the Bonds, (ii) identify the Bonds to be redeemed and, in the case of a portion of the principal amount to be redeemed, the principal amount thereof to be redeemed, (iii) state the redemption price, (iv) state the Bonds, or the portion of the principal amount thereof, to be redeemed, shall become due and payable on the redemption date specified, and the interest thereof, or on the portion of the principal amount thereof to be redeemed, shall cease to accrue from and after the redemption date, and (v) specify the payment of the redemption price for the Bonds, or the principal amount thereof to be redeemed, shall be made at the designated corporate trust office of the Paying Agent/Registrar only upon presentation and surrender thereof by the registered owner. If a Bond is subject by its terms to redemption and has been called for redemption and notice of redemption thereof has been duly given or waived, as provided in the Order, such Bonds (or the principal amount thereof to be redeemed) so called for redemption shall become due and payable, and on the redemption date designated in such notice, interest on such Bonds (or the principal amount thereof to be redeemed) called for redemption shall cease to accrue and such Bonds shall not be deemed to be outstanding.

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

DTC Redemption Provision. The Paying Agent/Registrar, so long as a book-entry system is used for the Bonds, will send any notice of redemption, or other notices with respect to the Bonds only to DTC (or any successor securities depository for the Bonds). Any failure by DTC to advise any Direct Participant (defined herein), or of any Direct Participant or Indirect Participant (defined herein) to notify the Beneficial Owner (defined herein), 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 Direct Participants in accordance with its rules or other agreements with Direct Participants and then Direct 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 Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to Direct Participants, Indirect Participants, or the persons for whom Direct Participants act as nominees, with respect to the payments on the Bonds or the providing of notice to Direct Participants, Indirect Participants, or Beneficial Owners of the selection of portions of the Bonds for redemption. (See “BOOK-ENTRY-ONLY SYSTEM” herein.)

Security

The Bonds are direct obligations of the District and are payable as to principal and interest from a continuing, direct annual ad valorem tax levied, without legal limit as to rate or amount, on all taxable property within the District, as provided in the Order. Additionally, the District has applied for and received conditional approval for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of State of Texas which guarantee will become effective when the Texas Attorney General approves the Bonds. (See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM,” “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS” and “CURRENT PUBLIC SCHOOL FINANCE SYSTEM.”)

Legality

The Bonds are offered when, as and if issued, and subject to the approving opinion of the Attorney General of the State of Texas and the opinion of Hunton Andrews Kurth LLP, Houston, Texas, Bond Counsel. (See “LEGAL MATTERS” and “Appendix D – Form of Legal Opinion of Bond Counsel.”)

Payment Record

The District has never defaulted with respect to the payment of its bonded indebtedness.

Defeasance

The Order provides for the defeasance of the Bonds in any manner now or hereafter permitted by law, including (but not limited to) by depositing with an authorized entity either: (a) cash in an amount equal to the principal amount of and interest on Bonds to the date of maturity or earlier redemption, if any, or (b) pursuant to an escrow or trust agreement, cash and/or (i) direct noncallable obligations of United States of America, including obligations that are unconditionally guaranteed by the United States of America; (ii) non-callable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that on the date the governing body of the District authorized the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent; or (iii) non-callable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the District authorized the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent, which, in the case of (i), (ii) or (iii), may be in book-entry form, and the principal of and interest on which will, when due or redeemable at the option of the holder, without further investment or reinvestment of either the principal amount thereof or the interest earnings thereon, provide money in an amount which (together with other moneys, if any, held in such escrow at the same time and available for such purpose) will be sufficient to provide for the timely payment of the principal of and interest on the Bonds to the date of maturity or earlier redemption, if any. Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid.

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

Upon defeasance, such defeased Bonds shall no longer be regarded to be outstanding or unpaid and such defeased Bonds will no longer be guaranteed by the Texas Permanent School Fund.

Amendments

The District may amend the Order without the consent of or notice to any registered owner in any manner not detrimental to the interest of the registered owners, including the curing of any ambiguity inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding, amend, add to, or rescind any of the provisions of the Order; except that, without consent of the registered owners of all of the Bonds outstanding, no such amendment, addition or rescission may (1) extend the time or times of payment of the principal of or interest on the Bonds, reduce the principal amount or the rate of interest thereon, or in any other way modify the terms of payment of the principal thereof, the redemption price, or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required to be held by holders for consent to any such amendment, addition, or rescission.

Sources and Uses of Funds

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

Sources:		
	Principal Amount of the Bonds	\$
	Net Original Issue Premium/Discount on the Bonds	
	Total Source of Funds	<u>\$</u>
Uses:		
	Deposit to the Project Fund	\$
	Costs of Issuance and Underwriter’s Discount	
	Total Uses of Funds	<u>\$</u>

BONDHOLDERS’ REMEDIES

The Order does not specify events of default with respect to the Bonds. If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or the District defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, the registered owners may seek a writ of mandamus to compel the District or District officials to carry out the legally imposed duties with respect to the Bonds if there is no other available remedy at law to compel performance of the Bonds or the Order and the District’s obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, 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 Bondholders 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.

On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3rd 325 (Tex. 2006) (“Tooke”) that a waiver of sovereign immunity must be provided for by statute in “clear and unambiguous” language. Because it is unclear whether the Texas legislature has effectively waived the District’s sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District’s property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the 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 Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. 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.

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

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, interest and redemption payments 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 Underwriter believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

None of the District, the Financial Advisor, and the Underwriter can and in fact do not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners (defined herein), 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 SEC, 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 Bonds registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for the Bonds, in the aggregate principal amount of each maturity, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and

clearing companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has an S&P Global Ratings rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from the District or 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 of redemption proceeds, principal, and interest 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 securities depository with respect to the Bonds at any time by giving reasonable notice to the District. Under such circumstances, in the event that a successor depository is not obtained, physical 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 Bond certificates will be printed and delivered in accordance with the Order.

The information in this section concerning DTC and DTC’s book-entry system has been obtained from sources that the District, the Financial Advisor and the Underwriter believe to be reliable, but the District, the Financial Advisors and the Underwriter take no responsibility for the accuracy thereof.

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 Book-Entry-Only form, 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.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

UMB Bank, N.A., Austin, Texas, has been named to serve as initial Paying Agent/Registrar for the Bonds. In the Order, the District retains the right to replace 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 applicable law; or other entity duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Future Registration

In the event the Book-Entry-Only System is discontinued, printed Bond certificates will be delivered to the Beneficial Owners of the Bonds and thereafter the Bonds may be transferred, registered and assigned on the registration books only upon presentation and surrender of such printed certificates to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the Registered Owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bond being transferred or exchanged at the designated office of the Paying Agent/Registrar, or sent by United States registered mail to the new Registered Owner at the Registered Owner's request, risk and expense. 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 kind and aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer. See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized initially in regard to the ownership and transferability of the Bonds.

Record Date For Interest Payment

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

Limitation on Transfer of Bonds

Neither the District nor the Paying Agent/Registrar shall be required to issue or transfer or exchange any Bond called for redemption, in whole or in part, within thirty (30) days of the date fixed for the redemption of such Bond; provided, however, such limitation on transferability shall not be applicable to an exchange by the Holder of the unredeemed 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 in substitution for a Bond which has been destroyed, stolen or lost, such new Bond will be delivered only (a) upon filing with the District and the Paying Agent/Registrar of satisfactory evidence 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 taxes, governmental charges and other expenses as the Paying Agent/Registrar may incur in connection therewith.

AD VALOREM PROPERTY TAXATION

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

Valuation of Taxable Property

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

The three approaches that the Appraisal District may use in appraising property are (i) the market data (sales) comparison approach, (ii) the income approach, and (iii) the cost approach. The market data comparison approach to value is based on sales prices of similar properties; the Appraisal District compares the property being appraised to similar properties that have recently sold and then adjusts the comparable sold properties for the differences between them and the property being appraised. The income approach is based on income and expense data and is used to determine what an investor would pay now for a future revenue stream anticipated to be received from the property; this approach is most suitable for types of properties frequently purchased and held for the purpose of producing income, such as apartments, retail properties and office buildings. The cost approach is used for appraisal of property types for which sales and income data are scarce, unique properties and new construction; it is based on what it would cost to replace the building (improvement) with one of equal utility.

State law requires the appraised value of an owners principal residence ("homestead" or "homesteads") to be based solely on the property's value as a homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a homestead to the lesser of (1) the market value of the property or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property (the "10% Homestead Cap"). The 10% increase is cumulative meaning the maximum increase is 10% times the number of years since the property was last appraised. See APPENDIX A – Table 1 for the reduction in taxable valuation attributable to the 10% Homestead Cap.

State law provides that eligible owners of both agricultural land and open-space land, including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity ("Productivity Value"). The same land may not be qualified as both agricultural and open space land. See APPENDIX A – Table 1 for the reduction in taxable valuation attributable to valuation by Productivity Value.

The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board, whose members are appointed by the Board of Directors of the Appraisal District. Such appraisal rolls, as approved by the Appraisal Review Board, are used by taxing units, such as the District, in establishing their tax rolls and tax rates.

State Mandated Homestead Exemptions

State law grants, with respect to each school district in the State, (1) a \$25,000 exemption of the market value of all homesteads, (2) a \$10,000 exemption of the market value of the homesteads of persons 65 years of age or older and the disabled, and (3) various exemptions for disabled veterans and their families. See APPENDIX A – Table 1 for the reduction in taxable valuation attributable to State-mandated homestead exemptions.

State Mandated Homestead Exemptions for Veterans

State law grants, with respect to each taxing unit in the State, various exemptions for disabled veterans and their families. See APPENDIX A – Table 1 for the reduction in taxable valuation attributable to exemptions for veterans.

Local Optional Homestead Exemptions

The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the market value of all homesteads (but not less than \$5,000) and (2) an additional exemption of the market value of the homesteads of persons 65 years of age or older and the disabled. Each taxing unit decides if it will offer the exemption and at what percentage. See APPENDIX A – Table 1 for the reduction in taxable valuation, if any, attributable to local option homestead exemptions.

State Mandated Freeze on School District Taxes

Except for increases attributable to certain improvements, a school district is prohibited from increasing the total ad valorem tax on the homesteads of persons 65 years of age or older or of disabled persons above the amount of tax imposed in the year such residence qualified for such exemption. For persons 65 years of age or older, but not the disabled, this freeze is also transferable to a different homestead or, under certain circumstances, to the surviving spouse of a qualifying taxpayer. See APPENDIX A – Table 1 for the reduction in taxable valuation attributable to the freeze on taxes for the elderly and disabled.

Local Option Freeze for the Elderly And Disabled

The governing body of a county, municipality or junior college district may, at its option, provide for a freeze on the total amount of ad valorem taxes levied on the homesteads of persons 65 years of age or older or of disabled persons above the amount of tax imposed in the year such residence qualified for such exemption. Also, upon voter initiative, an election may be held to determine by majority vote whether to establish such a freeze on ad valorem taxes. Once the freeze is established, the total amount of taxes imposed on such homesteads cannot be increased except for certain improvements, and such freeze cannot be repealed or rescinded. See APPENDIX A – Table 1 for the reduction in taxable valuation attributable to the freeze on taxes for the elderly and disabled.

Personal Property

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

Freeport Exemptions

Certain goods detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication (“Freeport Property”) are exempt from ad valorem taxation unless a taxing unit took official action to tax Freeport Property before April 1, 1990 and has not subsequently taken official action to exempt Freeport Property. Decisions to continue to tax Freeport Property may be reversed in the future; decisions to exempt Freeport Property are not subject to reversal. Certain goods, principally inventory, that are stored for the purposes of assembling, storing, manufacturing, processing or fabricating the goods in a location that is not owned by the owner of the goods and are transferred from that location to another location within 175 days (“Goods-in-Transit”), are exempt from ad valorem taxation unless a taxing unit takes official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax Goods-in-Transit beginning the following tax year. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include special inventories such as motor vehicles or boats in a dealer’s retail inventory. A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property. See APPENDIX A - Table 1 for the reduction in taxable valuation, if any, attributable to Goods-in-Transit or Freeport Property exemptions.

Other Exempt Property

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

Tax Increment Financing Zones

A city or county, by petition of the landowners or by action of its governing body, may create one or more tax increment financing zones (“TIRZ”) within its boundaries, and other overlapping taxing units may agree to contribute taxes levied against the “Incremental Value” in the TIRZ to finance or pay for project costs, as defined in Chapter 311, Texas Government Code, general located within the TIRZ. At the time of the creation of the TIRZ, a “base value” for the real property in the TIRZ is established and the difference between any increase in the assessed valuation of taxable real property in the TIRZ in excess of the base value is known as the “Incremental Value,” and during the existence of the TIRZ, all or a portion of the taxes levied by each participating taxing unit against the Incremental Value in the TIRZ are restricted to paying project and financing costs within the TIRZ and are not available for the payment of other obligations of such taxing units.

Until September 1, 1999, school districts were able to reduce the value of taxable property reported to the State to reflect any value lost due to TIRZ participation by the district. The ability of the school district to deduct the value of the tax increment that it contributed prevented the school district from being negatively affected in terms of state school funding. However, due to a change in law, school districts may not reduce their taxable property value to reflect losses for TIRZs created on or after May 31, 1999. In 2001 the Legislature enacted legislation known as the Texas Economic Development Act (Chapter 313, Texas Tax Code), which allows 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.

Tax Abatement Agreements

Taxing units may also enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The taxing unit, in turn, agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years.

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

Public Hearing and Maintenance and Operation Tax Rate Limitations

During the 2019 legislative session, the Texas Legislature made numerous changes to the requirements for the levy and collection of ad valorem taxes and the calculation of defined tax rates, including particularly those contained in HB 3 and Senate Bill 2 (“SB 2”). In some instances, the provisions of HB 3 and SB 2 will require further interpretation in connection with their implementation in order to resolve ambiguities contained in the bills. The District is still in the process of analyzing how the provisions of HB 3 and SB 2 will be implemented, and the information contained herein reflects the District’s understanding based on information available to the District as of the date of this Official Statement, which is subject to change. Reference is made to HB 3, SB 2 and the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the defined tax rates.

A school district’s tax rate consists of two components: (1) its M&O tax rate for funding of maintenance and operations expenditures in the current year, and (2) its I&S tax rate for funding debt service in the current year. Under State law, the assessor for the district must submit an appraisal roll showing the total appraised, assessed, and taxable values of all property in the district to the governing body of the district by August 1 or as soon as practicable thereafter.

In setting its tax rate for the 2019 tax year, the governing body of a school district generally cannot adopt a tax rate exceeding the district’s voter-approval tax rate without approval by a majority of the voters voting at an election to be held on the next uniform election date. The “voter-approval tax rate” for a school district for the 2019 tax year is the sum of (A) the product of the district’s State Compression Percentage for that year multiplied by \$1.00, (B) the greater of (i) the district’s M&O tax rate for the 2018 tax year, less the sum of (a) \$1.00 and (b) any amount by which the district is required to reduce its Enrichment Tax Rate or (ii) the

rate of \$0.04, and (C) the district's I&S tax rate. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Funding for School Districts" for a description of the "State Compression Percentage." With certain exceptions, if a district's voter-approval tax rate, after subtracting its I&S tax rate, for tax year 2019 is \$0.97 or more, the district may not adopt an M&O tax rate that exceeds its voter-approval tax rate for tax year 2019.

For the 2020 tax year and any subsequent years, the "voter-approval tax rate" for a school district is the sum of (A) the product of the district's State Compression Percentage for that year multiplied by \$1.00, (B) the greater of (i) the district's Enrichment Tax Rate for the preceding tax year, less the rate (if any) by which it must compress its Copper Pennies for the current year, or (ii) the rate of \$0.05, and (C) the district's I&S tax rate for the current tax year; provided, however, for the 2020 tax year, (B)(ii) above shall be reduced to \$0.04 if the annual tax rate is not approved by a unanimous vote of the governing body of the District. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Funding for School Districts" for a description of the "State Compression Percentage," "Enrichment Tax Rate," and compression of Copper Pennies.

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

The calculation of the voter-approval tax rate does not limit or impact the District's ability to set a debt service tax rate in each year sufficient to pay debt service on all of the District's tax-supported debt obligations, including the Bonds.

The governing body of a district must adopt a tax rate before the later of September 30 or the 60th day after receipt of the certified appraisal roll, except that a tax rate that exceeds the voter-approval tax rate must be adopted not later than the 71st day before the next occurring November uniform election date. If a district fails to timely adopt a tax rate, such tax rate will be statutorily determined in accordance with Section 26.05 of the Property Tax Code.

Before adopting its annual tax rate, a public meeting must be held for the purpose of adopting a budget for the succeeding year. A notice of public meeting to discuss the district's budget and proposed tax rate must be published in the time, format and manner prescribed in Section 44.004 of the Texas Education Code. Section 44.004(e) of the Texas Education Code provides that a person who owns taxable property in a school district is entitled to an injunction restraining the collection of taxes by the 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), (c-1), (c-2), and (d), and, if applicable, Subsection (i), and if such failure to comply was not in good faith. Section 44.004(e) further provides the action to enjoin the collection of taxes must be filed before the date the 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.

Beginning with the 2020 tax year, the District must annually calculate and prominently post on its internet website, and submit to the county tax assessor-collector for each county in which all or part of the District is located its voter-approval tax rate in accordance with forms prescribed by the State Comptroller.

District and Taxpayers Remedies

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

Owners of certain property with a taxable value of at least \$50 million and situated in a county with a population of one million or more as of the most recent federal decennial census may additionally protest the determinations of appraisal district directly to a three-member special panel of the appraisal review board, selected by a State district judge, consisting of highly qualified professionals in the field of property tax appraisal.

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the City and provides for taxpayer referenda that could result in the repeal of certain tax increases. See "– Public Hearing and Maintenance and Operation Tax Rate Limitations." The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all State and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each local taxing unit, including the District, having power to tax the property. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes. 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 (a taxpayer may redeem property within two (2) years after the purchaser's deed issued at the foreclosure sale is filed in the county records) or by bankruptcy proceedings which restrict the collection of taxpayer debts. Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases, post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT

The Appraisal District has the responsibility for appraising property in the District. The Appraisal District is governed by a board of directors appointed by voters of the governing bodies of various political subdivisions in the county.

The District grants a State mandated \$25,000 general residence homestead exemption.

The District grants a State mandated \$10,000 residence homestead exemption for persons 65 years of age or older and the disabled.

The District grants a State mandated property tax exemption for disabled veterans.

The District has granted an additional \$20,000 exemption to the market value of the residence homestead of persons 65 years of age or older and disabled veterans over the State-mandated exemption.

Ad valorem taxes are not levied by the District against the exempt value of residence homesteads for the payment of debt.

The District does not tax non-business personal property.

The District does not permit split payments, and discounts are not allowed.

The District does not tax Freeport property.

The District has not taken action to tax Good-in-Transit.

The District does not participate in a TIRZ.

The District does not offer tax abatements.

The Property Tax Code establishes procedures for providing notice and the opportunity for a hearing for taxpayers in the event of certain proposed tax increases and provides for taxpayer referenda which could result in the repeal of certain tax increases.

The Board has approved a resolution initiating an additional 20% penalty to defray attorney costs in the collection of delinquent taxes over and above the penalty automatically assessed under the Property Tax Code. 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</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	12	6	18

After July, penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, an additional penalty of 15% is assessed on July 1 in order to defray attorney collection expenses.

Property within the District is assessed as of January 1 of each year (except business inventories which may be assessed as of September 1 and mineral values which are assessed on the basis of a twelve month average) and taxes become due October 1 of the same year, or when filed, whichever comes later, and become delinquent on February 1 of the following year. Split payments of taxes are not permitted. Discounts for the early payment of taxes are not permitted.

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

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

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

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

Possible Effects of Changes in Law on District Bonds

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

Overview

During the 2019 legislative session, the Texas Legislature made numerous changes to the Finance System, including particularly those contained in House Bill 3 (“HB 3”). In some instances, the provisions of HB 3 will require further interpretation by the District and TEA. The District is still in the process of (a) analyzing the provisions of HB 3 and (b) monitoring the on-going

guidance provided by TEA. The information contained herein reflects the District's understanding of HB 3 based on information available to the District as of the date of this Official Statement, which is subject to change.

The following language constitutes only a summary of the Finance System as it is currently structured. For a more complete description of school finance and fiscal management in the State, reference is made to Chapters 43 through 49 of the Texas Education Code, as amended.

Local funding is derived from collections of ad valorem taxes levied on property located within each 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. School districts may not levy surplus M&O taxes for the purpose of paying debt service on bonds. A district is authorized to levy their M&O tax at a constitutionally-mandated and voter-approved rate of up to \$1.50 per \$100 of taxable value in the district. Current law also requires school districts to demonstrate their ability to pay debt service on outstanding bonded indebtedness through the levy of an I&S tax at a rate not to exceed \$0.50 per \$100 of taxable value at the time bonds are issued. Once bonds are issued, however, districts may levy a tax sufficient to pay debt service on such bonds unlimited as to rate or amount. Because property values vary widely among school districts, the amount of local funding generated among school districts for the same tax rate is also subject to wide variation.

Prior to the 2019 legislative session, a district's maximum M&O tax rate for a given tax year was determined by multiplying that district's 2005 M&O tax rate levy by a compression percentage set by legislative appropriation or, in the absence of legislative appropriation, by the Commissioner of Education. This compression percentage was historically set at 66.67%, effectively setting the maximum compressed M&O tax rate for most school districts at \$1.00 per \$100 of taxable value. School districts were permitted, however, to generate additional local funds by raising their M&O tax rate up to \$0.04 above the compressed tax rate or, with voter-approval at a valid election in the district, by up to \$0.17 above the compressed rate (for most districts, between \$1.04 and \$1.17 per \$100 of taxable value). Districts received additional State funds in proportion to such taxing effort.

Local Funding for School Districts

In HB 3, the 86th Texas Legislature made several significant changes to the funding methodology for school districts. HB 3 orders a district's M&O tax rate into two distinct parts: the Tier One Tax Rate and the Enrichment Tax Rate, and applies a legislatively-appropriated State Compression Percentage (each term as described below) or a higher rate of compression, as appropriate.

State Compression Percentage. The State Compression Percentage is a statutorily-defined percentage of the rate of \$1.00 per \$100 that is necessary to receive the full amount of State aid. The State Compression Percentage is set at 93% per \$100 of taxable value for the 2019-2020 school year, effectively setting the fiscal year 2019-2020 Tier One Tax Rate for most school districts at \$0.93 cents. In the 2020-2021 school year, the State Compression Percentage is anticipated to decline, based on statewide average property value growth, to 91.65%. It will decline further in future years if statewide average property values grow at a rate that is greater than 2.5%.

Tier One Tax Rate. For school year 2019-2020, the Tier One Tax Rate is defined as the lesser of the State Compression Percentage multiplied by \$1.00 or the total number of cents levied by the district for the 2018-2019 school year for M&O purposes (excluding tax rate increases in response to declared disasters as described below), multiplied by the State Compression Percentage. Beginning with the 2020-2021 school year, a district must reduce its compression percentage to a rate lower than the State Compression Percentage if the taxable value in the district has increased by more than 2.5% over the prior year.

Enrichment Tax Rate. The Enrichment Tax Rate is defined as any tax effort in excess of the Tier One Tax Rate and less than \$1.17. The Enrichment Tax Rate is divided into two components, commonly known as "Golden Pennies" and "Copper Pennies". Golden Pennies refer to the first eight cents of taxing effort above the Tier One Tax Rate. Copper Pennies refer to any taxing effort above the sum of the Tier One Tax Rate and Golden Pennies, but less than or equal to the sum of (1) \$0.17, plus (2) the product of the State Compression Percentage, multiplied by \$1.00. For the 2019-2020 tax year, this maximum value for most districts is \$1.10.

Districts are entitled to a guaranteed yield (i.e., the guaranteed level of local tax revenue and State aid generated) for each Golden Penny or Copper Penny levied in addition to the Tier One Tax Rate. However, in years for which the guaranteed yield per Copper Penny is increased, a district may be required to reduce its M&O tax rate for that school year if it levies Copper Pennies (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Wealth Transfer Provisions and Funding Equity – Tier Two Funding" below).

State Funding for School Districts

State funding for school districts is provided through the Foundation School Program, which provides each district with a State-appropriated baseline level of funding (the “Basic Allotment”) for each student in “Average Daily Attendance” (being the sum of student attendance for each State-mandated day of instruction divided by the number of State-mandated days of instruction, defined herein as “ADA”). The Basic Allotment per student is revised downward if a district’s Tier One Tax Rate does not meet or exceed a State-determined threshold (currently \$0.93 per \$100 of taxable value). This Basic Allotment is supplemented by additional State funds, allotted based upon the unique district characteristics and demographics of students in ADA, to make up most of a district’s basic level of State funding (referred to herein as “Tier One”) under the Foundation School Program.

Tier One 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 a district’s Enrichment Tax Rate, which is the M&O tax effort that exceeds the Tier One Tax Rate. The Finance System also provides an Existing Debt Allotment (“EDA”) to subsidize debt service on eligible outstanding district bonds, an Instructional Facilities Allotment (“IFA”) to subsidize debt service on newly issued bonds, and a New Instructional Facilities Allotment (“NIFA”) to subsidize operational expenses associated with the opening of a new instructional facility. IFA primarily addresses the debt service needs of property-poor districts. In 2019, the 86th Texas Legislature appropriated funds in the amount of \$1,323,444,300 for the 2020-2021 State fiscal biennium for the EDA, IFA, and NIFA.

Tier One and Tier Two allotments represent the State’s share of the cost of M&O expenses of districts, with local M&O taxes representing the district’s local share. EDA and IFA allotments supplement a 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 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 2020-2021 State fiscal biennium and debt service assistance on district bonds that are not yet eligible for EDA is not available, debt service on new bonds issued by districts to construct, acquire and improve facilities must be funded solely from local I&S taxes.

Tier One allotments are intended to provide all districts a basic level of education necessary to meet applicable legal standards. Tier Two allotments are intended to guarantee each district that is not subject to the wealth transfer provisions described below an opportunity to supplement Tier One 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, Tier One funding is based on an allotment per student known as the “Basic Allotment”. For the 2020-2021 State fiscal biennium, the Basic Allotment for districts with an M&O tax rate of at least \$0.93 cents is \$6,160 for each student in ADA and is revised downward for districts with a lower M&O tax rate. The Basic Allotment is then supplemented for all districts by various weights to account for differences among districts and their student populations. Such additional allotments include, but are not limited to, increased funds for students in ADA who: (i) attend a qualified special education program, (ii) are diagnosed with dyslexia or a related disorder, (iii) are economically disadvantaged, or (iv) have limited English language proficiency. Additional allotments to mitigate differences among districts include, but are not limited to: (i) a transportation allotment for mileage associated with transporting students who reside two miles or more from their home campus, (ii) a fast growth allotment (for districts in the top 25% of enrollment growth relative to other districts), and (iii) a college, career and military readiness allotment to further Texas’ goal of increasing the number of student who attain post-secondary education or workforce credential. The sum of a district’s Basic Allotment and all statutory adjustments, divided by \$6,160, is that district’s measure of students in “Weighted Average Daily Attendance” (“WADA”), which serves to calculate Tier Two funding.

Tier Two supplements the basic funding of Tier One and provides two levels of enrichment with different guaranteed yields (i.e., guaranteed levels of State and local funds per cent of tax effort) depending on the district’s Enrichment Tax Rate. The first eight cents of tax effort that exceeds a district’s Tier One Tax Rate (Golden Pennies) will generate a guaranteed yield equal to the greater of (i) the local revenue per student in WADA per cent of tax effort available to a school district at the 96th percentile of wealth per student in WADA, or (ii) the Basic Allotment multiplied by 0.016 per student in WADA per cent of tax effort. For the 2020-2021 State fiscal biennium, the guaranteed yield will be \$98.56 per WADA per cent of tax effort above \$0.93 up to \$1.01 per \$100 taxable value.

The second level of Tier Two is generated by tax effort that exceeds the district’s Tier One Tax Rate plus eight cents (Copper Pennies) and has a guaranteed yield per cent per WADA of the Basic Allotment multiplied by 0.008. For the 2020-2021 State fiscal biennium, the guaranteed yield will be \$49.28 per WADA per cent of tax effort above \$1.01, up to eleven cents of tax effort. 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 IFA program and the 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 district a specified amount per student (the “IFA Guaranteed Yield”) in State and local funds for each cent of tax effort to pay the principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. The guaranteed yield per cent of local tax effort per student in ADA has been \$35 since this program first began in 1997. New awards of IFA are only

available if appropriated funds are allocated for such purpose by the State Legislature. To receive an IFA award, in years where the new IFA awards are available, a district must apply to the Commissioner in accordance with rules adopted by the TEA before issuing the bonds to be paid with IFA State assistance. The total amount of debt service assistance over a biennium for which a district may be awarded is limited to the lesser of (1) the actual debt service payments made by the district in the biennium in which the bonds are issued; or (2) the greater of (a) \$100,000 or (b) \$250 multiplied by the number of students in ADA. The IFA is also available for lease-purchase agreements and refunding bonds meeting certain prescribed conditions. Once a district receives an IFA award for bonds, it is entitled to continue receiving State assistance for such bonds without reapplying to the Commissioner. The guaranteed level of State and local funds per student per cent of local tax effort applicable to the bonds may not be reduced below the level provided for the year in which the bonds were issued. The 86th State Legislature did not appropriate any funds for new IFA awards for the 2020-2021 State fiscal biennium; however, awards previously granted in years the State Legislature did appropriate funds for new IFA awards will continue to be funded. State financial assistance is provided for certain existing eligible debt issued by school districts through the EDA program. Until recently, the EDA guaranteed yield (the "EDA Yield") was the same as the IFA Guaranteed Yield (\$35 per cent of local tax effort per student in ADA). The 85th Texas Legislature changed the EDA Yield to the lesser of (i) \$40 or a greater amount for any year provided by appropriation; or (ii) the amount that would result in a total additional EDA of \$60 million more than the EDA to which districts would have been entitled to if the EDA Yield were \$35. The yield for the 2019-2020 fiscal year is approximately \$37. The portion of a district's local debt service rate that qualifies for EDA assistance is limited to the first 29 cents of debt service tax (or a greater amount for any year provided by appropriation by the Texas Legislature). In general, a district's bonds are eligible for EDA assistance if (i) the district made payments on the bonds during the final fiscal year of the preceding State fiscal biennium, and (ii) the district levied taxes to pay the principal of and interest on the bonds for that fiscal year. Each biennium, access to EDA funding is determined by the debt service taxes collected in the final year of the preceding biennium. A district may not receive EDA funding for the principal and interest on a series of otherwise eligible bonds for which the district receives IFA funding.

A district may also qualify for a NIFA allotment, which provides assistance to districts for operational expenses associated with opening new instructional facilities. The 86th Texas Legislature appropriated funds in the amount of \$100,000,000 for each of the 2019-2020 and 2020-2021 State fiscal years for NIFA allotments.

Wealth Transfer Provisions and Funding Equity

Some school districts in Texas have sufficient property wealth per student in WADA to generate their statutory level of funding through collections of local property taxes alone. Certain districts whose property tax base can generate local M&O revenues in excess of the State entitlement are subject to the wealth equalization provisions contained in Chapter 49, as amended, Texas Education Code ("Chapter 49"). Such districts are referred to herein as "Chapter 49 districts". For most Chapter 49 districts, wealth equalization entails a process known as "recapture", paying the portion of the district's local share in excess of the guaranteed yield to the State (for redistribution to other school districts) or otherwise expending M&O tax revenues for the benefit of students in districts that are not subject to Chapter 49.

In 2019, the 86th Texas Legislature adopted substantial changes to the wealth transfer provisions of the Texas Education Code. Whereas the recapture process had previously been based on the proportion of a district's assessed property value per student in WADA, recapture is now measured by the "local revenue level" (being the local share of the relevant portion of the Foundation School Program) in excess of the entitlements appropriated by the Legislature each fiscal biennium. Therefore, districts are now guaranteed that recapture will not reduce revenue below their statutory entitlement. The changes to the wealth transfer provisions are expected to reduce the cumulative amount of recapture payments paid by school districts by approximately \$3.6 billion during the 2020-2021 State fiscal biennium.

Tax Rate and Funding Equity. The Texas Commissioner of Education (the "Commissioner") may adjust a district's funding entitlement if the funding formulas used to determine the district's entitlement result in an unanticipated loss or gain for a district. Any such adjustment requires preliminary approval from the Legislative Budget Board and the office of the Governor, and such adjustments may only be made through the 2020-2021 school year. Further, current law includes a mechanism designed to ensure that districts can have no greater than a 10% difference in maximum compressed tax rates for the 2020-2021 school year and beyond.

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

Furthermore, "property-wealthy" school districts which received additional State funds under the prior State funding regime are entitled to an equalized wealth transition grant on an annual basis through the 2023-2024 school year in an amount equal to the amount of additional revenue such district would have received under former Texas Education Code Sections 41.002(e) through (g), as those sections existed on January 1, 2019. This grant is phased out through the 2023-2024 school year as follows: (1) 20%

reduction for the 2020-2021 school year, (2) 40% reduction for the 2021-2022 school year, (3) 60% reduction for the 2022-2023 school year, and (4) 80% reduction for the 2023-2024 school year.

Recapture. Similar to prior law, Chapter 49 districts must pay the surplus local revenue in excess of entitlement to the State for redistribution to other school districts or directly to other school districts with a local revenue level that does not generate local funds sufficient to meet the statutory level of funding. Chapter 49 districts must exercise certain options, described in more detail below, in order to reduce “their local revenue level in excess of entitlement”, as determined by formulas set forth in Section 48.257 of the Texas Education Code.

Tier One Funding. In the 2020-2021 State fiscal biennium, the guaranteed level of State and local funds varies for each component of a district’s M&O tax rate. Generally, a district’s Tier One Tax Rate (as the equivalent of the State Compression Percentage) is set at 93% or lower by appropriation, multiplied by \$1.00 per \$100 of property valuation (except for districts taxing at a rate of less than \$1.00 for the 2018-2019 school year). The Tier One Tax Rate for such districts for the 2019-2020 school year would be the State Compression Percentage applied to the number of cents levied by the district for the 2018-2019 school year.) Revenue from this tax rate, combined with any state aid in Tier One, generate the district’s total Tier One entitlement. Revenue in excess of the local share of Tier One is returned to the State in the form of recapture.

Tier Two Funding. Under current law, the Golden Pennies of a district’s Enrichment Tax Rate will generate a guaranteed yield equal to the greater of (i) the local revenue per student in WADA per cent of tax effort available to a school district at the 96th percentile of wealth per student in WADA, or (ii) 160% of the Basic Allotment per student in WADA at such district. The local revenue generated from a district’s Golden Pennies are generally not subject to recapture; however, in years where an amount less than the guaranteed yield for Golden Pennies described in clauses (i) and (ii) is appropriated, a district must remit to the State any revenue generated from its Golden Pennies above the guaranteed yield appropriated in that year.

The Copper Pennies of a district’s Enrichment Tax Rate generate a guaranteed yield equal the Basic Allotment for the 2020-2021 State fiscal biennium times 0.008. For a school year in which a district’s guaranteed yield for its Copper Pennies per student in WADA exceeds the guaranteed yield per student in WADA for the preceding school year, a district would be required to reduce its Copper Pennies levied so as to generate no more revenue per student in WADA than was available to the district for the preceding year. Accordingly, the increase in the guaranteed yield from \$31.95 per cent per student in WADA in school year 2019-2020 to \$49.28 per cent per student in WADA requires districts to compress their levy of Copper Pennies by a factor of 0.64834.

Wealth Transfer Options. Under Chapter 49, a district has six options to reduce its local revenue level so that it does not exceed the equalized wealth level: (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; (5) a district may execute an agreement to provide students of one or more other districts with career and technology education through a program designated as an area program for career and technology education; or (6) 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 49 district may also exercise any combination of these remedies. Options (3), (4) and (6) require prior approval by the Chapter 49 district’s voters.

Furthermore, a district may not adopt a tax rate until its effective local revenue level is at or below the level that would produce its guaranteed entitlement under the Foundation School Program. If a district fails to exercise a permitted option, the Commissioner must reduce the district’s local revenue level to the level that would product its guaranteed entitlement, 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 School Finance System as Applied to the District

The District's wealth per student for the 2018-19 school year is more than the equalized wealth value. Accordingly, the District has been required to exercise one of the permitted wealth equalization options. As a District with wealth per student in excess of the equalized wealth value, the District has reduced its wealth per student by sending payments directly to the State to purchase weighted average daily attendance credits (Option 3) under Chapter 41, Texas Education Code for the purpose of achieving property wealth equalization. As a so-called "Chapter 41 district", the District does not receive any State funding to pay debt service requirements on its outstanding indebtedness, including the Bonds. For a detailed discussion of State funding for school districts, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for Local School Districts." The District’s wealth equalization agreements have been approved by the Texas Education Agency.

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

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

The District has made application to the Texas Education Agency (the "TEA") for a Permanent School Fund Guarantee of the Bonds and has received conditional approval for the Bonds to be guaranteed under the Guarantee Program (as defined and described below). The information below concerning the Permanent School Fund and the Guarantee Program for School District Bonds has been provided by the TEA and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the District, the Financial Advisor or the Underwriters.

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

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

History and Purpose

The PSF was created with a \$2,000,000 appropriation by the Texas Legislature (the "Legislature") in 1854 expressly for the benefit of the public schools of Texas. The Constitution of 1876 stipulated that certain lands and all proceeds from the sale of these lands should also constitute the PSF. Additional acts later gave more public domain land and rights to the PSF. In 1953, the U.S. Congress passed the Submerged Lands Act that relinquished to coastal states all rights of the U.S. navigable waters within state boundaries. If the state, by law, had set a larger boundary prior to or at the time of admission to the Union, or if the boundary had been approved by Congress, then the larger boundary applied. After three years of litigation (1957-1960), the U. S. Supreme Court on May 31, 1960, affirmed Texas' historic three marine leagues (10.35 miles) seaward boundary. Texas proved its submerged lands property rights to three leagues into the Gulf of Mexico by citing historic laws and treaties dating back to 1836. All lands lying within that limit belong to the PSF. The proceeds from the sale and the mineral-related rental of these lands, including bonuses, delay rentals and royalty payments, become the corpus of the Fund. Prior to the approval by the voters of the State of an amendment to the constitutional provision under which the Fund is established and administered, which occurred on September 13, 2003 (the "Total Return Constitutional Amendment"), and which is further described below, the PSF had as its main sources of revenues capital gains from securities transactions and royalties from the sale of oil and natural gas. The Total Return Constitutional Amendment provides that interest and dividends produced by Fund investments will be additional revenue to the PSF. The State School Land Board ("SLB") maintains the land endowment of the Fund on behalf of the Fund and is generally authorized to manage the investments of the capital gains, royalties and other investment income relating to the land endowment. The SLB is a three member board, the membership of which consists of the Commissioner of the Texas General Land Office (the "Land Commissioner") and two citizen members, one appointed by the Governor and one by the Texas Attorney General (the "Attorney General"). (But see "2019 Texas Legislative Session" for a description of legislation that is expected to change the composition of the SLB). As of August 31, 2018, the General Land Office (the "GLO") managed approximately 23% of the PSF, as reflected in the fund balance of the PSF at that date. The Texas Constitution describes the PSF as "permanent." Prior to the approval by Total Return Constitutional Amendment, only the income produced by the PSF was to be used to complement taxes in financing public education.

On November 8, 1983, the voters of the State approved a constitutional amendment that provides for the guarantee by the PSF of bonds issued by school districts. On approval by the State Commissioner of Education (the "Commissioner"), bonds

properly issued by a school district are fully guaranteed by the corpus of the PSF. See “The School District Bond Guarantee Program.”

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

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

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

The sole purpose of the PSF is to assist in the funding of public education for present and future generations. Prior to the adoption of the Total Return Constitutional Amendment, all interest and dividends produced by Fund investments flowed into the Available School Fund (the “ASF”), where they are distributed to local school districts and open-enrollment charter schools based on average daily attendance. Any net gains from investments of the Fund accrue to the corpus of the PSF. Prior to the approval by the voters of the State of the Total Return Constitutional Amendment, costs of administering the PSF were allocated to the ASF. With the approval of the Total Return Constitutional Amendment, the administrative costs of the Fund have shifted from the ASF to the PSF. In fiscal year 2018 distributions to the ASF amounted to an estimated \$247 per student and the total amount distributed to the ASF was \$1,235.8 million.

Audited financial information for the PSF is provided annually through the PSF Comprehensive Annual Financial Report (the “Annual Report”), which is filed with the Municipal Securities Rulemaking Board (“MSRB”). The Annual Report includes the Message of the Executive Administrator of the Fund (the “Message”) and the Management’s Discussion and Analysis (“MD&A”). The Annual Report for the year ended August 31, 2018, as filed with the MSRB in accordance with the PSF undertaking and agreement made in accordance with Rule 15c2-12 (“Rule 15c2-12”) of the federal Securities and Exchange Commission (the “SEC”), as described below, is hereby incorporated by reference into this disclosure. Information included herein for the year ended August 31, 2018 is derived from the audited financial statements of the PSF, which are included in the Annual Report when it is filed and posted. Reference is made to the Annual Report for the complete Message and MD&A for the year ended August 31, 2018 and for a description of the financial results of the PSF for the year ended August 31, 2018, the most recent year for which audited financial information regarding the Fund is available. The 2018 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2018 Annual Report or any other Annual Report. The TEA posts each Annual Report, which includes statistical data regarding the Fund as of the close of each fiscal year, the most recent disclosure for the Guarantee Program, the Statement of Investment Objectives, Policies and Guidelines of the Texas Permanent School Fund, which is codified at 19 Texas Administrative Code, Chapter 33 (the “Investment Policy”), monthly updates with respect to the capacity of the Guarantee Program (collectively, the “Web Site Materials”) on the TEA web site at http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/ and with the MSRB at www.emma.msrb.org. Such monthly updates regarding the Guarantee Program are also incorporated herein and made a part hereof for all purposes. In addition to the Web Site Materials, the Fund is required to make quarterly filings with the SEC under Section 13(f) of the Securities Exchange Act of 1934. Such filings, which consist of a list of the Fund’s holdings of securities specified in Section 13(f), including exchange-traded (e.g., NYSE) or NASDAQ-quoted stocks, equity options and warrants, shares of closed-end investment companies and certain convertible debt securities, is available from the SEC at www.sec.gov/edgar.shtml. A list of the Fund’s equity and fixed income holdings as of August 31 of each year is posted to the TEA web site and filed with the MSRB. Such list excludes holdings in the Fund’s securities lending program. Such list, as filed, is incorporated herein and made a part hereof for all purposes.

2019 Texas Legislative Session

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

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

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

The Total Return Constitutional Amendment

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

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

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

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

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

For a variety of reasons, each change in asset allocation for the Fund, including the 2016 modifications, have been implemented in phases, and that approach is likely to be carried forward when and if the asset allocation policy is again modified. At August 31, 2018, the Fund’s financial assets portfolio was invested as follows: 40.52% in public market equity investments; 13.25% in fixed income investments; 10.35% in absolute return assets; 9.16% in private equity assets; 7.47% in real estate assets; 6.78% in risk parity assets; 5.95% in real return assets; 6.21% in emerging market debt; and 0.31% in unallocated cash.

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

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

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

Management and Administration of the Fund

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

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

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

The SBOE contracts with its securities custodial agent to measure the performance of the total return of the Fund's financial assets. A consultant is typically retained for the purpose of providing consultation with respect to strategic asset allocation decisions and to assist the SBOE in selecting external fund management advisors. The SBOE also contracts with financial institutions for custodial and securities lending services. Like other State agencies and instrumentalities that manage large

investment portfolios, the PSF has implemented an incentive compensation plan that may provide additional compensation for investment personnel, depending upon the criteria relating to the investment performance of the Fund.

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

Capacity Limits for the Guarantee Program

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

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

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

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

At its September 2015 meeting, the SBOE voted to modify the SDBGP Rules and the CDBGP Rules to increase the State Law Capacity from 3 times the cost value multiplier to 3.25 times. At that meeting, the SBOE also approved a new 5% capacity reserve for the Charter District Bond Guarantee Program. The change to the State Law Capacity became effective on February 1, 2016. At its November 2016 meeting, the SBOE again voted to increase the State Law Capacity and, in accordance with applicable requirements for the modification of SDBGP and CDBGP Rules, a second and final vote to approve the increase in the State Law Capacity occurred on February 3, 2017. As a result, the State Law Capacity increased from 3.25 times the cost value multiplier to 3.50 times effective March 1, 2017. Based upon the cost basis of the Fund at August 31, 2018, the State Law Capacity increased from \$111,568,711,072 on August 31, 2017 to \$118,511,255,268 on August 31, 2018 (but at such date the IRS Limit was lower, \$117,318,653,038, so it is the currently effective capacity limit for the Fund).

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

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

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

The School District Bond Guarantee Program

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

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

enforcement mechanisms to the Commissioner, including the appointment of a board of managers or annexation of a defaulting school district to another school district.

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

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

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

Charter District Bond Guarantee Program

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

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

As of February 27, 2019 (the most recent date for which data is available), the percentage of students enrolled in open-enrollment charter schools (excluding charter schools authorized by school districts) to the total State scholastic census was approximately 5.85%. As of June 10, 2019, there were 181 active open-enrollment charter schools in the State and there were 764 charter school campuses operating under such charters (though as of such date, 15 of such campuses have not begun serving students for various reasons). Section 12.101, Texas Education Code, as amended by the Legislature in 2013, limits the number of charters that the Commissioner may grant to 215 charters as of the end of fiscal year 2014, with the number increasing in each fiscal year thereafter through 2019 to a total number of 305 charters. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see "Capacity Limits for the Guarantee Program." The Act provides that the Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

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

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

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

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

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

From time to time, TEA has limited new guarantees under the Charter District Bond Guarantee Program to conform to capacity limits specified by the Act. Legislation enacted during the Legislature's 2017 regular session modified the manner of calculating the capacity of the Charter District Bond Guarantee Program (the “CDBGP Capacity”), which further increased the amount of the CDBGP Capacity, beginning with State fiscal year 2018, but that provision of the law does not increase overall Program capacity, it merely allocates capacity between the School District Bond Guarantee Program and the Charter District Bond Guarantee Program. See “Capacity Limits for the Guarantee Program” and “2017 Legislative Changes to the Charter District Bond Guarantee Program.” Other factors that could increase the CDBGP Capacity include Fund investment performance, future increases in the Guarantee Program multiplier, changes in State law that govern the calculation of the CDBGP Capacity, as described below, growth in the relative percentage of students enrolled in open-enrollment charter

schools to the total State scholastic census, legislative and administrative changes in funding for charter districts, changes in level of school district or charter district participation in the Program, or a combination of such circumstances.

2017 Legislative Changes to the Charter District Bond Guarantee Program

The CDBGP Capacity is established by the Act. During the 85th Texas Legislature, which concluded on May 29, 2017, Senate Bill 1480 (“SB 1480”) was enacted. The complete text of SB 1480 can be found at <http://www.capitol.state.tx.us/tlodocs/85R/billtext/pdf/SB01480F.pdf#navpanes=0>. SB 1480 modified how the CDBGP Capacity will be established under the Act effective as of September 1, 2017, and made other substantive changes to the Act that affects the Charter District Bond Guarantee Program. Prior to the enactment of SB 1480, the CDBGP Capacity was calculated as the State Capacity Limit less the amount of outstanding bond guarantees under the Guarantee Program multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population. As of April 30, 2019, the amount of outstanding bond guarantees represented 69.90% of the IRS Limit (which is currently the applicable capacity limit) for the Guarantee Program (based on unaudited data). SB 1480 amended the CDBGP Capacity calculation so that the State Capacity Limit is multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population prior to the subtraction of the outstanding bond guarantees, thereby potentially substantially increasing the CDBGP Capacity. However, certain provisions of SB 1480, described below, and other additional factors described herein, could result in less than the maximum amount of the potential increase provided by SB 1480 being implemented by the SBOE or otherwise used by charter districts. Still other factors used in determining the CDBGP Capacity, such as the percentage of the charter district scholastic population to the overall public school scholastic population, could, in and of itself, increase the CDBGP Capacity, as that percentage has grown from 3.53% in September, 2012 to 5.85% in February 2019. TEA is unable to predict how the ratio of charter district students to the total State scholastic population will change over time.

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

Taking into account the enactment of SB 1480 and the increase in the CDBGP Capacity effected thereby, at its Winter 2018 meeting the SBOE determined not to implement a previously approved multiplier increase to 3.75 times market value, opting to increase the multiplier to 3.50 times effective in late March 2018.

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

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the “Charter District Reserve Fund”). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10 percent of the savings to the charter district that is a result of the lower interest rate on its bonds due to the guarantee by the PSF. SB 1480 modified the Act insofar as it pertains to the Charter District Reserve Fund. Effective September 1, 2017, the Act provides that a charter district that has a bond guaranteed must remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 20 percent of the savings to the charter district that is a result of the lower interest rate on the bond due to the guarantee by the PSF. The amount due shall be paid on receipt by the charter district of the bond proceeds. However, the deposit requirement will not apply if the balance of the Charter District Reserve Fund is at least equal to three percent (3.00%) of the total amount of outstanding guaranteed bonds issued by charter districts. As of April 30, 2019, the Charter District Reserve Fund represented approximately 0.87% of the guaranteed charter district bonds. SB 1480 also authorized the SBOE to manage the Charter District Reserve Fund in the same manner as it manages the PSF. Previously, the Charter District Reserve Fund was held by the Comptroller, but effective April 1 2018, the management of the Reserve Fund was transferred to the PSF division of TEA, where it will be held and invested as a non-commingled fund under the administration of the PSF staff.

Charter District Risk Factors

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

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

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

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

Fund, which could in the future be a significant reimbursement resource for the PSF. At April 30, 2019, the Charter District Reserve Fund contained \$14,743,830.

Potential Impact of Hurricane Harvey on the PSF

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

Legislation was approved during the 86th Session that provides supplemental appropriations to the TEA in amounts of \$535,200,000 and \$636,000,000 for the fiscal biennia ending August 31, 2019 and August 31, 2021, respectively. Those appropriations are designated for use as an adjustment to school district property values and reimbursement for disaster remediation costs as a result of Hurricane Harvey. That legislation also included a reimbursement to the TEA in the amount of \$271,300,000 for costs previously incurred by the TEA for increased student costs, the reduction in school district property values and other disaster remediation costs stemming from Hurricane Harvey. For fiscal year 2018, TEA initiated programs designed to hold school districts and charter districts harmless for the loss of State funding associated with declines in average daily attendance. In the past, storm damage has caused multiple year impacts to affected schools with respect to both attendance figures and tax base (for school districts). In June 2018 TEA received results of a survey of tax appraisal districts in the area affected by the hurricane with respect to the impact of the hurricane on the tax rolls of affected school districts. In aggregate, the tax rolls of affected districts appear to have increased slightly for fiscal 2018 over 2017, but the increases were at a lower rate than had been anticipated in the State’s general appropriation act for the biennium. TEA notes that as of June 2018 the negative effect of the hurricane on the average daily attendance of districts in the affected area appears to have been less than TEA had initially anticipated.

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

Ratings of Bonds Guaranteed Under the Guarantee Program

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

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations		
Fiscal Year Ended 8/31	Book Value ⁽¹⁾	Market Value ⁽¹⁾
2014	\$ 27,596,692,541	\$38,445,519,225
2015	29,081,052,900	36,196,265,273
2016	30,128,037,903	37,279,799,335
2017	31,870,581,428	41,438,672,573
2018 ⁽²⁾	33,860,358,647	44,074,197,940

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

in general, and the values of these assets, and, in particular, the valuation of mineral holdings administered by the SLB, can be volatile and subject to material changes from period to period.

(2) At August 31, 2018, mineral assets, sovereign and other lands and internally managed discretionary real estate, external discretionary real estate investments, domestic equities, and cash managed by the SLB had book values of approximately \$13.4 million, \$238.8 million, \$2,983.3 million, \$7.5 million, and \$4,247.3 million, respectively, and market values of approximately \$2,022.8 million, \$661.1 million, \$3,126.7 million, \$4.2 million, and \$4,247.3 million, respectively. At April 30, 2019, the PSF had a book value of \$34,917,398,274 and a market value of \$44,978,512,134. April 30, 2019 values are based on unaudited data, which is subject to adjustment.

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

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

(2) As of August 31, 2018 (the most recent date for which such data is available), the TEA expected that the principal and interest to be paid by school districts over the remaining life of the bonds guaranteed by the Guarantee Program was \$126,346,333,815, of which \$47,265,432,746 represents interest to be paid. As shown in the table above, at August 31, 2018, there were \$79,080,901,069 in principal amount of bonds guaranteed under the Guarantee Program, and using the IRS Limit at that date of \$117,318,653,038 (the IRS Limit is currently the lower of the two federal and State capacity limits of Program capacity), 97.35% of Program capacity was available to the School District Bond Guarantee Program and 2.65% was available to the Charter District Bond Guarantee Program.

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾						
	<u>School District Bonds</u>		<u>Charter District Bonds</u>		<u>Totals</u>	
	<u>Number of Issues</u>	<u>Principal Amount Guaranteed</u>	<u>Number of Issues</u>	<u>Principal Amount Guaranteed</u>	<u>Number Of Issues</u>	<u>Principal Amount Guaranteed</u>
<u>At 8/31</u>						
2014 ⁽²⁾	2,869	\$58,061,805,783	10	\$302,545,000	2,879	\$58,364,350,783
2015	3,089	63,197,514,047	28	757,935,000	3,117	63,955,449,047
2016	3,244	67,342,303,445	35	961,025,000	3,279	68,303,328,445
2017	3,253	72,884,480,023	40	1,381,610,000	3,293	74,266,090,023
2018 ⁽³⁾	3,249	77,647,966,069	44	1,432,935,000	3,293	79,080,901,069

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

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

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

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

The following discussion is derived from the Annual Report for the year ended August 31, 2018, including the Message of the Executive Administrator of the Fund and the Management's Discussion and Analysis contained therein. Reference is made to the Annual Report, when filed, for the complete Message and MD&A. Investment assets managed by the fifteen member SBOE are referred to throughout this MD&A as the PSF(SBOE) assets. As of August 31, 2018, the Fund's land, mineral rights and certain real assets are managed by the three-member SLB and these assets are referred to throughout as the PSF(SLB) assets. The current PSF asset allocation policy includes an allocation for real estate investments, and as such investments are made, and become a part of the PSF investment portfolio, those investments will be managed by the SBOE and not the SLB.

At the end of fiscal 2018, the Fund balance was \$44.0 billion, an increase of \$2.6 billion from the prior year. This increase is primarily due to overall increases in value of all asset classes in which the Fund has invested. During the year, the SBOE continued implementing the long-term strategic asset allocation, diversifying the PSF(SBOE) to strengthen the Fund. The asset allocation is projected to increase returns over the long run while reducing risk and portfolio return volatility. The PSF(SBOE) annual rates of return for the one-year, five-year, and ten-year periods ending August 31, 2018, were 7.23%, 7.68% and 6.92%, respectively (total return takes into consideration the change in the market value of the Fund during the year as well as the interest and dividend income generated by the Fund's investments). In addition, the SLB continued its shift into externally managed real asset investment funds, and the one-year, five-year, and ten-year annualized total returns for the PSF(SLB) real assets, including cash, were 8.69%, 7.78%, and 4.23%, respectively.

The market value of the Fund's assets is directly impacted by the performance of the various financial markets in which the assets are invested. The most important factors affecting investment performance are the asset allocation decisions made by the SBOE and SLB. The current SBOE long term asset allocation policy allows for diversification of the PSF(SBOE) portfolio into alternative asset classes whose returns are not as positively correlated as traditional asset classes. The implementation of the long term asset allocation will occur over several fiscal years and is expected to provide incremental total return at reduced risk. As of August 31, 2018, the PSF(SBOE) portion of the Fund had diversified into emerging market and large cap international equities, absolute return funds, real estate, private equity, risk parity, real return Treasury Inflation Protected Securities, real return commodities, and emerging market debt.

As of August 31, 2018, the SBOE has approved and the Fund made capital commitments to externally managed real estate investment funds in a total amount of \$4.2 billion and capital commitments to private equity limited partnerships for a total of \$5.2 billion. Unfunded commitments at August 31, 2018, totaled \$1.5 billion in real estate investments and \$2.1 billion in private equity investments.

The PSF(SLB) portfolio is generally characterized by three broad categories: (1) discretionary real assets investments, (2) sovereign and other lands, and (3) mineral interests. Discretionary real assets investments consist of externally managed real estate, infrastructure, and energy/minerals investment funds; internally managed direct real estate investments, and cash. Sovereign and other lands consist primarily of the lands set aside to the PSF when it was created. Mineral interests consist of all of the minerals that are associated with PSF lands. The investment focus of PSF(SLB) discretionary real assets investments has shifted from internally managed direct real estate investments to externally managed real assets investment funds. The PSF(SLB) makes investments in certain limited partnerships that legally commit it to possible future capital contributions. At August 31, 2018, the remaining commitments totaled approximately \$2.6 billion.

The PSF(SBOE)'s investment in domestic large cap, domestic small/mid cap, international large cap, and emerging market equity securities experienced returns of 19.83%, 23.95%, 3.51%, and -1.07%, respectively, during the fiscal year ended August 31, 2018. The PSF(SBOE)'s investment in domestic fixed income securities produced a return of -0.78% during the fiscal year and absolute return investments yielded a return of 6.66%. The PSF(SBOE) real estate and private equity investments returned 12.01% and 15.94%, respectively. Risk parity assets produced a return of 3.43%, while real return assets yielded 0.70%. Emerging market debt produced a return of -11.40%. Combined, all PSF(SBOE) asset classes produced an investment return of 7.23% for the fiscal year ended August 31, 2018, out-performing the benchmark index of 6.89% by approximately 34 basis points. All PSF(SLB) real assets (including cash) returned 8.69% for the fiscal year ending August 31, 2018.

For fiscal year 2018, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled \$4.0 billion, a decrease of \$1.4 billion from fiscal year 2017 earnings of \$5.4 billion. This decrease reflects the performance of the securities markets in which the Fund was invested in fiscal year 2018. In fiscal year 2018, revenues earned by the Fund included lease payments, bonuses and royalty income received from oil, gas and mineral leases; lease payments from commercial real estate; surface lease and easement revenues; revenues from the resale of natural and liquid gas supplies; dividends, interest, and securities lending revenues; the net change in the fair value of the investment portfolio; and, other miscellaneous fees and income.

Expenditures are paid from the Fund before distributions are made under the total return formula. Such expenditures include the costs incurred by the SLB to manage the land endowment, as well as operational costs of the Fund, including external management fees paid from appropriated funds. Total operating expenditures, net of security lending rebates and fees, decreased 17.1% for the fiscal year ending August 31, 2018. This decrease is primarily attributable to a decrease in PSF(SLB) quantities of purchased gas for resale in the State Energy Management Program, which is administered by the SLB as part of the Fund.

The Fund supports the public school system in the State by distributing a predetermined percentage of its asset value to the ASF. For fiscal years 2017 and 2018, the distribution from the SBOE to the ASF totaled \$1.1 billion and \$1.2 billion, respectively. There were no contributions to the ASF by the SLB in fiscal years 2017 and 2018.

At the end of the 2018 fiscal year, PSF assets guaranteed \$79.1 billion in bonds issued by 858 local school districts and charter districts, the latter of which entered into the Program during the 2014 fiscal year. Since its inception in 1983, the Fund has guaranteed 7,242 school district and charter district bond issues totaling \$176.4 billion in principal amount. During the 2018 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program remained flat at 3,293. The dollar amount of guaranteed school and charter bond issues outstanding increased by \$4.8 billion or 6.5%. The State Capacity Limit increased by \$6.9 billion, or 6.2%, during fiscal year 2018 due to continued growth in the cost basis of the Fund used to calculate that Program capacity limit. The effective capacity of the Program increased by only \$5.7 billion, or 5.2%, during fiscal year 2018 as the IRS Limit was reached during the fiscal year, and it is the lower of the two State and federal capacity limits for the Program.

2011 Constitutional Amendment

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

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

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

The Distribution Rates for the Fund were set at 3.5%, 2.5%, 4.2%, 3.3%, 3.5% and 3.7% for each of two year periods 2008-2009, 2010-2011, 2012-2013, 2014-2015, 2016-2017 and 2018-2019, respectively. In November 2018, the SBOE approved a \$2.2 billion distribution to the ASF for State fiscal biennium 2020-2021, to be made in equal monthly increments of \$92.2 million, which represents a 2.981% Distribution Rate for the biennium and a per student distribution of \$220.97, based on 2018 preliminary student average daily attendance of 5,004,998. In making the 2020-2021 biennium distribution decision, the SBOE took into account a commitment of the SLB transfer \$10 million to the PSF in fiscal year 2020 and \$45 million in fiscal year 2021.

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

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

Other Events and Disclosures

The State Investment Ethics Code governs the ethics and disclosure requirements for financial advisors and other service providers who advise certain State governmental entities, including the PSF. In accordance with the provisions of the State

Investment Ethics Code, the SBOE periodically modifies its code of ethics, which occurred most recently in April 2018. The SBOE code of ethics includes prohibitions on sharing confidential information, avoiding conflict of interests and requiring disclosure filings with respect to contributions made or received in connection with the operation or management of the Fund. The code of ethics applies to members of the SBOE as well as to persons who are responsible by contract or by virtue of being a TEA PSF staff member for managing, investing, executing brokerage transactions, providing consultant services, or acting as a custodian of the PSF, and persons who provide investment and management advice to a member of the SBOE, with or without compensation under certain circumstances. The code of ethics is codified in the Texas Administrative Code at 19 TAC sections 33.5 et seq., and is available on the TEA web site at <http://ritter.tea.state.tx.us/rules/tac/chapter033/ch033a.html#33.5>.

In addition, the GLO has established processes and controls over its administration of real estate transactions and is subject to provisions of the Texas Natural Resources Code and its own internal procedures in administering real estate transactions for assets it manages for the Fund.

In the 2011 legislative session, the Legislature approved an increase of 31 positions in the full-time equivalent employees for the administration of the Fund, which was funded as part of an \$18 million appropriation for each year of the 2012-13 biennium, in addition to the operational appropriation of \$11 million for each year of the biennium. The TEA has begun increasing the PSF administrative staff in accordance with the 2011 legislative appropriation, and the TEA received an appropriation of \$30.2 million for the administration of the PSF for fiscal years 2016 and 2017, respectively, and \$30.4 million for each of the fiscal years 2018 and 2019.

As of August 31, 2018, certain lawsuits were pending against the State and/or the GLO, which challenge the Fund's title to certain real property and/or past or future mineral income from that property, and other litigation arising in the normal course of the investment activities of the PSF. Reference is made to the Annual Report, when filed, for a description of such lawsuits that are pending, which may represent contingent liabilities of the Fund.

PSF Continuing Disclosure Undertaking

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

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

Annual Reports

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

The TEA may provide updated information in full text or may incorporate by reference certain other publicly-available documents, as permitted by Rule 15c2-12. The updated information includes audited financial statements of, or relating to, the State or the PSF, when and if such audits are commissioned and available. Financial statements of the State will be prepared in

accordance with generally accepted accounting principles as applied to state governments, as such principles may be changed from time to time, or such other accounting principles as the State Auditor is required to employ from time to time pursuant to State law or regulation. The financial statements of the Fund were prepared to conform to U.S. Generally Accepted Accounting Principles as established by the Governmental Accounting Standards Board.

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

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

Event Notices

The TEA will also provide timely notices of certain events to the MSRB. Such notices will be provided not more than ten business days after the occurrence of the event. The TEA will provide notice of any of the following events with respect to the Guarantee Program: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if such event is material within the meaning of the federal securities laws; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax-exempt status of the Guarantee Program, or other material events affecting the tax status of the Guarantee Program; (7) modifications to rights of holders of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (8) bond calls, if such event is material within the meaning of the federal securities laws, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the Guarantee Program (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Guarantee Program in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Guarantee Program, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Guarantee Program); (13) the consummation of a merger, consolidation, or acquisition involving the Guarantee Program or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) the appointment of a successor or additional trustee with respect to the Guarantee Program or the change of name of a trustee, if such event is material within the meaning of the federal securities laws; (15) the incurrence of a financial obligation of the Guarantee Program, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Program, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Guarantee Program, any of which reflect financial difficulties. (Neither the Act nor any other law, regulation or instrument pertaining to the Guarantee Program make any provision with respect to the Guarantee Program for bond calls, debt service reserves, credit enhancement, liquidity enhancement, early redemption or the appointment of a trustee with respect to the Guarantee Program.) In addition, the TEA will provide timely notice of any failure by the TEA to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information

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

Limitations and Amendments

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

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

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

Compliance with Prior Undertakings

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

SEC Exemptive Relief

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

TAX RATE LIMITATIONS

A school district is authorized to levy maintenance and operation (“M&O”) taxes subject to approval of a proposition submitted to district voters under Section 45.003(d) of the Texas Education Code, as amended. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the succeeding paragraphs. The maximum voted M&O tax rate for the District is \$1.50 per \$100 of assessed valuation as approved by the voters at an election held on October 24, 1981 under Chapter 20, Texas Education Code (now codified at Section 45.003, Texas Education Code).

The maximum M&O tax rate per \$100 of assessed valuation that may be adopted by the District may not exceed the lesser of (A) \$1.50, or (B) the sum of the Tier One Tax Rate and Enrichment Tax Rate. For a more detailed description of the Tier One Tax Rate and Enrichment Tax Rate, 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 “voter-approval tax rate” without submitting such tax rate to a referendum election and a majority of the voters voting at such election approving the adopted rate (see “AD VALOREM TAX PROCEDURES – Public Hearing and Voter-Approval Tax Rate”). On November 6, 2018, voters in the District approved an increase in the District’s M&O tax rate by two cents to \$1.06 per \$100 of taxable assessed valuation through a tax ratification election (see “Table 4 – Tax Rate, Levy and Collection” herein for details regarding the District’s current tax rate).

The voters of the District approved a tax ratification election held within the District on November 7, 2017 authorizing the District to increase its M&O tax rate from \$1.04 to \$1.06.

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

Section 45.0031, as amended, Texas Education Code (“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. If a district exercises this option, it may not adopt an I&S tax until it has credited to the district’s interest and sinking fund an amount equal to all State allotments provided solely for payment of debt service and any Tier One funds needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Additionally, a 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. 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. 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. The District has not used State assistance other than EDA or IFA allotment funding or projected property values to satisfy this threshold test.

RATINGS

It is anticipated that the Bonds will be rated “AAA” by S&P Global Ratings (“S&P”) and “AAA” by Fitch Ratings, Inc. (“Fitch”), by virtue of the Guarantee of the Permanent School Fund of the State of Texas. S&P and Fitch generally rate all bond issues guaranteed by the Permanent School Fund of the State of Texas “AAA” and “AAA”, respectively. The presently outstanding unenhanced tax-supported debt of the District is rated “AA+” and “AA+” by S&P and Fitch, respectively. An explanation of the significance of such ratings may be obtained from S&P and Fitch.

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

LEGAL MATTERS

Legal Opinions

The District will furnish to the Underwriter 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 Texas to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approving legal opinion of Hunton Andrews Kurth LLP, Bond Counsel, Houston, Texas with respect to the Bonds in substantially the form attached to this Official Statement as APPENDIX D. Though it represents the Financial Advisor and the Underwriter from time to time in matters unrelated to the Bonds, Bond Counsel was engaged by and only represents the District in connection with the issuance of the Bonds. Bond Counsel did not take part in the preparation of this Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the captions and subcaptions “THE BONDS” (except for the information under the subcaptions “Payment Record” and “Sources and Uses of Funds”, as to which no opinion need be expressed), “REGISTRATION, TRANSFER AND EXCHANGE,” “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS,” “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” (except for the information under the

subcaption “The School Finance System as Applied to the District” as to which no opinion need be expressed), “TAX RATE LIMITATIONS”, “LEGAL MATTERS” (except for the last two sentences in the second paragraph as to which no opinion need be expressed), “TAX MATTERS” and “CONTINUING DISCLOSURE OF INFORMATION” (except for the information under the sub-caption “Compliance With Prior Undertakings,” as to which no opinion need be expressed), 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 provisions of the Order.

The legal fee to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon 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. Certain legal matters will be passed upon for the Underwriter by their its counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas. The legal fee of such firm is contingent upon the sale and delivery of the Bonds.

The 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 that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

Registration and Qualification of Bonds for Sale

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

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

TAX MATTERS

Tax Exemption

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

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

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

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

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

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

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

Proposed Tax Legislation

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

Tax Accounting Treatment of Original Issue Discount Bonds

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

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

Because original issue discount on a Discount Bond will be treated for federal income tax purposes as interest on a Bond, such original issue discount must be taken into account for certain federal income tax purposes as it is deemed to be earned even though there will not be a corresponding cash payment. Corporations that purchase a Discount Bond must take into account original issue discount as it is deemed to be earned for purposes of determining alternative minimum tax. Other owners of a Discount Bond may be required to take into account such original issue discount as it is deemed to be earned for purposes of determining certain collateral federal tax consequences of owning a Bond. See "TAX EXEMPTION" for a discussion regarding the alternative minimum taxable income consequences for corporations and for a reference to collateral federal tax consequences for certain other owners.

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

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

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

Tax Accounting Treatment of Original Issue Premium Bonds

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

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

INVESTMENT AUTHORITY AND INVESTMENT OBJECTIVES OF THE DISTRICT

Available District funds are invested as authorized by State law and in accordance with investment policies approved by the Board. Both State law and the District's investment policies are subject to change. Under State law, the District is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (the "FDIC") or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the FDIC or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this state that the District selects from a list the governing body or designated investment committee of the District adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in this state that the District selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the District's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the District appoints as the District's custodian of the banking deposits issued for the District's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the SEC and operating under SEC Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of the PFIA that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the FDIC 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 (8) or in any other manner and provided for by law for District deposits, or (ii) certificates of deposits where (a) the funds are invested by the District through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the District as required by law, or (B) a depository institution that has its main office or branch office in the State that is selected by the District, (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1), require the securities being purchased by the District or cash held by the District to be pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) 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 (8) 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 (8) above, clauses (13) through (15) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less; (12) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (13) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (14) no-load money market mutual funds registered with and regulated by the United States SEC that provide the District with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that comply with federal SEC Rule 2a-7 (17 C.F.R. Section 270.2a-7),

promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); and (15) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and either (a) a duration of one year or more and invest exclusively in obligations described in under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract and are pledged to the District and deposited with the District or a third party selected and approved by the District.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than “AAA” or “AAAm” or an equivalent by at least one nationally recognized rating service. 46 The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution. The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Under State law, the District 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, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the PFIA. 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 State 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 detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, the ending market value and the fully accrued interest for the reporting period of each pooled fund group, (4) the book value and market value of each separately listed asset at the 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) State law. No person may invest District funds without express written authority from the Board.

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

calculation, and advisory board requirements; and (10) at least annually review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

As a school district that qualifies as an “issuer” under Chapter 1371, as amended, Texas Government Code, the District is also authorized to purchase, sell, and invest its funds in corporate bonds. Texas law defines “corporate bonds” as senior secured debt obligations issued by a domestic business entity and rated not lower than “AA-” or the equivalent by a nationally recognized investment rating firm. The term does not include a bond that is convertible into stocks or shares in the entity issuing the bond (or an affiliate or subsidiary thereof) or any unsecured debt. Corporate bonds must finally mature not later than 3 years from their date of purchase by the school district. A school district may not (1) invest more than 15% of its monthly average fund balance (excluding bond proceeds, reserves, and other funds held for the payment of debt service) in corporate bonds; or (2) invest more than 25% of the funds invested in corporate bonds in any one domestic business entity (including subsidiaries and affiliates thereof). Corporate bonds held by a school district must be sold if they are at any time downgraded below “AA-” (or the equivalent thereof) or, with respect to a corporate bond rated “AA-” (or the equivalent thereof), such corporate bond is placed on negative credit watch. Corporate bonds are not an eligible investment for a public funds investment pool. To invest in corporate bonds, an eligible school district must first (i) amend its investment policy to authorize corporate bonds as an eligible investment, (ii) adopt procedures for monitoring rating changes in corporate bonds and liquidating an investment in corporate bonds, and (iii) identify funds eligible to be invested in corporate bonds. As of the date of this Official Statement, the District has taken no such steps with respect to investment in corporate bonds, nor does it currently intend to do so.

EMPLOYEES BENEFIT PLAN

The District’s employees participate in a retirement plan (the “Plan”) with the State. The Plan is administered by the Teacher Retirement System of Texas (“TRS”). State contributions are made to cover costs of the TRS retirement plan up to certain statutory limits. The District is obligated for a portion of TRS costs relating to employee salaries that exceed the statutory limit. For the fiscal year ended June 30, 2018, the State contributed \$3,019,103 to TRS on behalf of the District, District employees paid \$4,244,642 and other contributions (District, Federal and private grants) totaled \$1,506,638. As a result of its participation in TRS and having no other post-employment retirement benefit plans, the District has no obligations for other post-employment benefits within the meaning of Governmental Accounting Standards Board Statement No. 45. For more detailed information concerning the Plan, see Note 13 to the District’s audited financial statements attached hereto as Appendix C.

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

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 EMMA system where it will be available to the general public, free of charge at www.emma.msrb.org.

Annual Report

The District will provide updated financial information and operating data to the MSRB annually via EMMA. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement in Tables 1 and 3 through 12 of Appendix A and in Appendix C. The District will update and provide this information within six months after the end of each fiscal year ending in and after 2019. If audited financial statements are not available when the information is provided, the District will provide audited financial statements when and if they become available and unaudited financial statements within 12 months after fiscal year end, unless audited financial statements are sooner provided. Financial statements will be prepared in accordance with the accounting principles described in the Order or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

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

The District’s current fiscal year end is June 30. Accordingly, the District must provide updated information included in the above-referenced tables by the last day of December in each year, and audited financial statements for the preceding fiscal year (or

unaudited financial statements if the audited financial statements are not yet available) must be provided by June 30 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will file notice of the change (and of the date of the new fiscal year end) with the MSRB prior to the next date by which the District otherwise would be required to provide financial information and operating data as set forth above.

Notice of Certain Events

The District will file with the MSRB notice of any of the following events with respect to the Bonds in a timely manner (and not more than 10 business days after occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults; (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 status of the Bonds, or other material events affecting the tax determinations with respect to the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or sale of substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional Paying Agent/Registrar or the change of name of a Paying Agent/Registrar, if material; (15) incurrence of a financial obligation of the District, if material, or an agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the District or obligated person, any of which reflect financial difficulties. Neither the Bonds nor the Order make any provision for debt service reserves, credit enhancement (except with respect to the Permanent School Fund guarantee), or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports”. The District will provide each notice described in this paragraph to the MSRB.

For these purposes, any event described in Clause (12) of the immediately preceding paragraph (is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers of the District in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District, and (b) the District intends the words used in the immediately preceding paragraphs (15) and (16) and the definition of Financial Obligation in this Section to have the same meanings as when they are used in the Rule, as evidenced by SEC Release No. 34-83885, dated August 20, 2018.

For purposes of the above-described notices, a “Financial Obligation” means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii).

Availability of Information from MSRB

The District has agreed to provide the foregoing information only as described above. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at www.emma.msrb.org.

Limitations and Amendments

The District has agreed to update information and to provide notices of certain 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, but only if (1) the agreement, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the Order that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interest of the registered owners and Beneficial 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 provision 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 its 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 type of information and 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.

LITIGATION

Except as discussed in this Official Statement, the District is not a party to any litigation or other proceeding pending or to its knowledge, threatened, in any court, agency or other administrative body (either state or federal) which, if decided adversely to the District, would have a material adverse effect on the financial statements or operations of the District. At the time of the initial delivery of the Bonds, the District will provide the Underwriter with a certificate to the effect that no litigation of any nature has been filed or is then pending challenging the issuance of the Bonds or that affects the payment and security of the Bonds or in any other manner questioning the issuance, sale or delivery of the Bonds.

FINANCIAL ADVISOR

RBC Capital Markets, LLC is employed as Financial Advisor to the District. The fee paid to the Financial Advisor for services rendered in connection with the issuance and sale of the Bonds is based on the amount of Bonds actually issued, sold and delivered, and therefore such fee is contingent on the sale and delivery of the Bonds.

The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement.

UNDERWRITING

The Underwriter has agreed, subject to certain customary conditions, to purchase the Bonds at a price equal to the initial offering prices to the public, as shown on page ii, less an underwriter’s discount of \$ _____. The Underwriter’s obligations are subject to certain conditions precedent, and they will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriter.

The Underwriter has provided the following sentence for inclusion in this Official Statement, and the District makes no representation or warranty with respect to such information. The Underwriter has reviewed the information in this Official Statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriter 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 District, that are not purely historical, are forward-looking statements, including statements regarding the District’s expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the District on the date hereof, and the District assumes no obligation to update any such forward-looking statements. It is important to note that the District’s actual results could differ materially from those in such forward-looking statements.

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

CONCLUDING STATEMENT

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

MISCELLANEOUS

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

In the Bond Order, the Board authorized the Pricing Officer to approve, for and on behalf of the District, (i) the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and (ii) the Underwriter's use of this Official Statement in connection with the public offering and the sale of the Bonds in accordance with the provisions of the Rule.

Pricing Officer
Eanes Independent School District

APPENDIX A

**FINANCIAL INFORMATION REGARDING
EANES INDEPENDENT SCHOOL DISTRICT**

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**FINANCIAL INFORMATION REGARDING THE
EANES INDEPENDENT SCHOOL DISTRICT**

**Table 1 ⁽¹⁾
ASSESSED VALUATION**

2018/19 Total Assessed Valuation (Excluding Totally Exempt Property)..... \$ 17,331,409,075

<u>Exemption</u>	<u>Total</u>
Residential Homestead	\$ 242,962,781
10% Cap Loss.....	592,642,389
Over 65/Disabled.....	91,211,100
Disabled Veterans.....	17,421,964
Productivity/Other.....	151,752,336
Frozen Value Loss.....	<u>863,633,540</u>
Total Exemptions (11.31% of Total Assessed Valuation).....	\$ 1,959,624,110
2018/19 Net Taxable Assessed Valuation (100% of Actual).....	<u>\$ 15,371,784,965</u>

Note: The District's Preliminary Taxable Assessed Valuation for 2019/2020 is estimated to be \$16,182,956,087.

Outstanding Unlimited Tax Debt (As of July 15, 2019)	\$ 108,210,000
The Bonds	15,000,000 ⁽²⁾
The Series 2019A Bonds	<u>46,550,000</u>
Total Unlimited Tax Debt	\$ 169,760,000

Ratio of Total Indebtedness to 2018/19 Net Taxable Assessed Valuation: 1.10%

Debt Service Fund Balance (unaudited, as of August 1, 2019) \$ 5,400,000

Estimated District Population	40,581
Per Capita Net Taxable Assessed Valuation	\$ 378,793
Per Capita Indebtedness	\$ 4,183
Area of District (in square miles)	31.21

⁽¹⁾ Source: Travis Central Appraisal District and State Property Tax Reports. Certified values are subject to change throughout the year as contested values are resolved and the Travis Central Appraisal District updates records.

⁽²⁾ Preliminary, subject to change.

**Table 2
ESTIMATED OVERLAPPING AD VALOREM DEBT STATEMENT OF THE DISTRICT**

<u>Taxing Body</u>	<u>Amount</u>	<u>As of</u>	<u>Percentage Overlapping</u>	<u>Amount Overlapping</u>
Austin, City of	\$ 1,471,140,062	07/15/2019	3.36%	\$ 49,430,306
Austin CCD	418,335,000	07/15/2019	2.40%	10,040,040
Rollingwood, City of	13,210,000	07/15/2019	100.00%	13,210,000
Senna Hills MUD	10,790,000	07/15/2019	100.00%	10,790,000
Travis County	1,066,091,179	07/15/2019	7.22%	76,971,783
Travis Co ESD #9	985,000	07/15/2019	100.00%	985,000
Travis County Healthcare District	8,350,000	07/15/2019	7.22%	602,870
Travis Co WC&ID #10	44,585,000	07/15/2019	100.00%	44,585,000
Travis Co WC&ID #20	1,825,000	07/15/2019	100.00%	<u>1,825,000</u>
Total Overlapping Debt				\$ 208,439,999
Eanes Independent School District⁽¹⁾				\$ 169,760,000
Total Direct and Overlapping Debt				\$ 378,199,999
Ratio of Direct and Overlapping Debt to Net Taxable Assessed Valuation				2.46%
Ratio Direct and Overlapping Debt to Total Assessed Valuation				2.18%
Per Capita Direct and Overlapping Debt				\$ 9,320

⁽¹⁾ Includes the Bonds and Series 2019A Bonds. Preliminary, subject to change.

Table 3 ^(A)
CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY

Property Use Category	Total Tax Roll for Fiscal Years				
	2018/19	2017/18	2016/17	2015/16	2014/15
Real Property					
Single-Family Residential	\$ 12,253,559,455	\$ 11,240,537,343	\$ 10,783,591,308	\$ 9,734,194,243	\$ 8,934,819,547
Multi-Family Residential	578,875,240	531,427,167	501,415,283	460,009,174	425,193,260
Vacant Lots/Tracts	255,689,667	220,022,759	239,726,037	193,704,687	229,501,787
Acreage (Land Only)	152,343,972	146,649,192	133,631,715	166,886,747	160,094,980
Farm and Ranch Improvements	49,648,426	47,492,498	47,866,150	6,607,692	6,611,737
Commercial and Industrial	3,561,394,203	3,402,631,938	3,183,425,322	2,666,585,785	2,227,627,366
Tangible Personal Property					
Commercial	400,889,530	415,464,399	429,927,647	427,530,910	428,322,396
Industrial	21,143,876	7,012,515	5,687,268	3,075,134	2,189,773
Mobile Homes/Other	234,625	262,436	241,179	248,478	330,017
Residential/Special Inventory	22,677,492	13,498,206	644,297	418,015	838,841
Real & Tangible Personal Property					
Utilities	34,952,589	37,122,245	33,672,228	33,662,421	33,136,102
Total Real & Tang. Per. Prop.	\$ 17,331,409,075	\$ 16,062,120,698	\$ 15,359,828,434	\$ 13,692,923,286	\$ 12,448,665,806
Less Exemptions:					
Residential Homestead Exemption	\$ 242,962,781	\$ 243,946,205	\$ 243,478,435	\$ 241,281,123	\$ 145,466,385
Over 65/Disabled Exemptions	91,211,100	88,796,100	84,184,993	78,353,994	74,069,640
Disabled/Deceased Veterans	17,421,964	21,666,307	19,779,578	16,382,073	15,611,687
Productivity Loss/Other	151,752,336	142,228,571	129,194,366	124,590,215	120,911,357
Value lost to 10% Residential Cap	592,642,389	406,160,559	590,085,540	522,640,066	428,407,034
Freeze Loss	863,633,540	742,142,456	660,224,540	523,247,846	443,723,220
Total Exemptions	\$ 1,959,624,110	\$ 1,644,940,198	\$ 1,726,947,452	\$ 1,506,495,317	\$ 1,228,189,323
Taxable Assessed Valuation	\$ 15,371,784,965	\$ 14,417,180,500	\$ 13,632,880,982	\$ 12,186,427,969	\$ 11,220,476,483

^(A) Source: Travis Central Appraisal District and State Property Tax Reports. Certified values are subject to change throughout the year as contested values are resolved and the Travis Central Appraisal District updates records.

PERCENTAGE TOTAL ASSESSED VALUATION BY CATEGORY

Property Use Category	Percent of Total Tax Roll for Fiscal Years				
	2018/19	2017/18	2016/17	2015/16	2014/15
Real Property					
Single-Family Residential	70.70%	69.98%	70.21%	71.09%	71.77%
Multi-Family Residential	3.34%	3.31%	3.26%	3.36%	3.42%
Vacant Lots/Tracts	1.48%	1.37%	1.56%	1.41%	1.84%
Acreage (Land Only)	0.88%	0.91%	0.87%	1.22%	1.29%
Farm and Ranch Improvements	0.29%	0.30%	0.31%	0.05%	0.05%
Commercial and Industrial	20.55%	21.18%	20.73%	19.47%	17.89%
Tangible Personal Property					
Commercial	2.31%	2.59%	2.80%	3.12%	3.44%
Industrial	0.12%	0.04%	0.04%	0.02%	0.02%
Mobile Homes/Other	0.00%	0.00%	0.00%	0.00%	0.00%
Residential/Special Inventory	0.13%	0.08%	0.00%	0.00%	0.01%
Real & Tangible Personal Property					
Utilities	0.20%	0.23%	0.22%	0.25%	0.27%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

^(A) Source: Travis Central Appraisal District and State Property Tax Reports. Certified values are subject to change throughout the year as contested values are resolved and the Travis Central Appraisal District updates records.

**Table 4
VALUATION AND BONDED DEBT HISTORY
FOR THE DISTRICT BY FISCAL YEAR**

Fiscal Year Ending ⁽¹⁾	Estimated Population	Net Taxable	Net Taxable	Net Bonded	Ratio of Bond	Net Bond
		Assessed Valuation	Assessed Valuation Per Capita	Debt Outstanding At End of Year ⁽²⁾	Debt to Net TAV	Debt Per Capita
08/31/2010	29,832	\$ 9,624,811,582	\$ 322,634	\$115,945,000	1.20%	\$ 3,886.60
08/31/2011	35,550	9,194,190,796	258,627	155,600,000	1.69%	4,376.93
06/30/2012	37,029	9,277,780,418	250,554	146,640,000	1.58%	3,960.14
06/30/2013	38,450	9,626,855,950	250,373	136,275,000	1.42%	3,544.21
06/30/2014	39,275	10,234,971,220	260,598	125,430,000	1.23%	3,193.63
06/30/2015	39,096	11,220,476,483	286,998	157,495,000	1.40%	4,028.42
06/30/2016	39,699	12,186,427,969	306,971	143,025,000	1.17%	3,602.74
06/30/2017	39,942	13,632,880,982	341,317	125,860,000	0.92%	3,151.07
06/30/2018	40,286	14,417,180,500	357,871	110,400,000	0.77%	2,740.41
06/30/2019	40,581	15,371,784,965	378,793	93,555,000	0.61%	2,305.39

Source: District Records.

⁽¹⁾ The Board of Trustees approved a change to the District's fiscal year from August 31 to June 30. Therefore, fiscal year 2011/12 reflects a 10-month period from September 1, 2011 to June 30, 2012. All subsequent years, beginning 2012/13, reflect a 12-month fiscal year.

⁽²⁾ Reflects debt service payments from September 1 through August 31. Due to timing of tax collection receipts, the District budgets for its debt service payments incurred during the time period of September 1 through August 31.

**Table 5
TAX LEVY AND COLLECTION HISTORY**

Tax Year	Total Tax Levy	% Collections ⁽¹⁾		Year Ended ⁽²⁾
		% Current Collections	% Total Collections	
2008	\$ 112,277,367	98.84%	99.16%	8/31/09
2009	113,390,214	98.70%	99.36%	8/31/10
2010	110,560,144	99.05%	99.57%	8/31/11
2011	112,493,088	98.83%	99.14%	6/30/12
2012	116,795,507	99.05%	99.60%	6/30/13
2013	124,099,026	99.29%	99.81%	6/30/14
2014	135,718,847	99.27%	99.68%	6/30/15
2015	147,760,439	99.07%	99.16%	6/30/16
2016	165,168,104	98.87%	99.53%	6/30/17
2017	173,165,339	98.83%	98.72%	6/30/18
2018	184,461,420	(In process of collection)		6/30/19

⁽¹⁾ Excludes Penalties and Interest.

⁽²⁾ The Board of Trustees approved a change to the District's fiscal year from August 31 to June 30. Therefore, fiscal year 2011/12 reflects a 10-month period from September 1, 2011 to June 30, 2012. All subsequent years, beginning 2012/13, reflect a 12-month fiscal year.

Source: District's Audited Financial Statement, and Travis County Tax Assessor/Collector and Travis Central Appraisal District.

**Table 6
TAX RATE DISTRIBUTION**

	2018/19 ⁽¹⁾	2017/18 ⁽¹⁾	2016/17	2015/16	2014/15
M&O Tax Rate	\$ 1.0600	\$ 1.0600	\$ 1.0400	\$ 1.0400	\$ 1.0400
I&S Tax Rate	0.1400	0.1400	0.1725	0.1725	0.1725
Total	\$ 1.2000	\$ 1.2000	\$ 1.2125	\$ 1.2125	\$ 1.2125

Source: District Records.

⁽¹⁾ On November 7, 2017 the District successfully conducted a tax ratification election at which the voters of the District authorized the District to levy a maintenance and operations tax in the amount of \$1.06 per \$100 assessed valuation.

Table 7

PRINCIPAL TAXPAYERS AND THEIR 2018/19 TAXABLE ASSESSED VALUATIONS:

<u>Name of Taxpayer</u>	<u>Type of Property</u>	<u>Taxable</u>	
		<u>Assessed Valuation</u>	<u>% T.A.V. (A)</u>
G&I VII Barton Skyway LP	Real Estate	\$ 259,333,328	1.69%
TR Terrace LP	Shopping Center	212,752,008	1.38%
Shopping Center at Gateway LP	Shopping Center	206,022,804	1.34%
Palisades West LLC	Real Estate	147,505,782	0.96%
GLL Las Cimas LP	Real Estate	105,343,264	0.69%
3700 San Clemente LLC	Real Estate	96,709,099	0.63%
320Aus LLC	Real Estate	92,466,727	0.60%
Intel Corporation	Tech Firm	92,397,944	0.60%
Lore ATX Rollingwood LLC	Shopping Center	85,806,990	0.56%
San Clemente Office Partners LLC	Real Estate	83,600,000	0.54%
Total.....		\$ 1,381,937,946	8.99%

PRINCIPAL TAXPAYERS AND THEIR 2017/18 TAXABLE ASSESSED VALUATIONS:

<u>Name of Taxpayer</u>	<u>Type of Property</u>	<u>Taxable</u>	
		<u>Assessed Valuation</u>	<u>% T.A.V. (A)</u>
G&I VII Barton Skyway LP	Real Estate	\$ 248,647,392	1.72%
TR Terrace LP	Shopping Center	200,366,352	1.39%
Shopping Center at Gateway LP	Shopping Center	189,263,748	1.31%
Palisades West LLC	Real Estate	145,193,516	1.01%
GLL Las Cimas LP	Real Estate	102,073,000	0.71%
Westlake Retail LP	Shopping Center	90,725,852	0.63%
320Aus LLC	Real Estate	86,000,000	0.60%
Intel Corporation	Tech Firm	85,761,043	0.59%
3700 San Clemente LLC	Real Estate	80,065,321	0.56%
Wcot/Hill San Clemente LP	Real Estate	77,666,704	0.54%
Total.....		\$ 1,305,762,928	9.06%

PRINCIPAL TAXPAYERS AND THEIR 2016/17 TAXABLE ASSESSED VALUATIONS:

<u>Name of Taxpayer</u>	<u>Type of Property</u>	<u>Taxable</u>	
		<u>Assessed Valuation</u>	<u>% T.A.V. (A)</u>
G&I VII Barton Skyway LP	Real Estate	\$ 219,458,936	1.61%
Shopping Center at Gateway LP	Shopping Center	176,395,478	1.29%
TR Terrace LP	Shopping Center	165,868,471	1.22%
Palisades West LLC	Real Estate	124,934,003	0.92%
GLL Las Cimas LP	Real Estate	92,108,733	0.68%
Capital Ridge Hotel Austin LP	Hotel	79,966,279	0.59%
Westlake Retail LP	Shopping Center	71,744,129	0.53%
Intel Corporation	Tech Firm	68,000,000	0.50%
PPF Off Rollingwood Landowner LP	Real Estate	63,449,612	0.47%
3700 San Clemente LLC	Real Estate	63,317,633	0.46%
Total.....		\$ 1,125,243,274	8.25%

(A) Percentage is based upon total taxable assessed valuation within the District.

Source: Travis Central Appraisal District and State Property Tax Reports.

**TABLE 8
DEBT SERVICE ON OUTSTANDING UNLIMITED
TAX SUPPORTED DEBT**

Year ⁽¹⁾	Outstanding Unlimited Tax Debt Service Requirements	The Bonds ⁽²⁾			Series 2019A Bonds			Total Outstanding Unlimited Tax Debt Service Requirements
		Principal	Interest	Total	Principal	Interest	Total	
2018/19 ⁽³⁾	\$ 21,483,188							\$ 21,483,188
2019/20	19,239,538		\$ 255,833	\$ 255,833	\$ 1,565,000	\$ 1,770,228	\$ 3,335,228	22,830,599
2020/21	19,222,238		300,000	300,000	1,080,000	1,919,500	2,999,500	22,521,738
2021/22	13,814,938		300,000	300,000	5,175,000	1,865,500	7,040,500	21,155,438
2022/23	11,560,638		300,000	300,000	2,775,000	1,606,750	4,381,750	16,242,388
2023/24	11,351,263		300,000	300,000	2,915,000	1,468,000	4,383,000	16,034,263
2024/25	6,162,050		1,050,000	1,050,000	2,355,000	1,409,700	3,764,700	10,976,750
2025/26	6,168,250		1,050,000	1,050,000	2,470,000	1,291,950	3,761,950	10,980,200
2026/27	6,163,850		1,050,000	1,050,000	2,595,000	1,168,450	3,763,450	10,977,300
2027/28	6,172,300		1,050,000	1,050,000	2,725,000	1,038,700	3,763,700	10,986,000
2028/29	6,168,950		1,050,000	1,050,000	2,860,000	902,450	3,762,450	10,981,400
2029/30	6,167,350		1,050,000	1,050,000	3,000,000	759,450	3,759,450	10,976,800
2030/31	2,189,250		1,050,000	1,050,000	3,150,000	609,450	3,759,450	6,998,700
2031/32	-		1,050,000	1,050,000	3,280,000	483,450	3,763,450	4,813,450
2032/33	-		1,050,000	1,050,000	3,410,000	352,250	3,762,250	4,812,250
2033/34	-		1,050,000	1,050,000	3,545,000	215,850	3,760,850	4,810,850
2034/35	-		1,050,000	1,050,000	3,650,000	109,500	3,759,500	4,809,500
2035/36	-	\$ 3,380,000	1,050,000	4,430,000	-	-	-	4,430,000
2036/37	-	3,615,000	813,400	4,428,400	-	-	-	4,428,400
2037/38	-	3,865,000	560,350	4,425,350	-	-	-	4,425,350
2038/39	-	4,140,000	289,800	4,429,800	-	-	-	4,429,800
	\$ 135,863,800	\$ 15,000,000	\$ 15,719,383	\$ 30,719,383	\$ 46,550,000	\$ 16,971,178	\$ 63,521,178	\$ 230,104,362

⁽¹⁾ Reflects debt service payments from September 1 through August 31. Due to timing of tax collection receipts, the District budgets for its debt service payments incurred during the time period of September 1 through August 31.

⁽²⁾ Preliminary, subject to change. Interest calculated at assumed rates for purposes of illustration.

⁽³⁾ Includes \$2,190,000 in principal from the August 1, 2032 maturity of the District's Unlimited Tax School Building Bonds, Series 2015A which the District called on February 1, 2019.

**TABLE 9
INTEREST & SINKING FUND BUDGET INFORMATION**

Tax Supported Debt Service Requirements, Year 2018/19	\$ 21,483,188
Interest and Sinking Fund Balance as of 08/31/2018 (unaudited).....	\$ 5,068,723
Estimated Local Tax Collections Year 2018/19.....	\$ 21,090,089
 Projected Interest and Sinking Fund Balance at 08/31/2019.....	 <u>\$ 4,675,624</u>

AUTHORIZED BUT UNISSUED BONDS

After the issuance of the Bonds and the Series 2019A Bonds, the District will have \$11,000,000 (preliminary, subject to change) of voter-authorized but unissued unlimited tax bonds. The District intends to the remainder of this voted authorization within the next 12 months. The District may also incur other financial obligations payable from its collection of taxes and other sources of revenue, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes.

Table 10
EANES INDEPENDENT SCHOOL DISTRICT
COMPARATIVE STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES

	Fiscal Years Ending				
	<u>06/30/2018</u>	<u>06/30/2017</u>	<u>06/30/2016</u>	<u>06/30/2015</u>	<u>06/30/2014</u>
Beginning Fund Balance	\$ 28,160,034	\$ 29,103,736	\$ 30,700,016	\$ 33,694,291	\$ 37,196,759
Revenues:					
Local and Intermediate Sources	\$ 156,810,730	\$ 145,854,502	\$ 130,782,064	\$ 119,571,247	\$ 109,559,456
State Program Sources	6,555,883	7,479,056	5,789,927	6,870,322	7,471,126
Federal Program Sources	59,508	109,504	-	-	-
Total Revenues	\$ 163,426,121	\$ 153,443,062	\$ 136,571,991	\$ 126,441,569	\$ 117,030,582
Expenditures:					
Instruction	\$ 45,349,064	\$ 44,112,999	\$ 41,590,717	\$ 41,381,803	\$ 40,214,433
Instructional Resources & Media Services	932,892	912,388	884,417	1,003,208	1,011,673
Curriculum & Staff Development	2,009,421	2,009,435	1,855,247	1,709,847	1,536,933
Instructional Leadership	1,252,966	1,221,201	1,237,440	1,165,047	1,083,387
School Leadership	3,403,486	3,396,411	3,268,449	3,320,910	3,348,618
Guidance, Counseling & Evaluation	2,009,374	1,917,779	1,733,527	1,722,960	1,543,613
Health Services and Social Services	1,133,720	1,041,062	1,053,296	837,917	873,447
Pupil Transportation	2,151,547	1,981,334	1,795,598	1,879,081	1,788,715
Co-Curricular/Extracurricular Activities	2,232,517	2,218,663	2,186,509	2,030,392	1,992,332
General Administration	3,192,501	3,060,904	2,809,992	3,029,862	3,092,624
Plant Maintenance & Operations	7,632,656	7,379,165	7,579,178	7,745,010	8,948,788
Security and Monitoring Services	508,039	513,733	470,067	461,887	461,509
Data Processing Services	1,683,392	1,634,055	1,530,962	1,615,108	1,447,717
Community Services	258,061	229,071	207,513	208,322	208,375
Intergovernmental	93,802,108	84,091,770	71,725,865	63,115,667	56,040,055
Capital Outlay	40,000	17,331	-	-	196,451
Total Expenditures	\$ 167,591,744	\$ 155,737,301	\$ 139,928,777	\$ 131,227,021	\$ 123,788,670
Other Resources (Uses)	\$ 1,873,294	\$ 1,350,537	\$ 1,760,506	\$ 1,791,177	\$ 3,255,620
Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	\$ (2,292,329)	\$ (943,702)	\$ (1,596,280)	\$ (2,994,275)	\$ (3,502,468)
Fiscal Year End Ending Fund Balance	\$ 25,867,705	\$ 28,160,034	\$ 29,103,736	\$ 30,700,016	\$ 33,694,291
General Fund Balance as % of Operating Expenses	<u>15.43%</u>	<u>18.08%</u>	<u>20.80%</u>	<u>23.39%</u>	<u>27.22%</u>

Source: District's Audited Financial Statements and District Records.

Note: The District's unaudited General Fund balance for the Fiscal Year Ended June 30, 2019 is approximately \$26,200,000.

Table 11
CURRENT INVESTMENTS
(Unaudited, as of June 30, 2019)

<u>Investment</u>	<u>Amount</u>	<u>Percent</u>
TexPool	\$ 291,299	0.29%
LoneStar	97,396,784	96.13%
TexasDAILY	2,575,093	2.54%
Wells Fargo Checking	1,059,827	1.05%
Total	\$ 101,323,003	100.00%

Source: The District.

Table 12
CHANGE IN NET POSITION
(In Millions of Dollars)

	Fiscal Year Ending				
	06/30/2018	06/30/2017	06/30/2016	06/30/2015	06/30/2014
Revenues:					
Program Revenues					
Charges for Services	\$ 1.3	\$ 1.3	\$ 1.1	\$ 1.2	\$ 1.1
Operating Grants and Contributions	<u>24.2</u>	<u>10.8</u>	<u>12.1</u>	<u>9.6</u>	<u>9.6</u>
Total Program Revenues	\$ 25.5	\$ 12.1	\$ 13.2	\$ 10.8	\$ 10.7
General Revenues					
Property Taxes	\$ 171.5	\$ 165.2	\$ 148.5	\$ 135.5	\$ 124.1
Grants and Contributions Not Restricted	2.8	4.0	2.5	3.2	4.6
Other	<u>2.1</u>	<u>1.5</u>	<u>6.9</u>	<u>0.6</u>	<u>1.9</u>
Total General Revenues	\$ 176.4	\$ 170.7	\$ 157.9	\$ 139.3	\$ 130.6
Total Revenues.....	<u>\$ 201.9</u>	<u>\$ 182.8</u>	<u>\$ 171.1</u>	<u>\$ 150.1</u>	<u>\$ 141.3</u>
Expenses					
Instruction and Instruction Related	\$ 60.9	\$ 57.3	\$ 57.7	\$ 50.7	\$ 51.4
Instruction resource and media services	1.5	1.4	1.3	1.4	1.4
Student Support Services	17.6	16.7	16.0	14.9	14.7
General Administration	3.5	3.3	3.0	3.1	3.2
Support Services	11.0	10.3	10.6	9.9	11.0
Community Education	0.3	0.2	0.2	0.2	0.2
Interest on Long-Term Debt	4.5	5.2	6.4	4.7	5.6
Facilities Acquisition and Constructions	-	-	0.1	-	0.3
Contract Instruct and Svs. Between Schools	<u>93.8</u>	<u>84.1</u>	<u>71.7</u>	<u>63.1</u>	<u>56.0</u>
Total Expenses.....	<u>\$ 193.1</u>	<u>\$ 178.5</u>	<u>\$ 167.0</u>	<u>\$ 148.0</u>	<u>\$ 143.8</u>
Transfers	\$ 1.9	\$ 0.8	\$ 1.4	\$ 1.7	\$ 2.0
Gain/(loss) on sale of capital assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Position	<u>\$ 10.7</u>	<u>\$ 5.1</u>	<u>\$ 5.5</u>	<u>\$ 3.8</u>	<u>\$ (0.5)</u>

Source: District's Audited Financial Statements and District Records.

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APPENDIX B

**GENERAL INFORMATION REGARDING
EANES INDEPENDENT SCHOOL DISTRICT AND ITS ECONOMY**

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GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY

Eanes Independent School District (the “District”) is located in Travis County which is in Central Texas, adjacent to the west side of the City of Austin, Texas. The District covers an area of 31.21 square miles.

The District is governed by a seven member Board of Trustees (the “Board”). The Board Members serve staggered three-year terms with at large elections being held every year. Board policy and decisions are decided by a majority vote of the Board. The Superintendent of Schools is selected by the Board; other District officials are employed as a result of action by the Superintendent and the Board.

The District’s physical plant consists of 6 elementary schools (grades K through 5), 2 middle schools (grades 6 through 8), and 1 high school (grades 9 through 12).

Elementary Schools	6
Middle Schools	2
High Schools	<u>1</u>
Total	<u>9</u>

In addition, the District owns and operates additional facilities, which include an administration building, a transportation/maintenance service center, a staff development center, and an athletic complex.

Education Program

While the District is recognized as a leader in teaching the fundamentals of reading, writing and mathematics, a comprehensive educational program including fine arts, career technology, special education, and gifted and advanced level programs are available to meet the individual needs of students. Student performance exceeds state, regional and national norms on all evaluative tests.

DISTRICT ENROLLMENT INFORMATION

Scholastic Enrollment History

<u>Year</u>	<u>Enrollment</u>	<u>Increase/(Decrease)</u>	<u>Percent Change</u>
1998-99	7,410	230	3.20%
1999-00	7,448	38	0.51%
2000-01	7,406	(42)	(0.56%)
2001-02	7,292	(114)	(1.54%)
2002-03	7,133	(159)	(2.18%)
2003-04	7,091	(42)	(0.59%)
2004-05	7,118	27	0.38%
2005-06	7,155	37	0.52%
2006-07	7,234	79	1.10%
2007-08	7,325	91	1.26%
2008-09	7,353	28	0.38%
2009-10	7,498	145	1.97%
2010-11	7,717	219	2.92%
2011-12	7,803	86	1.11%
2012-13	7,865	36	0.46%
2013-14	7,993	128	1.63%
2014-15	7,968	(25)	(0.31%)
2015-16	8,111	143	1.79%
2016-17	8,134	23	0.28%
2017-18	8,061	(73)	(0.90%)
2018-19	8,132	71	0.88%

Projected Student Enrollment

<u>Year</u>	<u>Enrollment</u>	<u>Increase/(Decrease)</u>	<u>Percent Change</u>
2019-20	8,218	86	1.06%
2020-21	8,194	(24)	(0.29%)
2021-22	8,152	(42)	(0.51%)

EMPLOYMENT OF THE DISTRICT

Teachers	600
Administrators	41
Teacher Aides & Secretaries	232
Auxiliary Employees	215
Other	<u>36</u>
Total Number of Employees	<u>1,124</u>

Beginning with the 2018-19 school year, entry-level teachers without advanced degrees earn \$49,288 annually. Teachers with advanced degrees and longevity can earn up to \$71,248 annually. All teachers receive health insurance benefits worth approximately \$473 monthly.

PRESENT SCHOOL FACILITIES

<u>Location</u>	<u>Grades Served</u>	<u>Present Enrollment</u>	<u>Capacity^(A)</u>
Westlake High School	9 - 12	<u>2,772</u>	<u>2,650</u>
High School Total		<u>2,772</u>	<u>2,650</u>
Hill Country Middle School	6 - 8	1,053	1,000
West Ridge Middle School	6 - 8	<u>931</u>	<u>1,000</u>
Middle School Total		<u>1,984</u>	<u>2,000</u>
Barton Creek Elementary School	K - 5	488	540
Bridge Point Elementary School	K - 5	636	810
Cedar Creek Elementary School	K - 5	523	518
Eanes Elementary School	K - 5	658	719
Forest Trail Elementary School	K - 5	569	650
Valley View Elementary School	K - 5	<u>502</u>	<u>562</u>
Elementary School Total		<u>3,376</u>	<u>3,799</u>
Total		<u>8,132</u>	<u>8,449</u>

^(A) Includes student capacity of any portable buildings.

**CITY OF AUSTIN, TEXAS
ECONOMIC AND DEMOGRAPHIC INFORMATION**

Location

The City of Austin (the “City”) is the state capital of Texas and the county seat of Travis County, a major commercial and educational center, located on Interstate 35. The City’s economy is primarily based on its importance as a governmental and educational center, being the site of The University of Texas at Austin and over 137 state and 48 federal agencies. Larger companies in the area include IBM, Texas Instruments, Dell Computer, Motorola/Freescale and Radian.

Population Trend 2014-2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Travis County	1,248,743	1,242,674	1,209,415	1,173,051	1,151,145
City of Austin	964,254	937,065	925,491	899,119	878,002
State of Texas	28,701,845	28,322,717	27,937,492	27,486,814	26,977,142

Source: *US Census*.

Higher Education

Since the mid-1800s, Austin has drawn the best minds of the South to study at some of the region's best public and private universities and colleges. Now students from all over the world attend the area's varied institutions of higher learning, studying with the world's finest faculty and benefiting from the world's best facilities.

The Austin metropolitan area is home to seven area colleges and universities with more than 130,000 students enrolled.

<u>College/University</u>	<u>Enrollment</u>
University of Texas at Austin, The	51,832
Austin Community College	40,799
Texas State University, San Marcos	38,644
St. Edwards University	4,301
Concordia University at Austin	2,268
Southwestern University, Georgetown	1,434
Huston-Tillotson University	1,119

Source: National Center for Education Statistics – Fall 2018 Estimated.

Major Employers

Almost 40% of the manufacturers identified by the Greater Austin Chamber of Commerce are high tech manufacturers.

<u>Employer</u>	<u>Product of Service</u>	<u>Local Employees</u>
State Government	State Government	37,890
University of Texas at Austin, The	Higher Education, Research & Public Service	23,925
City of Austin	City Government	14,038
HEB Grocery Co.	Grocery Stores	13,756
Dell Computer Corp.	Personal Computer Systems	13,000
Federal Government	Federal Government	13,000
Austin Independent School District	Austin School District	11,379
St. David’s Healthcare Partnership	Healthcare	10,309
Seton Healthcare Network	Healthcare	9,947
Samsung Austin Semiconductor	Computer Services and Management	8,935

Source: City of Austin, 2018 Annual Financial Report.

CITY OF AUSTIN LABOR FORCE STATISTICS

Labor Force History

	<u>2019⁽¹⁾</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Labor Force	585,622	579,048	572,348	556,712	539,664
Employed	573,589	563,154	555,738	539,781	523,592
Unemployed	12,033	15,984	16,610	16,931	16,072
Percent of Labor Force Unemployed	2.1%	2.7%	2.9%	3.0%	3.0%

⁽¹⁾ As of May 2019.

Source: Labor Market Information Department, Texas Workforce Commission.

TRAVIS COUNTY, TEXAS ECONOMIC AND DEMOGRAPHIC INFORMATION

Overview

Travis County is a part of the Austin-San Marcos Metropolitan Statistical Area (MSA). Five Counties make up the MSA: Bastrop, Caldwell, Hays, Travis and Williamson. The Austin-San Marcos MSA is located amidst the Texas highland lakes, which are a series of seven man-made lakes created by dams on the Colorado River and its tributaries. These lakes provide water supply and hydroelectric power, as well as a source of recreation for area residents.

Climate

The climate is temperate, with 300 days of sunshine annually. Average temperatures range from 42 to 62 degrees in winter and 75 to 95 degrees in the summer. Average rainfall is 32.49 inches. Snowfall is rare.

Transportation

Ground

There are several major highways that link Travis County to the rest of Texas and the nation. Interstate Highway 35 serves as the major north-south route. US 290 and State Highway 71 11 runs east and west through the County, while US 183 runs northwest and southeast. One bus line provides passenger service, parcel and freight service to the County. Greyhound/Trailways Bus Line maintains a terminal in Austin. There are numerous trucking firms that provide motor freight service to Travis County. Truck deliveries can be made to most destinations in the continental United States within as little as 3 days. Rail service is provided by Union Pacific, Amtrak, Georgetown Railroad and Longhorn Railway.

Air

Austin-Bergstrom International Airport (“ABIA”) handles commercial passenger flights, along with private and commercial cargo planes. Alaska, American, Continental, Delta, Frontier, JetBlue Airways, Southwest, US Airways, and United all have regularly scheduled flights.

Austin-Bergstrom International Airport

<u>Year</u>	<u>Total Passengers</u>	<u>Total Cargo (lbs)</u>
2011	9,080,875	153,370,987
2012	9,430,314	155,617,785
2013	10,017,958	158,553,202
2014	10,718,854	155,440,494
2015	11,897,959	157,484,666
2016	12,436,849	174,739,682
2017	13,889,305	189,362,637
2018	15,819,912	182,538,412
2019 ⁽¹⁾	5,117,226	59,323,566

Source: City of Austin, ABIA.

⁽¹⁾ As of April 2019.

ABIA opened in May 1999 at the site of the former Bergstrom Air Force Base, replacing Robert Mueller Municipal Airport. The 700-acre Mueller Airport site, approximately three miles from downtown Austin, is being redeveloped as a mixed-use urban community by the City under a public-private partnership agreement. The Mueller Airport property has no aviation facilities and is not part of the Airport System.

ABIA occupies a 4,240-acre site approximately eight miles southeast of downtown Austin. Airport access is provided by Texas State Highway 71 (SH 71), a six-lane divided highway running east-west, and U.S. Highway 183 (US 183), a four-lane divided highway running north-south. SH 71 provides access to Interstate Highway 35 (I-35) approximately six miles to the west.

The Airport's two parallel north-south runways, designated 17L-35R and 17R-35L, are 9,000 feet and 12,250 feet long, respectively, 150 feet wide, and capable of accommodating all aircraft now in commercial service. The runways are separated by 6,700 feet, allowing their use for the simultaneous arrival of aircraft in virtually all weather conditions.

The main passenger terminal, the Barbara Jordan Terminal (the "Terminal" or the "North Terminal"), is 736,000 square feet and contains four levels.

Source: City of Austin, ABIA.

TRAVIS COUNTY LABOR FORCE STATISTICS

Labor Force History

	<u>2019⁽¹⁾</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Labor Force	729,849	721,786	698,755	678,367	658,215
Employed	714,328	701,382	677,830	657,085	636,685
Unemployed	15,521	20,404	20,925	21,282	21,530
Percent of Labor Force Unemployed	2.1%	2.8%	3.0%	3.1%	3.3%

⁽¹⁾ As of May 2019.

Source: Labor Market Information Department, Texas Workforce Commission.

Comparative Unemployment Rates

	<u>2019⁽¹⁾</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
City of Austin	2.1%	2.7%	2.9%	3.0%	3.0%
Travis County	2.1	2.8	3.0	3.1	3.3
State of Texas	2.9	3.9	4.3	4.6	4.5
United States of America	3.4	3.9	4.4	4.9	5.3

⁽¹⁾ As of May 2019.

Source: Labor Market Information Department, Texas Workforce Commission.

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APPENDIX C

EANES INDEPENDENT SCHOOL DISTRICT

**Annual Financial Report for the
Fiscal Year Ended June 30, 2018**

The information contained in this appendix has been excerpted from the annual financial report of the Eanes Independent School District for the fiscal year ended June 30, 2018. Certain information not considered to be relevant to this financing has been omitted; however, complete financial reports are available upon request.

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**EANES INDEPENDENT
SCHOOL DISTRICT**

**Annual Financial Report
for the Fiscal Year Ended
June 30, 2018**

MAXWELL
& LOCKE
RITTER

EANES INDEPENDENT SCHOOL DISTRICT

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EANES INDEPENDENT SCHOOL DISTRICT

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CERTIFICATE OF BOARD

Eanes Independent School District Travis 227909
Name of School District County Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) approved ___ disapproved for the year ended June 30, 2018 at a meeting of the Board of Trustees of such school district on the 23rd day of October, 2018.

Christie Byrnes
Signature of Board Secretary

Jeff Salas
Signature of Board President

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

FINANCIAL SECTION



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INDEPENDENT AUDITORS' REPORT

The Board of Trustees of
Eanes Independent School District:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Eanes Independent School District (the "District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

Affiliated Company

ML&R WEALTH MANAGEMENT LLC

"A Registered Investment Advisor"

This firm is not a CPA firm

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 and Note 18 to the financial statements, for the year ended June 30, 2018, the District adopted new accounting guidance, Governmental Accounting Standards Board ("GASB") Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, resulting in a restatement of the District's net position as of June 30, 2017. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of the District's proportionate share of the net pension liability, the schedule of District contributions - pensions, the schedule of the District's proportionate share of the net OPEB liability, the schedule of District contributions - OPEB, and the note to the required supplementary information on pages 6 through 14, 58, 59, 60, 61, and 62, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The combining and individual fund statements and schedules, other schedules, 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 our opinion, the combining and individual fund statements and schedules, other schedules, and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Maxwell Locke + Ritter LLP

Austin, Texas
October 17, 2018

EANES INDEPENDENT SCHOOL DISTRICT MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of Eanes Independent School District’s (the “District”) annual financial report presents our discussion and analysis of the District’s financial performance during the year ended June 30, 2018. Please read it in conjunction with the District’s financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

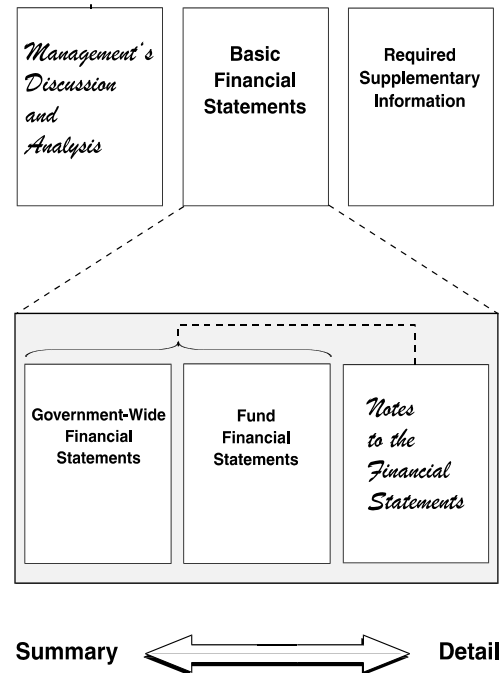
- The District’s total combined net position was \$66.3 million at June 30, 2018, an increase of \$10.2 million from the prior year, as restated. In other words, during the year ended June 30, 2018, the District generated \$10.2 million more in taxes and other revenues than the \$199.8 million in expenses for governmental and business-type activities.
- The General Fund reported a fund balance at June 30, 2018 of \$25.9 million which is a \$2.3 million decrease from the prior year. Of the total General Fund fund balance, \$23.0 million or 89% is considered unassigned fund balance and may be used to meet the District’s ongoing obligations.
- On December 21, 2017, the District issued \$8,725,000 of Unlimited Tax Refunding Bonds, Series 2017 to advance refund \$8,845,000 of previously issued District bonds in order to lower its overall debt service requirements.
- For the year ended June 30, 2018, the District adopted Governmental Accounting Standards Board (“GASB”) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The implementation of this standard resulted in a prior period adjustment to net position of \$45,375,704 to recognize the net other post-employment benefits (“OPEB”) liability at the measurement period ending August 31, 2016, and the deferred outflows of resources related to the District’s contributions after the measurement period ending August 31, 2016 through June 30, 2017.

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.

Figure A-1, Required Components of the District’s Annual Financial Report



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. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Certain information required by the Texas Education Agency and the federal government regarding tax collection and grant expenditures is also presented along with required supplementary information related to the District’s contributions to a cost-sharing pension and OPEB plan with the Teacher Retirement System of Texas.

Figure A-2. Major Features of the District’s Government-wide and Fund Financial Statements

<i>Type of Statements</i>	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
<i>Scope</i>	Entire District’s (except fiduciary funds) and the Agency’s component units	The activities of the District that are not proprietary or fiduciary	Activities the District operates similar to private businesses	Instances in which the District is the trustee or agent for someone else’s resources
<i>Required financial statements</i>	<ul style="list-style-type: none"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures & changes in fund balances 	<ul style="list-style-type: none"> • Statement of net position • Statement of revenues, expenses & changes in net position • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net position • Statement of changes in fiduciary net position
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and deferred outflows and liabilities and deferred inflows, both financial and capital, short-term and long-term	Only assets and deferred outflows expected to be used up and liabilities and deferred inflows that come due during the year or soon thereafter; no capital assets included	All assets and deferred outflows and liabilities and deferred inflows, both financial and capital, and short term and long-term	All assets and deferred outflows and liabilities and deferred inflows, both short-term and long-term; the Agency’s funds do not currently contain capital assets, although they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the 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 position includes all of the government's assets and deferred outflows of resources and liabilities and deferred inflows of resources. All of the current period'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 the District's net position and how they have changed. Net position - the difference between the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources - is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position are an indicator of whether its financial health is 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.
- *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 position and a statement of changes in fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these resources to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position - The District’s combined net position was \$66.3 million as of June 30, 2018 (see Table A-1).

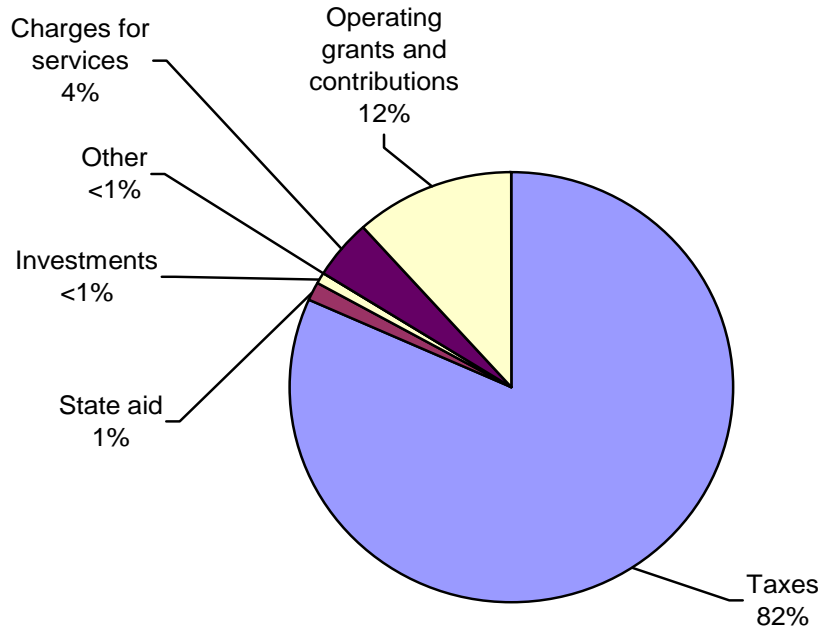
Table A-1
 The District’s Net Position
 (In millions of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2018	2017	2018	2017	2018	2017	
Current and other assets	\$ 105.3	124.9	\$ 2.0	2.5	\$ 107.3	127.4	(15.8%)
Capital and non-current	181.0	178.8	0.9	0.9	181.9	179.7	1.2%
Total assets	286.3	303.7	2.9	3.4	289.2	307.1	(5.8%)
Deferred outflows	11.2	11.9	-	-	11.2	11.9	(5.9%)
Current liabilities	55.2	59.2	0.7	0.8	55.9	60.0	(6.8%)
Non-current liabilities	165.2	156.7	-	-	165.2	156.7	5.4%
Total liabilities	220.4	215.9	0.7	0.8	221.1	216.7	2.0%
Deferred inflows	13.0	0.9	-	-	13.0	0.9	1,344.4%
Net position:							
Net investment in capital assets	53.2	44.3	0.9	0.9	54.1	45.2	19.7%
Restricted	29.3	33.2	-	-	29.3	33.2	(11.7%)
Unrestricted	(18.4)	21.3	1.3	1.7	(17.1)	23.0	(174.3%)
Total net position	64.1	98.8	2.2	2.6	66.3	101.4	(34.6%)
Prior period adjustment	-	(45.4)	-	-	-	(45.4)	100.0%
Total net position, as restated	\$ 64.1	53.4	\$ 2.2	2.6	\$ 66.3	56.0	18.4%

Net position - Net investment in capital assets reflects the book value of the District’s capital assets and is \$54.1 million more than the debt which financed those assets.

Changes in net position - The District's total revenues were \$210 million. A significant portion, 82 percent, of the District's revenue comes from taxes (See Figure A-3); 1 percent comes from state aid - formula grants, 4 percent relates to charges for services, and 12 percent comes from operating grants and contributions.

**Figure A-3
Sources of Revenue for
the Year Ended June 30, 2018**



Governmental Activities

Property tax rates have decreased since last year to \$1.200 per \$100 valuation. However, as a result of increasing appraised values of property within the District's tax jurisdiction, there was an increase of approximately \$6.2 million in tax revenues to approximately \$171.5 million for the year ended June 30, 2018, up from approximately \$165.2 million in 2017. Overall, the District's net position increased by approximately \$10.2 million during the year ended June 30, 2018 compared to an increase of approximately \$5.7 million for the year ended June 30, 2017. Key elements of these changes are as follows: increase in net position for fiscal year ending June 30, 2018 from the additional property tax revenue noted above.

Table A-2
The District's Change in Net Position
(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total		Percentage Change
	2018	2017	2018	2017	2018	2017	
<u>Program revenues:</u>							
Charges for services	\$ 1.3	1.3	\$ 7.9	7.8	\$ 9.2	9.1	1.1%
Operating grants and contributions	24.2	10.8	0.2	0.2	24.4	11.0	121.8%
<u>General revenues:</u>							
Property taxes	171.5	165.2	-	-	171.5	165.2	3.8%
State aid formula grants	2.8	4.0	-	-	2.8	4.0	(30.0%)
Investment earnings and other	2.1	1.5	-	-	2.1	1.5	40.0%
Total revenues	201.9	182.8	8.1	8.0	210.0	190.8	10.1%
<u>Expenses:</u>							
Instruction	60.9	57.3	-	-	60.9	57.3	6.3%
Instructional resources and media services	1.5	1.4	-	-	1.5	1.4	7.1%
Student support services	17.6	16.7	4.1	3.8	21.7	20.5	5.9%
General administration	3.5	3.3	-	-	3.5	3.3	6.1%
Support services	11.0	10.3	-	-	11.0	10.3	6.8%
Community services	0.3	0.2	2.6	2.8	2.9	3.0	(3.3%)
Interest on long-term debt and other debt service	4.5	5.2	-	-	4.5	5.2	(13.5%)
Contracted instructional services between schools	93.0	83.3	-	-	93.0	83.3	11.6%
Other	0.8	0.8	-	-	0.8	0.8	0.0%
Total expenses	193.1	178.5	6.7	6.6	199.8	185.1	7.9%
Transfers	1.9	0.8	(1.9)	(0.8)	-	-	0.0%
Change in net position	\$ 10.7	5.1	\$ (0.5)	0.6	\$ 10.2	5.7	78.9%

The cost of all *governmental* activities for the year ended June 30, 2018 was \$193.1 million. However, the amount that our taxpayers paid for these activities through property taxes was only \$171.5 million. Some of the cost was paid by those who directly benefited from the programs (\$1.3 million) or by grants and contributions (\$24.2 million). The total cost of all programs and services (including business-type activities) was \$199.8 million; 31 percent of these costs were for instructional related services.

Table A-3 presents the cost of each of the District’s largest governmental functions for the years ended June 30, 2018 and 2017, as well as each function’s net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by State revenues as well as local tax dollars.

Table A-3
Net Cost of Selected District Functions
(in millions of dollars)

	Total Cost of Services			Net Cost of Services		
	2018	2017	% Change	2018	2017	% Change
Instruction	\$ 60.9	\$ 57.3	6.3%	\$ 43.7	\$ 49.5	(11.7%)
School leadership	3.9	3.7	5.4%	3.0	3.5	(14.3%)
Guidance, counseling, and evaluation services	3.5	3.2	9.4%	1.7	1.9	(10.5%)
General administration	3.5	3.3	6.1%	2.9	3.1	(6.5%)
Interest on long-term debt and other debt service	4.5	5.2	(13.5%)	4.5	5.2	(13.5%)
Facilities maintenance and operations	8.4	7.9	6.3%	7.5	7.7	(2.6%)
Contracted instructional services between schools	93.0	83.3	11.6%	93.0	83.3	11.6%

Business-type Activities

Revenues of the District’s business-type activities increased to \$8.1 million from \$8.0 million. For the Child Nutrition Fund, revenues decreased by approximately \$56,000 while expenses increased by approximately \$20,000, which resulted in a decrease in net position of approximately \$102,000 compared to a decrease last year of approximately \$26,000. The remaining business-type revenues increased by approximately \$164,000 and expenses increased by approximately \$45,000 or 1.6 percent. Coupled with net transfers out of approximately \$1,900,000, this resulted in a decrease in net position for the remaining business-type funds of approximately \$368,000.

FINANCIAL ANALYSIS OF THE DISTRICT’S FUNDS

Revenues from governmental funds totaled \$188.4 million, an increase of 3.5 percent from the preceding year. The \$7.1 million increase in local revenues is a result of an increase in property taxes received due to increasing property values of the District. State and federal revenues decreased by \$914 thousand from the preceding year due to a decrease in state aid formula grants. Chapter 41 recapture costs increased as reflected through expenditures in the General Fund.

General Fund Budgetary Highlights

The District revised its General Fund budget over the course of the year. Even with the adjustments, actual expenditures were approximately \$640 thousand below final budget amounts for the General Fund. The most significant positive variance resulted from facilities maintenance and operations. Overall, resources available at the end of the year were approximately \$682,000 more than the final budgeted amounts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2018, the District had \$181.9 million invested in a broad range of capital assets, including land and land improvements, construction in progress, furniture and equipment, and buildings and improvements (See Table A-4). This amount represents a net increase (including additions and deductions) of \$2.2 million or 1.2 percent compared to last year. More detailed information about the District's capital assets is presented in the notes to the financial statements.

Table A-4
The District's Capital Assets
(in millions of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2018	2017	2018	2017	2018	2017	
Land and land improvements	\$ 21.2	\$ 21.2	\$ -	\$ -	\$ 21.2	\$ 21.2	0.0%
Construction in progress	3.3	6.1	-	-	3.3	6.1	(45.9%)
Buildings and improvements	268.8	255.4	0.1	0.1	268.9	255.5	5.2%
Furniture and equipment	31.1	28.6	1.8	1.7	32.9	30.3	8.6%
Totals at historical cost	324.4	311.3	1.9	1.8	326.3	313.1	4.2%
Accumulated depreciation	(143.4)	(132.5)	(1.0)	(0.9)	(144.4)	(133.4)	8.2%
Net capital assets	<u>\$ 181.0</u>	<u>\$ 178.8</u>	<u>\$ 0.9</u>	<u>\$ 0.9</u>	<u>\$ 181.9</u>	<u>\$ 179.7</u>	<u>1.2%</u>

Long Term Debt

At June 30, 2018, the District had \$139.5 million in bonds and other long-term liabilities outstanding as shown in Table A-5. The District's bonds presently carry "AAA" ratings with underlying ratings as follows: Standard & Poor's "AA+" and Fitch "AA". More detailed information about the District's debt is presented in the notes to the financial statements.

Table A-5
The District's Long-Term Debt
(in millions of dollars)

	Governmental Activities		Total Percentage Change
	2018	2017	
Bonds, premiums, and accretion payable	\$ 138.5	\$ 157.2	(11.9%)
Notes payable	0.1	0.1	(0.0%)
Compensated absences	0.6	0.6	0.0%
Capital lease payable	0.3	0.5	(40.0%)
Total long-term debt	<u>\$ 139.5</u>	<u>\$ 158.4</u>	<u>(11.9%)</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Certified net taxable property value increased for tax year 2018 to \$13.7 billion, an increase of 4.6 percent.
- Estimated recapture of tax revenues through the purchase of attendance credits is \$101.8 million for 2019, up from \$93 million in 2018.
- The General Fund budget for operating expenditures per student is approximately \$9,300 per pupil for 2019. Recapture expenditures are estimated at approximately \$11,500 per student.
- The District is anticipating a slight increase in enrollment and average daily attendance for 2019.

These indicators were taken into account when adopting the General Fund budget for 2019. In the original approved budget, estimated revenues for 2019 are approximately \$177.0 million. Expenditures of approximately \$178.8 million are budgeted, including \$101.8 million for recapture. If these original estimates are realized, the District's budgetary fund balance is expected to decrease approximately \$1.8 million.

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, 601 Camp Craft Road, Austin, Texas 78746.

BASIC FINANCIAL STATEMENTS

EANES INDEPENDENT SCHOOL DISTRICT
Statement of Net Position
June 30, 2018

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 91,150,157	1,978,169	93,128,326
Temporary investments	11,300,387	-	11,300,387
Receivables:			
Property taxes - delinquent	3,107,461	-	3,107,461
Allowance for uncollectible taxes	(2,128,145)	-	(2,128,145)
Due from other governments	1,350,214	-	1,350,214
Internal balances	185,458	(185,458)	-
Due from fiduciary funds	666	-	666
Other receivables	49,874	103,791	153,665
Inventories, at cost	74,863	38,515	113,378
Prepaid items	182,953	9,914	192,867
Capital assets (net of accumulated depreciation):			
Land and land improvements	21,215,260	9,625	21,224,885
Construction in progress	3,265,788	-	3,265,788
Buildings and improvements	148,935,677	115,278	149,050,955
Furniture and equipment	7,572,898	806,219	8,379,117
Total assets	<u>286,263,511</u>	<u>2,876,053</u>	<u>289,139,564</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred charges on bond refundings	3,426,131	-	3,426,131
Pension contributions after measurement date	1,263,815	-	1,263,815
Deferred outflows related to pension liability	6,201,616	-	6,201,616
OPEB contributions after measurement date	345,251	-	345,251
Deferred outflows related to OPEB liability	4,045	-	4,045
Total deferred outflows of resources	<u>11,240,858</u>	<u>-</u>	<u>11,240,858</u>
LIABILITIES:			
Current liabilities:			
Accounts payable	3,051,598	18,499	3,070,097
Payroll deductions and withholdings payable	747,470	71,886	819,356
Accrued wages payable	6,393,735	348,476	6,742,211
Due to other governments	25,995,852	-	25,995,852
Unearned revenue	2,572,215	256,323	2,828,538
Bond interest payable	2,207,995	-	2,207,995
Bonds payable	14,005,000	-	14,005,000
Notes payable	135,206	-	135,206
Capital lease payable	163,395	-	163,395
Noncurrent liabilities:			
Bonds payable	123,673,510	-	123,673,510
Accretion payable	807,467	-	807,467
Compensated absences	602,852	-	602,852
Capital lease payable	167,304	-	167,304
Net pension liability	14,093,471	-	14,093,471
Net OPEB liability	25,842,771	-	25,842,771
Total liabilities	<u>220,459,841</u>	<u>695,184</u>	<u>221,155,025</u>
DEFERRED INFLOWS OF RESOURCES:			
Deferred inflows related to pension liability	2,155,274	-	2,155,274
Deferred inflows related to OPEB liability	10,810,079	-	10,810,079
Total deferred inflows of resources	<u>12,965,353</u>	<u>-</u>	<u>12,965,353</u>
NET POSITION:			
Net investment in capital assets	53,210,157	931,122	54,141,279
Restricted for:			
Debt service	19,532,956	-	19,532,956
Authorized construction	9,741,809	-	9,741,809
Unrestricted	(18,405,747)	1,249,747	(17,156,000)
Total net position	<u>\$ 64,079,175</u>	<u>2,180,869</u>	<u>66,260,044</u>

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

EANES INDEPENDENT SCHOOL DISTRICT
Statement of Activities
Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:						
Instruction	\$ 60,851,280	202,457	16,983,285	(43,665,538)	-	(43,665,538)
Instructional resources and media services	1,512,921	-	322,972	(1,189,949)	-	(1,189,949)
Curriculum and staff development	2,377,888	-	623,830	(1,754,058)	-	(1,754,058)
Instructional leadership	1,394,949	-	324,404	(1,070,545)	-	(1,070,545)
School leadership	3,935,994	-	948,318	(2,987,676)	-	(2,987,676)
Guidance, counseling, and evaluation services	3,521,940	-	1,794,437	(1,727,503)	-	(1,727,503)
Social work services	220,607	-	55,440	(165,167)	-	(165,167)
Health services	873,042	-	229,275	(643,767)	-	(643,767)
Student transportation	2,360,924	-	528,572	(1,832,352)	-	(1,832,352)
Food services	386,931	-	26,997	(359,934)	-	(359,934)
Extracurricular activities	2,500,917	1,076,453	300,138	(1,124,326)	-	(1,124,326)
General administration	3,536,793	-	654,729	(2,882,064)	-	(2,882,064)
Facilities maintenance and operations	8,408,822	-	925,613	(7,483,209)	-	(7,483,209)
Security and monitoring services	559,230	-	58,690	(500,540)	-	(500,540)
Data processing services	2,008,482	-	327,559	(1,680,923)	-	(1,680,923)
Community services	288,498	-	74,377	(214,121)	-	(214,121)
Interest on long-term debt	4,365,984	-	-	(4,365,984)	-	(4,365,984)
Other debt service	178,543	-	-	(178,543)	-	(178,543)
Facilities acquisition and construction	433	-	-	(433)	-	(433)
Contracted instructional services between schools	92,983,573	-	-	(92,983,573)	-	(92,983,573)
Other intergovernmental charges	818,535	-	-	(818,535)	-	(818,535)
Total governmental activities	\$ 193,086,286	1,278,910	24,178,636	(167,628,740)	-	(167,628,740)
Business-type activities:						
Food services	\$ 3,814,476	3,559,772	152,639	-	(102,065)	(102,065)
Community services	2,849,912	4,355,149	-	-	1,505,237	1,505,237
Total business-type activities	\$ 6,664,388	7,914,921	152,639	-	1,403,172	1,403,172
Total primary government	\$ 199,750,674	9,193,831	24,331,275	(167,628,740)	1,403,172	(166,225,568)
General revenues:						
Property taxes, levied for general purposes				\$ 151,496,459	-	151,496,459
Property taxes, levied for debt service				19,985,838	-	19,985,838
State aid formula grants				2,821,759	-	2,821,759
Investment earnings				1,605,867	498	1,606,365
Miscellaneous				523,154	-	523,154
Transfers				1,872,999	(1,872,999)	-
Total general revenues and other				178,306,076	(1,872,501)	176,433,575
Change in net position				10,677,336	(469,329)	10,208,007
Net position - beginning, as restated				53,401,839	2,650,198	56,052,037
Net position - ending				\$ 64,079,175	2,180,869	66,260,044

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

EANES INDEPENDENT SCHOOL DISTRICT
Balance Sheet
Governmental Funds
June 30, 2018

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS:				
Cash and cash equivalents	\$ 56,761,054	16,578,561	17,504,651	90,844,266
Temporary investments	3,805,837	4,994,550	2,500,000	11,300,387
Receivables:				
Property taxes - delinquent	2,690,538	416,923	-	3,107,461
Allowance for uncollectible taxes	(1,829,253)	(298,892)	-	(2,128,145)
Due from other governments	545,119	-	805,095	1,350,214
Due from other funds	389,183	49,809	3,797	442,789
Other receivables	45,138	-	4,736	49,874
Inventories, at cost	74,863	-	-	74,863
Prepaid items	182,450	-	503	182,953
Total assets	<u>\$ 62,664,929</u>	<u>21,740,951</u>	<u>20,818,782</u>	<u>105,224,662</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:				
Liabilities:				
Accounts payable	\$ 374,154	-	2,666,968	3,041,122
Payroll deductions and withholdings payable	727,591	-	19,879	747,470
Accrued wages payable	6,212,521	-	181,214	6,393,735
Due to other governments	25,995,852	-	-	25,995,852
Due to other funds	53,606	-	203,059	256,665
Unearned revenue	2,572,215	-	-	2,572,215
Total liabilities	<u>35,935,939</u>	<u>-</u>	<u>3,071,120</u>	<u>39,007,059</u>
Deferred inflows of resources-				
Deferred revenue - property taxes	861,285	118,031	-	979,316
Fund balances:				
Nonspendable:				
Inventories	74,863	-	-	74,863
Prepaid items	182,450	-	503	182,953
Restricted for:				
Debt service	-	21,622,920	-	21,622,920
Authorized construction	-	-	16,214,722	16,214,722
Committed to-				
Campus activities	-	-	533,113	533,113
Assigned to:				
2018-19 budget deficit	1,813,680	-	-	1,813,680
Compensated absences	602,852	-	-	602,852
Encumbered for 2018-19	241,827	-	-	241,827
Special revenue funds	-	-	999,324	999,324
Unassigned	22,952,033	-	-	22,952,033
Total fund balances	<u>25,867,705</u>	<u>21,622,920</u>	<u>17,747,662</u>	<u>65,238,287</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 62,664,929</u>	<u>21,740,951</u>	<u>20,818,782</u>	

Amounts reported for *governmental activities* in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	180,989,623
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds	979,316
The assets and liabilities of the Internal Service Fund are distributed in the statement of activities but are not considered part of the governmental funds	295,415
The following liabilities and deferred inflows and outflows of resources are not due and payable in the current period and, therefore, are not reported in the funds:	
Bonds payable, including premiums	(137,678,510)
Less: Deferred charges on bond refundings	3,426,131
Interest payable	(2,207,995)
Accretion payable	(807,467)
Notes payable	(135,206)
Capital lease payable	(330,699)
Compensated absences	(602,852)
Net pension liability	(14,093,471)
Net OPEB liability	(25,842,771)
Pension contributions after measurement date	1,263,815
Deferred outflows related to pension liability	6,201,616
Deferred inflows related to pension liability	(2,155,274)
OPEB contributions after measurement date	345,251
Deferred outflows related to OPEB liability	4,045
Deferred inflows related to OPEB liability	(10,810,079)
Net position of governmental activities	<u>\$ 64,079,175</u>

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

EANES INDEPENDENT SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2018

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:				
Local and intermediate sources	\$ 156,810,730	20,224,888	1,636,102	178,671,720
State program revenues	6,555,883	135,725	611,999	7,303,607
Federal program revenues	59,508	-	2,366,683	2,426,191
Total revenues	<u>163,426,121</u>	<u>20,360,613</u>	<u>4,614,784</u>	<u>188,401,518</u>
EXPENDITURES:				
Current:				
Instruction	45,349,064	-	3,650,292	48,999,356
Instructional resources and media services	932,892	-	106,653	1,039,545
Curriculum and staff development	2,009,421	-	218,046	2,227,467
Instructional leadership	1,252,966	-	-	1,252,966
School leadership	3,403,486	-	71,869	3,475,355
Guidance, counseling, and evaluation services	2,009,374	-	1,281,346	3,290,720
Social work services	203,095	-	-	203,095
Health services	739,927	-	40,583	780,510
Student transportation	2,151,547	-	359,215	2,510,762
Food services	190,698	-	-	190,698
Extracurricular activities	2,232,517	-	216,847	2,449,364
General administration	3,192,501	-	20,035	3,212,536
Facilities maintenance and operations	7,632,656	-	46,289	7,678,945
Security and monitoring services	508,039	-	166,786	674,825
Data processing services	1,683,392	-	1,005,530	2,688,922
Community services	258,061	-	10,150	268,211
Debt service:				
Principal on long-term debt	-	18,500,000	286,541	18,786,541
Interest on long-term debt	-	5,599,542	5,361	5,604,903
Other debt service expenditures	-	178,543	-	178,543
Facilities acquisition and construction	40,000	-	10,464,845	10,504,845
Intergovernmental:				
Contracted instructional services between schools	92,983,573	-	-	92,983,573
Other intergovernmental charges	818,535	-	-	818,535
Total expenditures	<u>167,591,744</u>	<u>24,278,085</u>	<u>17,950,388</u>	<u>209,820,217</u>
Deficiency of revenues under expenditures	<u>(4,165,623)</u>	<u>(3,917,472)</u>	<u>(13,335,604)</u>	<u>(21,418,699)</u>
OTHER FINANCING SOURCES (USES):				
Payment to refunded bond escrow agent	-	(9,749,563)	-	(9,749,563)
Issuance of refunding bonds	-	8,725,000	-	8,725,000
Premium on sale of bonds	-	1,193,181	-	1,193,181
Issuance of notes payable	-	-	115,528	115,528
Other sources	295	-	-	295
Transfers in	1,872,999	-	-	1,872,999
Total other financing sources, net	<u>1,873,294</u>	<u>168,618</u>	<u>115,528</u>	<u>2,157,440</u>
Net change in fund balances	(2,292,329)	(3,748,854)	(13,220,076)	(19,261,259)
Fund balances--beginning	28,160,034	25,371,774	30,967,738	84,499,546
Fund balances--ending	<u>\$ 25,867,705</u>	<u>21,622,920</u>	<u>17,747,662</u>	<u>65,238,287</u>

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

EANES INDEPENDENT SCHOOL DISTRICT
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Year Ended June 30, 2018

Net change in fund balances - total governmental funds	\$ (19,261,259)
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures.	
However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Capital outlay	13,193,401
Depreciation expense	(10,976,906)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Change in deferred tax revenue	76,667
The revenues and expenses of the Internal Service Fund are distributed in the statement of net activities and it is not considered a governmental fund.	
The difference is the amount of operating loss.	
	(31,664)
Bond, note payable, and capital lease proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.	
Repayment of bond, note and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	
Repayment of bond principal	18,500,000
Issuance of bonds, including premiums	(9,918,181)
Payment to refunded bond escrow agent	9,749,563
Proceeds from note payable	(115,528)
Repayment of capital lease principal	165,862
Repayment of note payable principal	120,679
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Change in bond interest payable	339,193
Change in accretion payable	(24,014)
Amortization of deferred charges on bond refundings	(433,997)
Amortization of bond premiums	1,357,737
Change in compensated absences	(18,649)
Pension contributions made during the measurement year	1,444,589
OPEB contributions made during the measurement year	308,964
Change in pension contributions made after the measurement date	82,128
Change in OPEB contributions made after the measurement date	96,849
Proportionate share of collective pension expense	143,161
Proportionate share of collective OPEB expense	19,472,371
Adjustment for ending deferred inflows and outflows related to net pension liability	(2,787,596)
Adjustment for ending deferred inflows and outflows related to net OPEB liability	(10,806,034)
	10,677,336
Change in net position of governmental activities	\$ 10,677,336

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

EANES INDEPENDENT SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Local and intermediate sources	\$ 153,160,536	156,708,312	156,810,730	102,418
State program revenues	6,094,462	6,448,878	6,555,883	107,005
Federal program revenues	50,000	50,000	59,508	9,508
Total revenues	<u>159,304,998</u>	<u>163,207,190</u>	<u>163,426,121</u>	<u>218,931</u>
EXPENDITURES:				
Current:				
Instruction	44,012,341	45,350,262	45,349,064	1,198
Instructional resources and media services	912,219	938,823	932,892	5,931
Curriculum and staff development	1,946,145	2,051,414	2,009,421	41,993
Instructional leadership	1,230,567	1,274,309	1,252,966	21,343
School leadership	3,337,559	3,435,988	3,403,486	32,502
Guidance, counseling, and evaluation services	1,979,652	2,042,632	2,009,374	33,258
Social work services	273,067	214,295	203,095	11,200
Health services	682,758	763,480	739,927	23,553
Student transportation	2,055,160	2,177,020	2,151,547	25,473
Food services	94,005	190,711	190,698	13
Extracurricular activities	2,140,796	2,248,887	2,232,517	16,370
General administration	3,148,149	3,278,189	3,192,501	85,688
Facilities maintenance and operations	8,107,473	7,894,790	7,632,656	262,134
Security and monitoring services	550,692	538,545	508,039	30,506
Data processing services	1,650,280	1,701,680	1,683,392	18,288
Community services	206,987	259,354	258,061	1,293
Facilities acquisition and construction	-	45,000	40,000	5,000
Intergovernmental:				
Contracted instructional services between schools	92,545,330	93,007,607	92,983,573	24,034
Other intergovernmental charges	815,000	819,000	818,535	465
Total expenditures	<u>165,688,180</u>	<u>168,231,986</u>	<u>167,591,744</u>	<u>640,242</u>
Deficiency of revenues under expenditures	<u>(6,383,182)</u>	<u>(5,024,796)</u>	<u>(4,165,623)</u>	<u>859,173</u>
OTHER FINANCING SOURCES:				
Other sources	-	-	295	295
Transfers in	2,074,077	2,050,500	1,872,999	(177,501)
Total other financing sources	<u>2,074,077</u>	<u>2,050,500</u>	<u>1,873,294</u>	<u>(177,206)</u>
Net change in fund balance	(4,309,105)	(2,974,296)	(2,292,329)	681,967
Fund balance--beginning	<u>28,160,034</u>	<u>28,160,034</u>	<u>28,160,034</u>	<u>-</u>
Fund balance--ending	<u>\$ 23,850,929</u>	<u>25,185,738</u>	<u>25,867,705</u>	<u>681,967</u>

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

EANES INDEPENDENT SCHOOL DISTRICT

Statement of Net Position

Proprietary Funds

June 30, 2018

	Business-type Activities- Nonmajor Enterprise Funds	Governmental Activities- Internal Service Fund	Total Proprietary Funds
ASSETS:			
Current assets:			
Cash and cash equivalents	\$ 1,978,169	305,891	2,284,060
Other receivables	103,791	-	103,791
Inventories, at cost	38,515	-	38,515
Prepaid items	9,914	-	9,914
Total current assets	<u>2,130,389</u>	<u>305,891</u>	<u>2,436,280</u>
Noncurrent assets-			
Capital assets:			
Land improvements	9,625	-	9,625
Buildings and improvements	174,927	-	174,927
Furniture and equipment	1,752,903	-	1,752,903
Accumulated depreciation	(1,006,333)	-	(1,006,333)
Total noncurrent assets	<u>931,122</u>	<u>-</u>	<u>931,122</u>
Total assets	<u>3,061,511</u>	<u>305,891</u>	<u>3,367,402</u>
LIABILITIES:			
Current liabilities:			
Accounts payable	18,499	10,476	28,975
Payroll deductions and withholdings payable	71,886	-	71,886
Accrued wages payable	348,476	-	348,476
Due to other funds	185,458	-	185,458
Unearned revenue	256,323	-	256,323
Total liabilities	<u>880,642</u>	<u>10,476</u>	<u>891,118</u>
NET POSITION:			
Net investment in capital assets	931,122	-	931,122
Unrestricted	<u>1,249,747</u>	<u>295,415</u>	<u>1,545,162</u>
Total net position	<u>\$ 2,180,869</u>	<u>295,415</u>	<u>2,476,284</u>

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

EANES INDEPENDENT SCHOOL DISTRICT
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
Year Ended June 30, 2018

	Business-type Activities- Nonmajor Enterprise Funds	Governmental Activities- Internal Service Fund	Total Proprietary Funds
Operating revenues-			
Charges for services	\$ 7,914,921	224,639	8,139,560
Operating expenses:			
Payroll costs	4,139,124	-	4,139,124
Professional and contracted services	389,388	56,758	446,146
Supplies and materials	1,956,325	199,545	2,155,870
Other operating	82,837	-	82,837
Depreciation	96,714	-	96,714
Total operating expenses	6,664,388	256,303	6,920,691
Operating income (loss)	1,250,533	(31,664)	1,218,869
Nonoperating revenues:			
Investment income	498	-	498
State program revenues	4,473	-	4,473
Federal program revenues	148,166	-	148,166
Total nonoperating revenues	153,137	-	153,137
Income (Loss) before transfer	1,403,670	(31,664)	1,372,006
Transfers out	(1,872,999)	-	(1,872,999)
Change in net position	(469,329)	(31,664)	(500,993)
Total net position--beginning	2,650,198	327,079	2,977,277
Total net position--ending	\$ 2,180,869	295,415	2,476,284

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

EANES INDEPENDENT SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2018

	Business-type Activities- Nonmajor Enterprise Funds	Governmental Activities- Internal Service Fund	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers/contributors/students	\$ 7,821,295	224,639	8,045,934
Payments to suppliers	(2,261,468)	(298,647)	(2,560,115)
Payments to employees	(4,150,103)	-	(4,150,103)
Net cash provided by (used in) operating activities	<u>1,409,724</u>	<u>(74,008)</u>	<u>1,335,716</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers to other funds	(1,872,999)	-	(1,872,999)
State program revenues	4,473	-	4,473
Federal program revenues	92,428	-	92,428
Net cash used in noncapital financing activities	<u>(1,776,098)</u>	<u>-</u>	<u>(1,776,098)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES-			
Purchase of capital assets	(68,061)	-	(68,061)
CASH FLOWS FROM INVESTING ACTIVITIES-			
Interest received	498	-	498
Net decrease in cash and cash equivalents	(433,937)	(74,008)	(507,945)
Cash and cash equivalents - beginning of the year	2,412,106	379,899	2,792,005
Cash and cash equivalents - end of the year	<u>\$ 1,978,169</u>	<u>305,891</u>	<u>2,284,060</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ 1,250,533	(31,664)	1,218,869
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	96,714	-	96,714
Federal commodities received	55,738	-	55,738
Increase in other receivables	(28,197)	-	(28,197)
Increase in inventory	(3,661)	-	(3,661)
Increase in prepaid items	(381)	-	(381)
Decrease in accounts payable	(3,819)	(42,344)	(46,163)
Decrease in payroll deductions and withholdings payable	(4,296)	-	(4,296)
Decrease in accrued wages payable	(6,683)	-	(6,683)
Increase in due to other funds	119,205	-	119,205
Decrease in unearned revenue	(65,429)	-	(65,429)
Net cash provided by (used in) operating activities	<u>\$ 1,409,724</u>	<u>(74,008)</u>	<u>1,335,716</u>

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

EANES INDEPENDENT SCHOOL DISTRICT
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2018

	Private Purpose Trust	Agency Funds
	<u> </u>	<u> </u>
ASSETS:		
Cash and cash equivalents	\$ 54,385	907,687
Total assets	<u>\$ 54,385</u>	<u>907,687</u>
LIABILITIES:		
Accounts payable	\$ -	6,767
Due to student groups	-	896,682
Due to other governments	-	3,572
Due to other funds	<u>-</u>	<u>666</u>
Total liabilities	<u>-</u>	<u>907,687</u>
NET POSITION-		
Held in trust for private purposes	<u>\$ 54,385</u>	

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

EANES INDEPENDENT SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended June 30, 2018

	Private Purpose Trust
ADDITIONS-	
Investment income	\$ 10,576
DEDUCTIONS-	
Scholarships provided	500
Change in net position	10,076
Net position--beginning of the year	44,309
Net position--end of the year	\$ 54,385

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

EANES INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Reporting Entity

This report includes those activities, organizations and functions which are related to the Eanes Independent School District (the "District") and which are controlled by or dependent upon the District's governing body, the Board of School Trustees (the "Board"). The Board, a seven member group, is the level of government which has governance responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the District. Since the District receives funding from local, state and federal government sources, it must comply with the requirements of the entities providing those funds. However, the District is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board ("GASB"), since Board members are elected by the public and have decision making authority. There are no component units included within the reporting entity.

The accounting policies of the District substantially comply with the rules prescribed by the Texas Education Agency's (the "TEA") Financial Accountability System Resource Guide. These accounting policies conform to generally accepted accounting principles applicable to state and local governments.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements. Governmental activities, which are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Agency funds have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided and 2) operating grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Major revenue sources considered susceptible to accrual include state and federal program revenues and interest income. No accrual for property taxes collected within sixty days of year end has been made as such amounts are deemed immaterial; delinquent property taxes at year end are reported as deferred inflows of resources.

The District reports the following major governmental funds:

The General Fund includes financial resources used for general operations. It is a budgeted fund, and any unassigned fund balance is considered resources available for current operations.

The Debt Service Fund includes debt service taxes and other revenues collected to retire bond principal and to pay interest due. It is a budgeted fund.

Additionally, the District reports the following fund types:

Special Revenue Funds are governmental funds which include resources restricted, committed, or assigned for specific purposes by a grantor or the Board. Federally financed programs where unused balances are returned to the grantor at the close of specified project periods are accounted for in these funds. The District uses project accounting to maintain integrity for the various sources of funds.

Capital Projects Funds includes the proceeds from sales of bonds and other revenues to be used for authorized construction and other capital asset acquisitions.

Enterprise Funds are proprietary funds used to account for the operations of the District's child nutrition program, its community education program, its child care services programs, and its facilities rental program.

The Internal Service Fund is a proprietary fund and is used to account for the District's self insurance related to computer equipment.

The Private Purpose Trust Fund is a fiduciary trust fund and is used to account for the principal and income that benefit individuals in the form of scholarships.

Agency Funds are unbudgeted funds and are used to account for activities of student groups and other types of activities requiring clearing accounts. These funds have no equity, assets are equal to liabilities, and they do not include revenues and expenditures for general operations of the District.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the District's internal service fund are from fees related to insurance for computer equipment. Operating expenses include professional and contracted services and supplies and materials.

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

Budgetary Information

Budgets are prepared annually for the General Fund and the Debt Service Fund on the modified accrual basis and for the Child Nutrition Fund (an Enterprise Fund) on the accrual basis, which is consistent with generally accepted accounting principles. A formal budget is prepared by June 20th and is adopted by the Board at a public meeting after ten days public notice of the meeting had been given. The legal level of control for budgeted expenditures is the function level within the budgeted funds. Amendments to the budget are required prior to expending amounts greater than the budgeted amounts at the function level. Budgets are controlled at the departmental or campus level, the same level at which responsibility for operations is assigned. The budget was amended by the Board on a monthly basis as needed.

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at June 30th, and encumbrances outstanding at that time are to be either canceled or provided for in the subsequent year's budget. At June 30, 2018, encumbrances outstanding of approximately \$242,000 were provided for in the subsequent year's General Fund budget and are included in assigned fund balance.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Balance

Investments - Temporary investments throughout the year consisted of investments in external local government investment pools (reported within cash and cash equivalents), treasury bill discounts, commercial paper, money markets, and federal agency coupon securities, which are recognized at fair value or amortized cost. External local government investment pools are recognized at amortized cost as permitted by GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. The District is entitled to invest any and all of its funds in certificates of deposit, direct debt securities of the United States of America or the State of Texas, certain Federal agency securities and other types of municipal bonds, fully collateralized repurchase agreements, commercial paper and local government investment pools. The District's investment policies and types of investments are governed by Section 2256 of the Texas Government Code ("Public Funds Investment Act"). The District's management believes that it complied with the requirements of the Public Funds Investment Act and the District's investment policy. The District accrues interest on temporary investments based on the terms and effective interest rates of the specific investments.

Inventories - Inventories in the General Fund consist of expendable supplies held for consumption. Inventories are charged to expenditures when consumed. Supply and furniture and equipment inventory are recorded at cost (FIFO method) and are offset by a fund balance reserve which indicates that they do not represent "available expendable resources." Inventories in the Enterprise Fund consist of commodities, purchased food and supplies. Purchased food and supplies are recorded at cost (FIFO method) and charged to expense when consumed. The commodity portion of inventory is valued at estimated market values supplied by the Texas Department of Human Services.

Prepaid Items - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. Prepaid items are charged to expenditures when consumed.

Capital Assets - Capital assets, which include land and land improvements, construction in progress, buildings and improvements, and furniture and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of at least \$5,000. Such assets are recorded at historical cost if purchased, or at acquisition value at the date of donation if donated. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets' lives are not capitalized. Capital assets (other than land and land improvements and construction in progress) are depreciated using the straight line method over the following estimated useful lives: buildings and improvements - ten to fifty years, furniture and equipment - three to fifteen years.

Ad Valorem Property Taxes - Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectibles 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.

Accumulated Sick Leave Liability - The State of Texas (the “State”) has created a minimum sick leave program consisting of five days of sick leave per year with no limit on accumulation and transferability among districts for every person regularly employed in Texas public schools. Each district’s local Board is required to establish a sick leave plan. Local school districts may provide additional sick leave beyond the state minimum. The District’s policy is to reimburse teachers, upon resignation, who have been employed in the District for ten or more years for the number of unused local sick days equal to the number of remaining State days credited to the teacher since entering the District. Reimbursement is made at the daily rate of pay for a full-time substitute. The District’s liability for accrued compensated absences as of June 30, 2018 was \$602,852 and is included in the government-wide financial statements. A liability is reported in governmental funds only if they matured, for example, as a result of employee resignations and retirements. Compensated absences are generally liquidated by the General Fund.

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

Other Post-Employment Benefits - The District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The fiduciary net position of the TRS Care Plan has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net other post-employment benefits (“OPEB”) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, and information about assets, liabilities and additions to/deductions from TRS Care’s fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments as this is a pay-as you-go plan and all cash is held in a cash account.

Deferred Outflows and Deferred Inflows of Resources - The District complies with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which provides guidance for reporting the financial statement elements of deferred outflows of resources, which represent the consumption of the District’s net position that is applicable to a future reporting period, and deferred inflows of resources, which represent the District’s acquisition of net position applicable to a future reporting period.

The District complies with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. See Note 7, 13 and 14 for additional information on deferred inflows and outflows of resources.

Fund Balance - The District complies with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. See Note 11 for additional information on those fund balance classifications.

Statement of Cash Flows - For purposes of the statement of cash flows of the Proprietary Funds, cash and cash equivalents include short-term investments with original stated maturities of less than ninety days.

Fair Value Measurements - The District complies with GASB Statement No. 72, *Fair Value Measurement and Application*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. Fair value accounting requires characterization of the inputs used to measure fair value into a three-level fair value hierarchy as follows:

- Level 1 inputs are based on unadjusted quoted market prices for identical assets or liabilities in an active market the entity has the ability to access.
- Level 2 inputs are observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the entity.
- Level 3 inputs are unobservable inputs that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

There are three general valuation techniques that may be used to measure fair value:

- Market approach - uses prices generated by market transactions involving identical or comparable assets or liabilities.
- Cost approach - uses the amount that currently would be required to replace the service capacity of an asset (replacement cost).
- Income approach - uses valuation techniques to convert future amounts to present amounts based on current market expectations.

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

Recently Issued Accounting Pronouncements

In June 2017, the GASB issued GASB Statement No. 87, *Leases*, effective for fiscal years beginning after December 15, 2019. The objective of GASB Statement No. 87 is to improve accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. GASB Statement No. 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB Statement No. 87, a lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and deferred inflow of resources. Management is evaluating the effects that the full implementation of GASB Statement No. 87 will have on its financial statements for the year ended June 30, 2021.

2. DEPOSITS AND INVESTMENTS

The Public Funds Investment Act authorizes the District to invest in funds under a written investment policy, which is approved annually by the Board. The primary objectives of the District's investment strategy, in order of priority, are preservation and safety of principal, liquidity, and yield.

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

- Obligations of, or guaranteed by, governmental entities
- Certificates of deposit and share certificates
- Fully collateralized repurchase agreements
- Banker's acceptance
- Commercial paper
- Money market funds and no-load mutual funds
- A guaranteed investment contract as an investment vehicle for bond proceeds provided it meets the criteria and eligibility requirements.
- Public funds investment pools

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the School Depository Act. The depository bank deposits for safekeeping and trust with the District's agent 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 dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance. Therefore the District is not exposed to custodial credit risk.

Under the depository contract, the District, at its own discretion, may invest funds in time deposits and certificates of deposit provided by the depository bank at interest rates approximating United States Treasury Bill rates.

At June 30, 2018, the carrying amount of the District's deposits was \$1,267,951 and the bank balance was \$1,477,008.

The District's deposits with financial institutions at June 30, 2018 were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name. The deposits were collateralized in accordance with Texas law and the Texas Education Agency maintains copies of all safekeeping receipts in the name of the District. During the year ended June 30, 2018, there were several instances in which the District's deposits were not fully collateralized by FDIC insurance or by pledged collateral and thus were exposed to custodial credit risk. These instances were due to the timing of certain payments received by the District in which the bank did not increase the pledged collateral until the next day.

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

- Name of depository bank: Wells Fargo.
- Amount of bond and/or security pledged as of the date of the highest combined balance on deposit was \$34,683,093.
- Largest cash, savings and time deposit combined account balance amounted to \$27,817,416 and occurred during the month of February 2018.
- Total amount of FDIC coverage at the time of highest combined balance was \$500,000.

Investments held at June 30, 2018 consisted of the following:

Type	Fair Value	Weighted Average Maturity (Days)	Standard & Poor's Rating
Local Governmental Investment Pools:			
TexPool	\$ 271,535	1	AAAm
Lone Star	89,536,493	1	AAA
TexasDAILY	3,014,419	1	AAAm
Money market	3,307,941	1	N/A
Treasury bill discounts	497,896	5	N/A
Commercial paper	4,994,550	19	N/A
Federal agency coupon securities (Freddie Mac)	2,500,000	38	N/A
Total investments	<u>\$ 104,122,834</u>		

The District had investments in three external local governmental investment pools at June 30, 2018, consisting of the Texas Local Governmental Investment Pool (“TexPool”), Lone Star Investment Pool (“Lone Star”), and TexasDAILY Local Government Investment Pool (“TexasDAILY”). Although TexPool, TexasDAILY and Lone Star are not registered with the SEC as investment companies, they operate in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940. These investments are stated at amortized cost, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

TexPool is overseen by the Texas State Comptroller of Public Accounts, who is the sole officer, director and shareholder of the Texas Treasury Safekeeping Trust Company which is authorized to operate TexPool. TexPool also has an advisory board to advise on TexPool’s investment policy, which is made up equally of participants and non-participants who do not have a business relationship with TexPool. Federated Investors manages daily operations of TexPool under a contract with the Comptroller and is the investment manager for the pool. TexPool’s investment policy stipulates that it must invest in accordance with the Public Funds Investment Act.

TexasDAILY is a portfolio of TexasTERM Local Government Investment Pool (“TexasTERM”) and provides daily access to funds. TexasTERM is organized in conformity with the Public Funds Investment Act. TexasTERM provides for a fixed rate, fixed-term investment for a period of 60 days to one year. TexasTERM is overseen by an advisory board composed of participants and non-participant members elected by the participant shareholders of TexasTERM. The advisory board is responsible for the overall management of TexasTERM, including formulation and implementation of its investment and operating policies. In addition, the advisory board members select and oversee the activities of the investment advisor and custodian of TexasTERM and monitor investment performance and the method of valuing the shares. TexasTERM is a floating net assets value fund, which is a non-2a7 fund. It is a fundamental objective of TexasTERM to assure the return of principal and interest at the date planned for redemption of shares; however the net asset value of shares may fluctuate prior to the planned redemption date.

Lone Star is governed by an eleven member board of trustees, in which all of the members are also participants in Lone Star. The board meets quarterly to review operations, adopt or make changes to the investment policy, review financial activity and approve contractor agreements. Lone Star also has an advisory board consisting of participants and non-participants. RBC Capital Markets, Inc. is an independent consultant for Lone Star that reviews daily operations, analyzes all investment transactions for compliance with the Public Funds Investment Act, and performs monitoring activities. The Bank of New York provides custody and valuation services for Lone Star. American Beacon Advisors and Standish Mellon provide other investment management services. Lone Star’s investment policy stipulates that it must invest in accordance with the Public Funds Investment Act.

In accordance with GASB Statement No. 79, the external local government investment pools do not have any limitations and restrictions on withdrawals such as notice periods or maximum transaction amounts. These pools do not impose any liquidity fees or redemption gates.

The District invests excess funds in money markets, treasury bill discounts, commercial paper, and agency coupon securities. Brokered certificates of deposit, money markets, treasury bill discounts, commercial paper, and agency coupon securities are selected through competitive offers from the District’s approved brokers. Purchases are made through best price execution, while considering which securities are most suitable to fit the District's portfolio needs and in compliance with the District's investment policy.

Commercial paper, treasury bill discounts, money markets, and federal agency coupon securities are valued using Level 1 inputs that are based on market data obtained from independent sources. The investments are reported by the District at fair value in accordance with GASB Statement No. 72.

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 agencies are designed to give an indication of credit risk. At June 30, 2018, investments were included in external local governmental investment pools, money markets, commercial paper, and U.S. agency securities with ratings from Standard & Poor’s in compliance with the District’s investment policy.

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 District, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name. At June 30, 2018, the District was not exposed to custodial credit risk.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investments in a single issuer. Information regarding investments in any one issuer that represents five percent or more of the District's total investments must be disclosed under GASB Statement No. 40, excluding investments issued or explicitly guaranteed by the U.S. government. At June 30, 2018, the District was not exposed to concentration of credit risk.

Interest Rate Risk - As a means of minimizing risk of loss due to interest rate fluctuations, the District's investment policy requires that the total portfolio of the District will not exceed the weighted average maturity of 365 days. The weighted average maturity for the total portfolio was 55 days. The District considers the holdings in the local governmental investment pools to have a one day weighted average maturity due to the fact that the share position can usually be redeemed each day at the discretion of the shareholders, unless there has been a significant change in value. The money market, commercial paper, and federal agency coupon securities had a weighted average maturity of 1 day, 18 days, and 38 days, respectively, which is in compliance with the District's investment policy. Term limits on individual maturities did not exceed three years from the purchase date. At June 30, 2018, the District was not exposed to significant interest rate risk.

3. PROPERTY TAXES

The Texas Legislature in 1979 adopted a comprehensive Property Tax Code (the "Code") which established a county-wide appraisal district and an appraisal review board in each county in the State. The Travis Central Appraisal District (the "Appraisal District") is responsible for the recording and appraisal of all property in the District. Under the Code, the Board sets the tax rates on property and the Travis County Tax Office provides tax collection services. The Appraisal District is required under the Code to assess property at 100% of its appraised value. Further, real property must be reappraised at least every three years. Under certain circumstances, taxpayers and taxing units, including the District, may challenge orders of the Appraisal Review Board through various appeals and, if necessary, legal action.

Property taxes are levied as of October 1 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 and penalties and interest that are ultimately imposed. The assessed value at January 1, 2017, upon which the October 2017 levy was based, was \$13,068,122,738. The District levied taxes based on a combined tax rate of \$1.20 per \$100 of assessed valuation for local maintenance (general governmental services) and debt service.

In May 1993, the Texas Legislature passed Senate Bill 7. Senate Bill 7 significantly changed certain aspects of the school finance system relative to accountability, teacher appraisal, career ladder, funding allotments, district local share, distribution of Foundation School Funds, tax limitations and rollback tax provisions. Funding equalization for school districts is a major component of the bill. Districts with wealth per student in excess of \$319,500 are required to take action to bring their wealth down to the equalized State level. During the year ended June 30, 2018, the District was required to pay \$92,983,573 to purchase attendance credits to equalize its wealth per weighted average daily attendance (“WADA”). This purchase of WADA was incorporated into the District’s budget. Portion of this purchase of WADA was made to the TEA during the year and the remaining portion to be paid to the TEA at June 30, 2018 was included in the due to other governments total on the balance sheet (see Note 4).

In 2005, the Texas Legislature passed House Bill 1. House Bill 1 changed the way school districts receive revenue from both state and local sources. Districts that had reached the tax rate cap of \$1.50 per \$100 of assessed value for maintenance and operations were compressed to \$1.33 in 2006 and \$1.00 in 2007. Local school boards retained the option of adding up to four cents to the local compressed rate without voter approval, and the District has exercised that option since 2007.

4. DUE FROM/TO OTHER GOVERNMENTS

The District participates in a variety of federal and state programs from which it receives grants to partially or fully fund certain activities. The District also receives entitlements from the State through the School Foundation and Per Capita Programs. The District is also required to make payments to the State to equalize its WADA (see Note 3). These amounts are reported in the basic financial statements as Due from/to Other Governments and are summarized below as of June 30, 2018.

	General Fund	Nonmajor Governmental Funds	Total
Per Capita entitlement	\$ 495,799	-	495,799
Federal and state grants	-	805,095	805,095
Other	49,320	-	49,320
Total due from other governments	<u>\$ 545,119</u>	<u>805,095</u>	<u>1,350,214</u>
WADA liability	<u>\$ 25,995,852</u>	-	<u>25,995,852</u>
Total due to other governments	<u>\$ 25,995,852</u>	<u>-</u>	<u>25,995,852</u>

5. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds.” The composition of interfund balances as of June 30, 2018, was as follows:

Receivable Fund	Payable Fund	Amount
General	Nonmajor Special Revenue	\$ 200,277
General	Nonmajor Enterprise	185,458
General	Nonmajor Capital Projects	2,782
General	Fiduciary	666
Nonmajor Capital Projects	General	3,797
Debt Service	General	49,809
Total		<u>\$ 442,789</u>

During the year, the District transferred \$1,872,999 from four nonmajor enterprise funds to the General Fund to reimburse the General Fund for administrative and payroll costs.

6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land and land improvements	\$ 21,215,260	-	-	-	21,215,260
Construction in progress	6,081,733	2,070,638	-	(4,886,583)	3,265,788
Total capital assets, not being depreciated	<u>27,296,993</u>	<u>2,070,638</u>	<u>-</u>	<u>(4,886,583)</u>	<u>24,481,048</u>
Capital assets, being depreciated:					
Buildings and improvements	255,453,181	8,504,040	-	4,886,583	268,843,804
Furniture and equipment	28,502,651	2,618,723	-	-	31,121,374
Total capital assets being depreciated	<u>283,955,832</u>	<u>11,122,763</u>	<u>-</u>	<u>4,886,583</u>	<u>299,965,178</u>

Less accumulated depreciation for:					
Buildings and improvements	(111,799,039)	(8,109,088)	-	-	(119,908,127)
Furniture and equipment	<u>(20,680,658)</u>	<u>(2,867,818)</u>	<u>-</u>	<u>-</u>	<u>(23,548,476)</u>
Total accumulated depreciation	<u>(132,479,697)</u>	<u>(10,976,906)</u>	<u>-</u>	<u>-</u>	<u>(143,456,603)</u>
Total capital assets, being depreciated, net	<u>151,476,135</u>	<u>145,857</u>	<u>-</u>	<u>4,886,583</u>	<u>156,508,575</u>
Governmental activities capital assets, net	<u>178,773,128</u>	<u>2,216,495</u>	<u>-</u>	<u>-</u>	<u>180,989,623</u>
Business-type activities:					
Land and land improvements	\$ 9,625	-	-	-	9,625
Buildings and improvements	174,927	-	-	-	174,927
Furniture and equipment	1,684,842	68,061	-	-	1,752,903
Less accumulated depreciation for:					
Buildings and improvements	(59,649)	(22,412)	-	-	(82,061)
Furniture and equipment	<u>(849,970)</u>	<u>(74,302)</u>	<u>-</u>	<u>-</u>	<u>(924,272)</u>
Total accumulated depreciation	<u>(909,619)</u>	<u>(96,714)</u>	<u>-</u>	<u>-</u>	<u>(1,006,333)</u>
Business-type activities capital assets, net	<u>\$ 959,775</u>	<u>(28,653)</u>	<u>-</u>	<u>-</u>	<u>931,122</u>

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

Governmental activities:

Instruction	\$ 9,354,518
Instructional resources and media services	405,048
Instructional leadership	39,517
School leadership	177,826
Guidance, counseling, and evaluation services	69,155
Health services	32,931
Student transportation	35,126
Food services	187,705
Extracurricular activities	28,540
General administration	117,453
Facilities maintenance and operations	<u>529,087</u>
Total depreciation expense - governmental activities	<u>\$ 10,976,906</u>

Business-type activities:

Community services	\$ 3,684
Food services	<u>93,030</u>
Total depreciation expense - business type activities	<u>\$ 96,714</u>

7. DEFERRED CHARGES ON BOND REFUNDINGS

The following is a summary of deferred charges on bond refundings for the year ended June 30, 2018:

Deferred charges on bond refundings - June 30, 2017	\$ 2,955,565
Additions from Series 2017 refunding	904,563
Retirements from Series 2017 refunding	(35,943)
Retirements from Series 2016 refunding	(96,582)
Retirements from Series 2015B refunding	(221,738)
Retirements from Series 2013 refunding	<u>(79,734)</u>
Deferred charges on bond refundings - June 30, 2018	<u>\$ 3,426,131</u>

8. LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2018:

	Beginning Balance	Additions	Retirements	Ending Balance
General obligation bonds	\$143,025,000	8,725,000	(27,345,000)	124,405,000
Premiums on bonds	13,438,066	1,193,181	(1,357,737)	13,273,510
Accretion payable	783,453	24,014	-	807,467
Capital lease payable	496,561	-	(165,862)	330,699
Notes payable	140,357	115,528	(120,679)	135,206
Compensated absences	584,203	18,649	-	602,852
Total	<u>\$158,467,640</u>	<u>10,076,372</u>	<u>(28,989,278)</u>	<u>139,554,734</u>

Current portion of long-term liabilities at June 30, 2018 is as follows:

General obligation bonds	\$ 14,005,000
Capital lease payable	163,395
Notes payable	<u>135,206</u>
Total	<u>\$ 14,303,601</u>

Bonded debt consisted of the following at June 30, 2018:

General Obligation Bonds:

Series	Date of Issue	Amounts of Original Issue	Maturity Date	Interest Rate	Outstanding at 6-30-18	Current Portion
2009 Refunding	11-23-09	\$ 19,405,000	2022	4.00%	\$ 13,750,000	\$ 4,015,000
2011 School Building and Refunding	07-26-11	71,035,000	2031	1.875-5.25%	29,850,000	3,445,000
2013 Refunding	06-27-13	8,590,000	2025	2.00-3.00%	8,135,000	75,000
2015A School Building	07-28-15	48,080,000	2033	2.00-5.00%	35,660,000	2,525,000
2015B Refunding	07-28-15	24,005,000	2023	2.00-5.00%	19,970,000	3,685,000
2016 Refunding	09-21-16	8,390,000	2031	2.00-4.00%	8,315,000	30,000
2017 Refunding	12-21-17	<u>8,725,000</u>	2031	2.00-4.00%	<u>8,725,000</u>	<u>230,000</u>
Total		<u>\$188,230,000</u>			<u>\$124,405,000</u>	<u>\$14,005,000</u>

For the general obligation bonds, the District has pledged as collateral the proceeds of a continuing, direct annual tax levied against taxable property within the District without limitation as to rate. The Texas Education Code generally limits issuance of additional ad valorem tax bonds if the tax rate needed to pay aggregate principal and interest amounts of the District's tax bond indebtedness exceeds \$0.50 per \$100 of assessed valuation of taxable property within the District. The District currently has a debt service tax rate of \$0.14.

On December 21, 2017, the District issued \$8,725,000 of Unlimited Tax Refunding Bonds, Series 2017 to advance refund \$8,845,000 of previously issued District bonds in order to lower its overall debt service requirements. The net proceeds of \$9,751,166 (after payment of \$167,015 in underwriting fees, insurance, and other issuance costs) was deposited as follows: \$9,749,563 with an escrow agent to provide the debt service payment on the portion of bonds advance refunded and \$1,603 in the Debt Service Fund for future principal and interest payments. As a result, \$8,845,000 of bond principal is considered defeased and the liability for these bonds was removed from the basic financial statements.

The reacquisition price exceeded the net carrying amount of the old debt by \$904,563. This amount is recorded as a deferred outflow of resources and amortized over the remaining life of the refunded debt which is shorter than the life of the new debt issued. The advance refunding reduced debt service payments by approximately \$1,318,000 and resulted in an economic gain of approximately \$1,138,000.

In the current and prior years, the District defeased certain outstanding general obligation bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all the future debt service payments on the old bonds. Accordingly, the trust account assets and the defeased bonds are not included in the District's financial statements. At June 30, 2018, outstanding bonds of \$17,280,000 are considered defeased.

The annual principal installments for each of the outstanding issues vary each year. As of June 30, 2018, the debt service requirements of bonded indebtedness to maturity are as follows:

Year Ended June 30,	Governmental Activities		
	Principal	Interest	Total
2019	\$ 14,005,000	4,996,063	19,001,063
2020	14,655,000	4,395,988	19,050,988
2021	15,250,000	3,767,888	19,017,888
2022	15,895,000	3,108,088	19,003,088
2023	11,145,000	2,549,788	13,694,788
2024-2028	32,520,000	8,759,381	41,279,381
2029-2033	20,935,000	2,014,450	22,949,450
Total	<u>\$124,405,000</u>	<u>29,591,646</u>	<u>153,996,646</u>

The outstanding 2013 Series Bonds include both Serial and Capital Appreciation Bonds. The interest shown above, with respect to the Capital Appreciation Bonds, includes the interest to be paid on bonds maturing in the respective years and does not include accrued interest on bonds not maturing in those years.

At June 30, 2018, all general obligation bonds authorized by voters of the District have been issued.

The District financed the purchase of computer equipment through a capital lease agreement with the vendor. The purchase price of the computer equipment was \$496,561 which equates to the original capital lease principal amount. At June 30, 2018, these assets had accumulated amortization of \$124,140 and a net book value of \$372,421. Under the terms of the capital lease agreement, principal and interest payments are due annually on September 15th through 2019. The effective interest rate on the lease is 2.39%.

Lease payment requirements are as follows:

Year Ended June 30,	Principal	Interest	Total
2019	\$ 163,395	7,913	171,308
2020	167,304	4,004	171,308
Total	<u>\$ 330,699</u>	<u>11,917</u>	<u>342,616</u>

Notes Payable - In May 2015, August 2015, and July 2017 the District entered into seven separate 0% interest promissory notes with certain textbook vendors to fund the purchases of textbooks. The annual principal payments for the outstanding notes payable vary each year and are payable through September 2018. Required principal payments on the notes payable at June 30, 2018 was \$135,206 due during the year ended June 30, 2019.

9. UNEARNED REVENUE

At June 30, 2018, unearned revenue in the governmental funds consisted of the following:

	<u>General Fund</u>
Eanes Education Foundation	\$ 2,500,000
Other	<u>72,215</u>
Total	<u><u>\$ 2,572,215</u></u>

10. REVENUES FROM LOCAL AND INTERMEDIATE SOURCES

For the year ended June 30, 2018, revenues from local and intermediate sources in the governmental funds consisted of the following:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Property taxes	\$151,010,712	19,945,985	-	170,956,697
Investment earnings	1,072,201	222,210	311,456	1,605,867
Penalties, interest, and other tax related income	392,241	56,693	-	448,934
Tuition and fees from patrons	202,458	-	-	202,458
Co-curricular student activities	1,076,453	-	-	1,076,453
Gifts and donations	2,561,926	-	601,377	3,163,303
Other	494,739	-	723,269	1,218,008
Total	<u><u>\$156,810,730</u></u>	<u><u>20,224,888</u></u>	<u><u>1,636,102</u></u>	<u><u>178,671,720</u></u>

11. FUND BALANCES

The District complies with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Those fund balance classifications are described below.

Nonspendable - Amounts that cannot be spent because they are either not in a spendable form or are legally or contractually required to be maintained intact.

Restricted - Amounts that can be spent only for specific purposes because of constraints imposed by external providers, or imposed by constitutional provisions or enabling legislation.

Committed - Amounts that can only be used for specific purposes pursuant to approval by formal action by the Board.

Assigned - For the General Fund, the Board, or an official or body that has been delegated authority by the Board, may appropriate amounts that are to be used for a specific purpose. For all other governmental funds, any remaining positive amounts not previously classified as nonspendable, restricted or committed.

Unassigned - Amounts that are available for any purpose; these amounts can be reported only in the District's General Fund.

The detail of the fund balances is included in the Governmental Funds Balance Sheet on page 17. Fund balance of the District may be committed for a specific purpose by formal action of the Board, the District's highest level of decision-making authority. Commitments may be established, modified, or rescinded only through a resolution approved by the Board. The Board has delegated authority to the Superintendent or the Executive Director for Business Services to assign fund balance for a specific purpose. The details of assigned Special Revenue Funds fund balances are included in the Combining Balance Sheet - Nonmajor Special Revenue Funds on pages 65 through 67.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

12. DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan established in accordance with Internal Revenue Code Section 457. Assets and income of the District's plan are administered by a private corporation under contract with the District and are held for the exclusive benefit of the participants and their beneficiaries. Accordingly, the plan's assets and liabilities are not recorded in the District's basic financial statements.

13. DEFINED BENEFIT PENSION PLANS

Plan Description

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

All employees of public, state-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 TRS.

Pension Plan Fiduciary Net Position

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

Benefits Provided

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

Contributions

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

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

	<u>2017</u>	<u>2018</u>
Contribution Rates:		
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
FY 2018 District Contributions		\$ 1,506,638
FY 2018 Member Contributions		\$ 4,244,642
FY 2018 NECE On-behalf Contributions		\$ 3,019,103

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

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

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

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

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

Actuarial Assumptions

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

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Inflation	2.50%
Salary Increases including inflation	3.50% to 9.50%
Payroll Growth Rate	2.50%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

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

Discount Rate

The discount rate used to measure the total pension liability was 8.0%. 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 8.0%. 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 TRS' target asset allocation as of August 31, 2017 are summarized below.

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

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

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2017 Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
District's proportionate share of the net pension liability	\$ 23,758,808	\$ 14,093,471	\$ 6,045,510

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

At June 30, 2018, the District reported a liability of \$14,093,471 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	\$ 14,093,471
State’s proportionate share that is associated with the District	<u>28,271,338</u>
Total	<u>\$ 42,364,809</u>

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

At August 31, 2017 the employer’s proportion of the collective net pension liability was 0.0441% which was an increase of 0.0026% from its proportion measured as of August 31, 2016.

Changes Since the Prior Actuarial Valuation

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

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

For the year ended June 30, 2018, the District recognized pension expense of \$2,624,356 and revenue of \$2,156,425 for support provided by the State.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 206,194	\$ 760,042
Changes in actuarial assumptions	641,980	367,519
Difference between projected and actual investment earnings	-	1,027,102
Changes in proportion and difference between the employer’s contributions and the proportionate share of contributions	5,353,442	611
Contributions paid to TRS subsequent to the measurement date	<u>1,263,815</u>	<u>-</u>
Total	<u>\$ 7,465,431</u>	<u>\$ 2,155,274</u>

The \$1,263,815 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. The net amounts of the employer’s balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>Pension Expense Amount</u>
Year ended June 30:	
2019	\$ 770,162
2020	1,669,785
2021	701,033
2022	414,609
2023	404,153
Thereafter	86,600

14. DEFINED OTHER POST-EMPLOYEMENT BENEFIT PLANS

Plan Description

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

OPEB Plan Fiduciary Net Position

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

Benefits Provided

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

Eligible retirees and their dependents not enrolled in Medicare may pay premiums to participate in one of two optional insurance plans with more comprehensive benefits (TRS-Care 2 and TRS-Care 3). Eligible retirees and dependents enrolled in Medicare may elect to participate in one of the two Medicare health plans for an additional fee. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system. The Board of Trustees is granted the authority to establish basic and optional group insurance coverage for participants as well as to amend benefit terms as needed under Chapter 1575.052. There are no automatic post-employment benefit changes; including automatic COLAs.

The premium rates for the optional health insurance are based on years of service of the member. The schedule below shows the monthly rates for the average retiree with Medicare Parts A&B coverage, with 20 to 29 years of service for the basic plan and the two optional plans.

TRS-Care Plan Premium Rates
Effective September 1, 2016 - December 31, 2017

	TRS-Care 1 Basic Plan	TRS-Care 2 Optional Plan	TRS-Care 3 Optional Plan
Retiree*	\$ -	\$ 70	\$ 100
Retiree and Spouse	20	175	255
Retiree* and Children	41	132	182
Retiree and Family	61	237	337
Surviving Children only	28	62	82

**or surviving spouse*

Contributions

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

Texas Insurance Code, section 1575.202 establishes the state’s contribution rate which is 1.0% of the employee’s salary. Section 1575.203 establishes the active employee’s rate which is .65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25 percent or not more than 0.75 percent of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

	<u>2017</u>	<u>2018</u>
Contribution Rates:		
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.00%	1.25%
Employers	0.55%	0.75%
Federal/private Funding remitted by Employers	1.00%	1.25%
FY 2018 District Contributions		\$ 395,299
FY 2018 Member Contributions		\$ 358,442
FY 2018 NECE On-behalf Contributions		\$ 680,968

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

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$15.6 million in fiscal year 2017 and \$182.6 million in fiscal year 2018.

Actuarial Assumptions

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

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

Rates of Mortality	General Inflation
Rates of Retirement	Wage Inflation
Rates of Termination	Expected Payroll Growth
Rates of Disability Incidence	

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.50%
Discount Rate	3.42%
Aging Factors	Based on plan specific experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs
Payroll Growth Rate	2.50%
Projected Salary Increases	3.50% to 9.50%
Healthcare Trend Rates	4.50% to 12.00%
Election Rates	Normal retirement: 70% participation prior to age 65 and 75% participation after age 65
Ad hoc post-employment benefit changes	None

There was a significant plan change adopted in the fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan option will be offered and all retirees will be required to contribute monthly premiums for coverage. Assumption changes made for the August 31, 2017 valuation include a change to the assumption regarding the phase-out of the Medicare Part D subsidies and a change to the discount rate from 2.98% as of August 31, 2016 to 3.42% as of August 31, 2017.

Discount Rate

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

Best estimates of geometric real rates of return for each major asset class included in TRS target asset allocation as of August 31, 2017 are summarized below.

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

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

Sensitivity Analysis

Discount Rate - The following schedule shows the impact of the Net OPEB Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.42%) in measuring the 2017 Net OPEB Liability.

	1% Decrease in Discount Rate (2.42%)	Discount Rate (3.42%)	1% Increase in Discount Rate (4.42%)
District's proportionate share of the net OPEB liability	\$ 30,500,885	\$ 25,842,771	\$ 22,098,697

Healthcare Cost Trend Rates - The following schedule shows the impact of the Net OPEB Liability if the healthcare cost trend rates used were 1% less than and 1% greater than the healthcare cost trend rates that was used in measuring the 2017 Net OPEB Liability.

	1% Decrease in Healthcare Cost Trend Rates	Current Healthcare Cost Trend Rates	1% Increase in Healthcare Cost Trend Rates
	<u> </u>	<u> </u>	<u> </u>
District’s proportionate share of the net OPEB liability	\$ 21,516,688	\$ 25,842,771	\$ 31,519,136

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

At June 30, 2018, the District reported a liability of \$25,842,771 for its proportionate share of the TRS’s net OPEB liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District’s Proportionate share of the collective net OPEB liability	\$ 25,842,771
State’s proportionate share that is associated with the District	<u>44,307,983</u>
Total	<u>\$ 70,150,754</u>

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

At August 31, 2017 the employer’s proportion of the collective net OPEB liability was 0.0594% which was the same proportion measured as of August 31, 2016.

Changes Since the Prior Actuarial Valuation

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

- Significant plan changes were adopted during the fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan option will exist (instead of three), and all retirees will be required to contribute monthly premiums for coverage. The health plan changes triggered changes to several of the assumptions, including participation rates, retirement rates, and spousal participation rates.

- The August 31, 2016 valuation had assumed that the savings related to the Medicare Part D reimbursements would phase out by 2022. This assumption was removed for the August 31, 2017 valuation. Although there is uncertainty regarding these federal subsidies, the new assumption better reflects the current substantive plan. This change was unrelated to the plan amendment, and its impact was included as an assumption change in the reconciliation of the total OPEB liability. This change significantly lowered the OPEB liability.
- The discount rate changed from 2.98 percent as of August 31, 2016 to 3.42 percent as of August 31, 2017. This change lowered the total OPEB liability.

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

For the year ended June 30, 2018, the District recognized OPEB expense of \$(8,673,677) and revenue of \$14,826,629 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 539,487
Changes in actuarial assumptions	-	10,270,592
Difference between projected and actual investment earnings	3,926	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	119	-
Contributions paid to TRS subsequent to the measurement date	345,251	-
Total	<u>\$ 349,296</u>	<u>\$ 10,810,079</u>

The \$345,251 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. The net amounts of the employer's balances of deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	OPEB Expense Amount
Year ended June 30:	
2019	\$ (1,425,869)
2020	(1,425,869)
2021	(1,425,869)
2022	(1,425,869)
2023	(1,426,850)
Thereafter	(3,675,708)

15. HEALTH CARE COVERAGE

During the year ended June 30, 2018, employees of the District were covered by a health insurance plan. The District contributed \$473 per month per employee to the plan, and employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All contributions were paid to a licensed insurer. The plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreement.

The District recognizes as revenues and expenditures retiree drug subsidy reimbursements under the provisions of Medicare Part D made by the federal government to TRS on behalf of the District. For the year ended June 30, 2018, reimbursements of \$169,778 were received by TRS and allocated to the District.

16. RISK MANAGEMENT

The District's risk management program includes coverages through third party insurance providers for property, automobile liability, school professional liability, crime, workers compensation and other miscellaneous bonds. During the year ended June 30, 2018, there were no significant reductions in insurance coverage from coverage in the prior year. Losses in excess of the various deductible levels are covered through traditional indemnity coverage for buildings and contents and vehicle liability with various insurance firms. Settled claims have not exceeded insurance limits for the past five years.

17. COMMITMENTS AND CONTINGENCIES

The District participates in a number of federal financial assistance programs. Although the District grant programs have been audited in accordance with the provisions of the Uniform Guidance through June 30, 2018, these programs are subject to financial and compliance audits. The amounts, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

In September 2014, the District entered into an agreement to lease property to a company who planned to develop a multi-purpose indoor athletic center (the "facility") to benefit both the District's students and the community at-large. The District has the right to use the facility during the school day, and if necessary, terminate the lease if the property is needed for future instructional purposes or for reasons of financial exigency. The facility opened in December 2015 and expected annual future lease income to the District is as follows:

Fiscal Years	
2025-2029	\$ 282,265
2030-2034	352,472
2035-2039	398,790
2040-2044	451,194
2045-2049	510,484
2050-2054	577,566
2055-2059	653,462
2060-2064	739,333
2065	78,587
Total	<u>\$ 4,044,153</u>

In October 2015, the District entered into an agreement to lease property to a party (“Rentor”) who plans to develop property for athletic purposes to benefit both the District’s students and the community at-large. The District maintains the right to control and manage the use of the property, and if necessary, terminate the lease if property is needed for future instructional purposes or for reasons of financial exigency. During the expected three year period when the Rentor is developing the property for use, rental income to the District is \$5,000 per year. Once property is ready for use, expected annual future lease income to the District is as follows:

Years	
1-5	\$ 175,000
6-10	183,750
11-15	192,938
16-20	202,584
21-25	212,714
26-30	223,349
31-35	234,517
36-40	246,243
41-45	258,555
46-50	<u>271,482</u>
Total	<u>\$ 2,201,132</u>

At June 30, 2018, the District is also committed under construction contracts with a remaining balance of approximately \$3,606,912.

18. PRIOR PERIOD ADJUSTMENT

In accordance with the adoption of GASB Statement No. 75 in the current fiscal year, the District must record its proportionate share of the net OPEB liability related to its contributions to the TRS cost-sharing OPEB plan at the beginning of the measurement period ending August 31, 2017. In addition, the District must record a deferred outflow of resources for its contributions to TRS-Care from the beginning of the measurement period through June 30, 2017. The effect of this change in accounting principle is as follows:

Net position - governmental activities - June 30, 2017	\$ 98,777,543
Net OPEB liability - August 31, 2016	(45,624,106)
District contributions - September 1, 2016 - June 30, 2017	<u>248,402</u>
Net position - governmental activities - June 30, 2017, as restated	<u>\$ 53,401,839</u>

APPENDIX D

Form of Legal Opinion of Bond Counsel

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_____, 2019

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

EANES INDEPENDENT SCHOOL DISTRICT VARIABLE RATE
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2019B, dated
_____, 2019, in the aggregate principal amount of \$_____.

The Bonds mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds and in the order (the “Order”) adopted by the Board of Trustees of the District authorizing their issuance.

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

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

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

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

creditors of political subdivisions and the exercise of judicial discretion in appropriate cases; and the Bonds have been authorized and delivered in accordance with law; and

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

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

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

EXCEPT AS DESCRIBED HEREIN, we express no opinions as to any other matters except with respect to the excludability of the interest on the Bonds from gross income from the owners thereof for federal income tax purposes.

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

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

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

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