

OFFICIAL STATEMENT
Dated: January 14, 2019

NEW ISSUE: BOOK-ENTRY-ONLY

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

\$35,255,000
EUSTACE INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Henderson and Van Zandt Counties, Texas)
Unlimited Tax School Building Bonds, Series 2019

Dated Date: January 15, 2019

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

The Eustace Independent School District Unlimited Tax School Building Bonds, Series 2019 (the "Bonds") are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, an election held in the District on November 6, 2018 and the order (the "Order") adopted by the Board of Trustees (the "Board") on January 14, 2019. The Bonds are payable as to principal and interest from the proceeds of an ad valorem tax levied annually, without legal limit as to rate or amount, against all taxable property located within the Eustace Independent School District (the "District"). The District has received conditional approval from the Texas Education Agency for the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined), which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "THE BONDS – Permanent School Fund Guarantee" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

Interest on the Bonds will accrue from the Dated Date specified above and will be payable on February 15 and August 15 of each year, commencing August 15, 2019, until stated maturity or prior redemption. The Bonds will be issued in fully registered form in principal denominations of \$5,000 or any integral multiple thereof. Principal of the Bonds will be payable by the Paying Agent/Registrar, which initially is BOKF, NA, Dallas, Texas (the "Paying Agent/Registrar"), upon presentation and surrender of the Bonds for payment. Interest on the Bonds is payable by check dated as of the interest payment date and mailed by the Paying Agent/Registrar to the registered owners as shown on the records of the Paying Agent/Registrar on the close of business as of the last business day of the month next preceding each interest payment date (the "Record Date").

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

Proceeds from the sale of the Bonds will be used for (i) designing, constructing, renovating, improving, acquiring, and equipping school facilities (and any necessary or related removal of existing facilities), the purchase of the necessary sites for school facilities, and the purchase of new school buses, and (ii) to pay the costs of issuing the Bonds. (See "THE BONDS - Authorization and Purpose").

The Bonds maturing on or after February 15, 2030 are subject to redemption at the option of the District in whole or in part on February 15, 2029 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. The Term Bonds (hereinafter defined) are also subject to mandatory sinking fund redemption as described herein. (See "THE BONDS – Optional Redemption" and "THE BONDS – Mandatory Sinking Fund Redemption").

MATURITY SCHEDULE
(On Inside Cover)

The Bonds are offered for delivery when, as and if issued, and received by the initial purchaser at a competitive sale (the "Purchaser") subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel. The Bonds are expected to be available for initial delivery through the services of DTC on or about February 12, 2019.

\$35,255,000
EUSTACE INDEPENDENT SCHOOL DISTRICT
(A POLITICAL SUBDIVISION OF THE STATE OF TEXAS LOCATED IN HENDERSON AND VAN ZANDT COUNTIES, TEXAS)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2019

MATURITY SCHEDULE
Base CUSIP No.: 298808⁽¹⁾

\$15,450,000 Serial Bonds

Maturity Date	Principal Amount	Interest Rate	Initial Yield	CUSIP No. Suffix⁽¹⁾
<u>2/15</u>				
2020	\$235,000	4.00%	1.78%	CW4
2021	270,000	5.00	1.83	CX2
2022	310,000	5.00	1.88	CY0
2023	325,000	5.00	1.95	CZ7
2024	340,000	5.00	2.05	DA1
2025	360,000	5.00	2.11	DB9
2026	375,000	5.00	2.20	DC7
2027	395,000	5.00	2.29	DD5
2028	415,000	5.00	2.36	DE3
2029	440,000	5.00	2.45	DF0
2030	460,000	4.00	2.64 ⁽²⁾	DG8
2031	1,085,000	4.00	2.82 ⁽²⁾	DH6
2032	1,130,000	4.00	2.95 ⁽²⁾	DJ2
2033	1,175,000	4.00	3.03 ⁽²⁾	DK9
2034	1,225,000	4.00	3.12 ⁽²⁾	DL7
2035	1,275,000	4.00	3.22 ⁽²⁾	DM5
2036	1,325,000	4.00	3.30 ⁽²⁾	DN3
2037	1,380,000	4.00	3.38 ⁽²⁾	DP8
2038	1,435,000	4.00	3.45 ⁽²⁾	DQ6
2039	1,495,000	4.00	3.50 ⁽²⁾	DR4

(Interest to accrue from the Dated Date)

\$19,805,000 Term Bonds

\$6,760,000	5.000%	Term Bond due February 15, 2043 – Price 115.589 (yield 3.17%) CUSIP Suffix No. DV5 ⁽¹⁾⁽²⁾
\$6,035,000	5.000%	Term Bond due February 15, 2046 – Price 115.126 (yield 3.22%) CUSIP Suffix No. DY9 ⁽¹⁾⁽²⁾
\$7,010,000	5.000%	Term Bond due February 15, 2049 – Price 114.573 (yield 3.28%) CUSIP Suffix No. EB8 ⁽¹⁾⁽²⁾

(Interest to accrue from the Dated Date)

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

⁽²⁾ Yield calculated based on the assumption that the Bonds denoted and sold at a premium will be redeemed on February 15, 2029, the first optional call date for such Bonds, at a redemption price of par, plus accrued interest to the redemption date.

EUSTACE INDEPENDENT SCHOOL DISTRICT

BOARD OF TRUSTEES

<u>Name</u>	<u>Date Initially Elected</u>	<u>Current Term Expires</u>	<u>Occupation</u>
Ashley McKee, President	2013	2021	Attorney
David Morton, Vice President	2016	2021	Texas Bit
Steven Bell, Secretary	2013	2019	Fort Worth Water District
C.D. Hodge, Member	2009	2019	Retired
James Kirkhart, Jr., Member	2015	2021	Wal-Mart
Billy Walker, Member	2003	2019	Retired
Gary Walsh, Member	2004	2021	Self Employed

APPOINTED OFFICIALS

<u>Name</u>	<u>Position</u>	<u>Length of Education Service</u>	<u>Length of Service with the District</u>
Dr. Coy Holcombe	Superintendent	34 Years	17 Years
Carol Warren	Business Manager	26 Years	18 Years

CONSULTANTS AND ADVISORS

Norton Rose Fulbright US LLP, San Antonio, Texas	Bond Counsel
SAMCO Capital Markets, Inc., Plano, Texas	Financial Advisor
Smith, Lambright & Associates, P.C., Athens, Texas	Certified Public Accountants

For additional information, contact:

Coy Holcombe
Superintendent
Eustace ISD
320 FM 316 South
Eustace, Texas 75124
(903) 425-5151

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

USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

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

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

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

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

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

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

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

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

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SELECTED DATA FROM THE OFFICIAL STATEMENT

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

The District	The Eustace Independent School District (the "District") is a political subdivision of the State of Texas located in Henderson and Van Zandt Counties, Texas. The District is governed by a seven-member Board of Trustees (the "Board"). Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors.
The Bonds	The Bonds are being issued in the principal amount of \$35,255,000 pursuant to the Constitution and general laws of the State of Texas, particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, an election held in the District on November 6, 2018 (the "Election") and the order adopted by the Board of Trustees (the "Board") on January 14, 2019 (the "Order"). Proceeds from the sale of the Bonds will be used for (i) designing, constructing, renovating, improving, acquiring, and equipping school facilities (and any necessary or related removal of existing facilities), the purchase of the necessary sites for school facilities, and the purchase of new school buses, and (ii) to pay the costs of issuing the Bonds (See "THE BONDS - Authorization and Purpose").
Paying Agent/Registrar	The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas. The District intends to use the Book-Entry-Only System of the Depository Trust Company ("DTC"). (See "BOOK-ENTRY-ONLY SYSTEM" herein).
Security	The Bonds will constitute direct obligations of the District, payable as to principal and interest from ad valorem taxes levied annually against all taxable property located within the District, without legal limitation as to rate or amount. Payments of principal and interest on the Bonds will be further secured by the corpus of the Permanent School Fund of Texas. (See "THE BONDS – Security", "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").
Redemption	The Bonds maturing on or after February 15, 2030 are subject to redemption at the option of the District in whole or in part on February 15, 2029 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. The Term Bonds (hereinafter defined) are also subject to mandatory sinking fund redemption as described herein. (See "THE BONDS – Optional Redemption" and "THE BONDS – Mandatory Sinking Fund Redemption").
Permanent School Fund Guarantee	The District has received conditional approval from the Texas Education Agency ("TEA") for the payment of the Bonds to be guaranteed under the Permanent School Fund Guarantee Program, which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "THE BONDS – Permanent School Fund Guarantee" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").
Rating	The Bonds are rated "AAA" by S&P Global Ratings ("S&P") based upon the guaranteed repayment thereof under the Permanent School Fund Guarantee Program of the Texas Education Agency. The District's unenhanced, underlying rating, including the Bonds, is "A+" from S&P. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "RATING" herein.)
Tax Matters	In the opinion of Bond Counsel (identified below), interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS - Tax Exemption" herein, and is not includable in the federal alternative minimum taxable income of the owners thereof. (See "TAX MATTERS" for a discussion of the opinion of Bond Counsel.)
Payment Record	The District has never defaulted on the payment of its bonded indebtedness.
Legal Opinion	Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel. (See "Appendix C – Form of Legal Opinion of Bond Counsel").
Delivery	When issued, anticipated to be on or about February 12, 2019.

INTRODUCTORY STATEMENT

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

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

There follows in this Official Statement descriptions of the Bonds and the order (the "Order") adopted by the Board of Trustees of the District (the "Board") on January 14, 2019 authorizing the issuance of the Bonds, and certain other information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained upon request by writing the Eustace Independent School District, 320 FM 316 South, Eustace, Texas 75124 and, during the offering period, from the Financial Advisor, SAMCO Capital Markets, Inc., 5800 Granite Parkway, Suite 210, Plano, Texas 75024 by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

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

THE BONDS

Authorization and Purpose

The Bonds are being issued in the principal amount of \$35,255,000 pursuant to the Constitution and general laws of the State, particularly Sections 45.001 and 45.003(b)(1), as amended, Texas Education Code, an election held in the District on November 6, 2018 (the "Election") and the Order adopted January 14, 2019. Proceeds from the sale of the Bonds will be used for (i) designing, constructing, renovating, improving, acquiring, and equipping school facilities (and any necessary or related removal of existing facilities), the purchase of the necessary sites for school facilities, and the purchase of new school buses, and (ii) to pay the costs of issuing the Bonds.

General Description

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

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

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

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

Optional Redemption

The Bonds maturing on or after February 15, 2030 are subject to redemption at the option of the District in whole or in part on February 15, 2029 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption.

Mandatory Sinking Fund Redemption

The Bonds maturing on February 15 in each of the years 2043, 2046 and 2049 (the "Term Bonds") are also subject to mandatory sinking fund redemption prior to their stated maturity, and will be redeemed by the District, at a redemption price equal to the principal amount thereof plus interest accrued thereon to the redemption date, on the dates and in the principal amounts shown in the following schedule:

<u>Term Bonds</u> <u>February 15, 2043</u>		<u>Term Bonds</u> <u>February 15, 2046</u>		<u>Term Bonds</u> <u>February 15, 2049</u>	
<u>Date</u> <u>(2/15)</u>	<u>Amount</u>	<u>Date</u> <u>(2/15)</u>	<u>Amount</u>	<u>Date</u> <u>(2/15)</u>	<u>Amount</u>
2040	\$1,565,000	2044	\$1,910,000	2047	\$2,220,000
2041	1,645,000	2045	2,010,000	2048	2,335,000
2042	1,730,000	2046*	2,115,000	2049*	2,455,000
2043*	1,820,000				

*Stated Maturity

Approximately forty-five (45) days prior to each mandatory redemption date for any Term Bond, the Paying Agent/Registrar shall randomly select by lot or other customary method the numbers of the Term Bonds within the applicable Stated Maturity to be redeemed on the next following February 15 from moneys set aside for that purpose in the Interest and Sinking Fund (as defined in the Order). Any Term Bonds not selected for prior redemption shall be paid on the date of their Stated Maturity.

The principal amount of a Term Bond 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 Term Bonds of such Stated Maturity which, at least fifty (50) days prior to the mandatory redemption date (i) shall have been defeased or acquired by the District and delivered to the Paying Agent/Registrar for cancellation, (ii) shall have been purchased and cancelled by the Paying Agent/Registrar at the request of the District with money in the Bond Fund, or (iii) shall have been redeemed pursuant to the optional redemption provisions set forth above and not theretofore credited against a mandatory redemption requirement.

Selection of Bonds Redeemed in Part

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

Notice of Redemption and DTC Notices

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

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

Security

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

Permanent School Fund Guarantee

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

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

Legality

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

Payment Record

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

Amendments

The District, may, without the consent of or notice to any holders of the Bonds, from time to time and at any time, amend the Order in any manner not detrimental to the interests of the holders of the Bonds, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of holders of the Bonds holding a majority in aggregate principal amount of the Bonds then outstanding, amend, add to, or rescind any of the provisions of the Order; provided, however, that, without the consent of all holders of outstanding Bonds, no such amendment, addition, or rescission shall (1) extend the time or times of payment of the principal of, premium, if any, and interest on the Bonds, reduce the principal amount thereof, the redemption price, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of, redemption premium, if any, 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.

Defeasance

The Order provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption or otherwise), is provided by irrevocably depositing with the Paying Agent/Registrar or other authorized escrow agent, in trust (1) money sufficient to make such payment, (2) Government Obligations (defined below) to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, or (3) a combination of money and Government Obligations together so certified sufficient to make such payment. The District has additionally reserved the right in the Order, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Obligations for the Government Obligations originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District money in excess of the amount required for such defeasance. The Order provides that "Government Obligations" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of their acquisition or purchase by the District, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and, on the date of their acquisition or purchase by the District, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, or (d) any additional securities and obligations hereafter authorized by Texas law as eligible for use to accomplish the discharge of obligations such as the Bonds. There is no assurance that the ratings for U.S. Treasury securities acquired to defease any Bonds, or those for any other Government Obligations, will be maintained at any particular rating category. Further, there is no assurance that current Texas law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of those securities identified in clauses (a) through (c) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Bonds ("Defeasance Proceeds"), though the District has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Order does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the District to use lawfully available Defeasance Proceeds to defease all or any portion of the Bonds, registered owners of Bonds are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under Texas law as permissible defeasance securities.

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

Defeasance of the Bonds cancels the Permanent School Fund guarantee with respect to such defeased Bonds.

Sources and Uses of Funds

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

Sources	
Par Amount of Bonds	\$ 35,255,000.00
Accrued Interest	123,041.25
Original Issue Reoffering Premium	4,337,346.80
Total Sources of Funds	\$ <u>39,715,388.05</u>
Uses	
Deposit to Construction Fund	\$ 38,600,000.00
Costs of Issuance	182,000.00
Purchaser's Discount	98,195.40
Deposit to Interest and Sinking Fund	835,192.65
Total Uses of Funds	\$ <u>39,715,388.05</u>

REGISTERED OWNERS' REMEDIES

If the District defaults in the payment, when due, of principal or interest, or redemption price of the Bonds when due, or if it fails to make payments into any fund or funds created in the Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, and the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospective ability to be repaid in accordance with the Order any registered owner may seek a writ of mandamus from a court of proper jurisdiction to compel the District to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or the Order and the District's obligations are not uncertain or disputed as well as to enforce the rights of payment under the Permanent School Fund Guarantee. The issuance of a writ of mandamus is controlled by equitable principles, and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the owners upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court has ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute

must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas Legislature has effectively waived the District's sovereign immunity from a suit for money damages, 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. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and by general principles of equity which permit the exercise of judicial discretion.

BOOK-ENTRY-ONLY SYSTEM

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

The District and the Purchaser cannot and 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, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission (the "SEC"), and the current procedures of DTC to be followed in dealing with DTC participants are on file with DTC.

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

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

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as 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 the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. All payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

The information in this section concerning DTC and DTC's Book-Entry-Only System has been obtained from sources that the District believes to be reliable, but none of the District, the Financial Advisor, or the Purchaser take any responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of this Official Statement

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

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar for the Bonds is BOKF, NA, Dallas, Texas. In the Order, the District covenants to maintain and provide a Paying Agent/Registrar until the Bonds are duly paid.

Successor Paying Agent/Registrar

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

Initial Registration

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

Future Registration

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

Record Date For Interest Payment

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

Limitation on Transfer of Bonds

Neither the District nor the Paying Agent/Registrar are required (1) to make any transfer or exchange during a period beginning at the opening of business 45 days before the day of the first mailing of a notice of redemption of Bonds and ending at the close of business on the day of such mailing, or (2) to transfer or exchange any Bonds so selected for redemption when such redemption is

scheduled to occur within 45 calendar days; provided however, that such limitation of transfer is not applicable to an exchange by the registered owner of the uncalled balance of a Bond.

Replacement Bonds

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

AD VALOREM TAX PROCEDURES

Property Tax Code and County Wide Appraisal District

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

Property Subject to Taxation by the District

Except for certain exemptions provided by State law, all real and certain tangible personal property with a tax situs in the District is subject to taxation by the District. Principal categories of exempt property (including certain exemptions which are subject to local option by the District) include property owned by the State or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain improvements to real property and certain tangible personal property located in designated reinvestment zones on which the District has agreed to abate ad valorem taxes, certain household goods, family supplies and personal effects; farm products owned by the producers; certain property of a nonprofit corporation used in scientific research and educational activities benefiting a college or university; and designated historic sites. Other principal categories of exempt property include tangible personal property not held or used for production of income; solar and windpowered energy devices; most individually owned automobiles; \$10,000 State mandated exemption to residential homesteads of persons ages 65 or over or disabled; a State mandated exemption up to a maximum of \$12,000 for real or personal property of disabled veterans or the surviving spouse or children of an individual who died while on active duty in the armed forces; a State mandated \$25,000 in market value exemption for all residential homesteads (see "Residential Homestead Exemptions" below); and certain classes of intangible property. The Tax Code provides that a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. Furthermore, following the approval by the voters at a November 8, 2011 statewide election, effective January 1, 2012, the surviving spouse of a deceased veteran who had received a disability rating of 100% is entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries. In addition, except for increases attributable to certain improvements, the District is prohibited by State law from increasing the total ad valorem tax on the residence homestead of persons 65 years of age or older or of disabled persons above the amount of tax imposed in the year such residence qualified for an exemption based on the age or disability of the owner. The freeze on ad valorem taxes on the homesteads of persons 65 years of age or older and the disabled is also transferable to a different residence homestead. Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was 55 or older when the deceased spouse died and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse. Pursuant to a constitutional amendment approved by the voters on May 12, 2007, legislation was enacted to reduce the school property tax limitation imposed by the freeze on taxes paid on residence homesteads of persons 65 years of age or over or of disabled persons to correspond to reductions in local school district tax rates from the 2005 tax year to the 2006 tax year and from the 2006 tax year to the 2007 tax year (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Overview" herein). The school property tax limitation provided by the constitutional amendment and enabling legislation apply to the 2007 and subsequent tax years. Owners of agricultural and open space land, under certain circumstances, may request valuation of such land on the basis of productive capacity rather than market value. Article VIII, Section 1-j of the Texas Constitution provides for an exemption from ad valorem taxation for "freoport property," which is defined as goods detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Taxing units that took action prior to April 1, 1990 may continue to tax freoport property and decisions to continue to tax freoport property may be reversed in the future. However, decisions to exempt freoport property are not subject to reversal. Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit", defined by the Tax Code as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. The Tax Code provision permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods-in-transit during the following tax year. A taxpayer may receive only one of the freoport or goods-in-transit exemptions for tangible personal property. Senate Bill 1, passed by the 82nd Texas Legislature, 1st Called Session, requires again that the governmental entities take affirmative action after October 1 of the prior year but prior to January 1 of the first tax year in which the governing body proposes to tax goods-in-transit to continue its taxation of goods-in-transit in the 2012 tax year and beyond. See "THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT" and "APPENDIX A – FINANCIAL INFORMATION OF THE DISTRICT - ASSESSED VALUATION" for a schedule of the amount of exemptions granted by the District.

A city or county may create a tax increment financing zone ("TIF") within the city or county with defined boundaries and establish a base value of taxable property in the TIF at the time of its creation. Overlapping taxing units, including school districts, may agree with the city or county to contribute all or part of future ad valorem taxes levied and collected against the "incremental value" (taxable value in excess of the base value) of taxable real property in the TIF to pay or finance the costs of certain public improvements in the TIF, and such taxes levied and collected for and on behalf of the TIF are not available for general use by such contributing taxing units. Prior to September 1, 2001, school districts were allowed to enter into tax abatement agreements to encourage economic development. Under such agreements, a property owner agrees to construct certain improvements on its property. The school district in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the

agreement. The abatement agreement could last for a period of up to 10 years. Effective September 1, 2001, school districts may not enter into tax abatement agreements under the general statute that permits cities and counties to initiate tax abatement agreements. In addition, credit will not be given by the Commissioner of Education in determining a district's property value wealth per student for (1) the appraisal value, in excess of the "frozen" value, of property that is located in a TIF created after May 31, 1999 (except in certain limited circumstances where the city creating the TIF gave notice prior to May 31, 1999 to all other taxing units that levy ad valorem taxes in the TIF of its intention to create the TIF and the TIF was created and had its final project and financing plan approved by the municipality prior to August 31, 1999) or (2) for the loss of value of abated property under any abatement agreement entered into after May 31, 1993.

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

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. In determining the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. Oil and gas reserves are assessed on the basis of pricing information contained in the most recently published Early Release Overview of the Annual Energy Outlook published by the United States Energy Information Administration, as well as appraisal formulas developed by the State Comptroller of Public Accounts. The valuation of assessment of oil and gas reserves depends upon pricing information in either the standard edition of the Annual Energy Outlook or, if the most recently published edition of the Annual Energy Outlook was published before December 1 of the preceding calendar year, the Short-Term Energy Outlook report published in January of the current calendar year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Tax Code are based on one hundred percent (100%) of market value, except as described below, and no assessment ratio can be applied.

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

Article VIII of the Texas Constitution and the Tax Code permit land designated for agricultural use (Section 1-d), open space or timberland (Section 1-d-1) to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. Landowners wishing to avail themselves of the agricultural use designation must apply for the designation, and the appraiser is required by the Tax Code to act on each claimant's right to the designation individually. If a claimant receives the designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes for previous years based on the new value, including three years for agricultural use and five years for agricultural open-space land and timberland prior to the loss of the designation. The same land may not be qualified under both Section 1-d and Section 1-d-1.

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

Residential Homestead Exemptions

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

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

The surviving spouse of an individual who qualifies for the foregoing exemption for the residence homestead of a person 65 or older (but not the disabled) is entitled to an exemption for the same property in an amount equal to that of the exemption for which the deceased spouse qualified if (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was at least 55 years of age at the time of the death of the individual's spouse and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse. On November 3, 2015, Texas voters approved an amendment to this law to provide for the exemption from ad valorem taxation for those surviving spouses of veterans who died before 2011, of which such amendment applies for the tax year beginning on or after January 1, 2016.

Section 11.131 of the Texas Tax Code states that a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. Furthermore, following the approval by the voters at a November 8, 2011 statewide election, effective January 1, 2012, the surviving spouse of a deceased veteran who had received a disability rating of 100% is entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until the surviving spouse remarries.

A disabled veteran who has a disability rating of less than 100% is entitled to an exemption equal to the percentage of the veteran's disability rating for a residence homestead that was donated by a charitable organization to such veteran (i) at no cost to such veteran or (ii) effective January 1, 2018, at some cost to such veteran in the form of a cash payment, a mortgage, or both in an aggregate amount that is not more than 50 percent of the good faith estimate of the market value of the residence homestead made by the charitable organization as of the date the donation is made.

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

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

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

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

The governing body of a political subdivision is prohibited from repealing or reducing the amount of an optional homestead exemption that was in place for the 2014 tax year (fiscal year 2015) during the period ending December 31, 2019.

District and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units, including the District, may appeal orders of the Appraisal Review Board by filing a petition for review in district court within 45 days after notice is received that a final order has been entered. In such event, the property value in question may be determined by the court, or by a jury, if requested by any party, or through binding arbitration, if requested by the taxpayer. Additionally, taxing units may bring suit against the Appraisal District to compel compliance with the Tax Code.

Levy and Collection of Taxes

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

Public Hearing and Rollback Tax Rate

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

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

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

District’s Rights in the Event of Tax Delinquencies

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

Except with respect to taxpayers who are 65 years of age or older, at any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights, or by bankruptcy proceedings which restrict the collection of taxpayer debts. 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 as well as other taxing units in Henderson and Van Zandt Counties. The Appraisal District is governed by separate boards of directors appointed by members of the governing bodies of various political subdivisions within the respective County.

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

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

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

The District’s taxes are collected by the Henderson County Tax Office.

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

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

The District does grant a portion of the additional local option exemption of up to 20% of the market value of residence homesteads.

The District has not granted the freeport exemption. The District has not granted the goods-in-transit exemption.

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

<u>Date</u>	<u>Penalty</u>	<u>Interest</u>	<u>Cumulative 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 accrues at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid. A delinquent tax continues to accrue interest as long as the tax remains unpaid, regardless of whether a judgment for the delinquent tax has been rendered. The purpose of imposing such interest is to compensate the taxing unit for revenue lost because of the delinquency. In addition, State law allows that, if an account is delinquent in July, an amount up to 20% attorney’s collection fee may be added to the total tax penalty and interest charge.

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

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

Funding for school districts in the State is provided primarily from State and local sources. State funding for all school districts is provided through a set of funding formulas comprising the “Foundation School Program”, as well as two facilities funding programs. Generally, the Finance System is designed to promote wealth equalization among school districts by balancing State and local sources of funds available to school districts. In particular, because districts with relatively high levels of property wealth per student can raise more local funding, such districts receive less State aid, and in some cases, are required to disburse local funds to equalize their overall funding relative to other school districts. Conversely, because districts with relatively low levels of property wealth per student have limited access to local funding, the Finance System is designed to provide more State funding to such districts. Thus, as a school district’s property wealth per student increases, State funding to the school district is reduced. As a school district’s property wealth per student declines, the Finance System is designed to increase that district’s State funding. The Finance System provides a similar equalization system for facilities funding wherein districts with the same tax rate for debt service raise the same amount of combined State and local funding. Facilities funding for debt incurred in prior years is expected to continue in future years; however, State funding for new school facilities has not been consistently appropriated by the Texas Legislature, as further described below.

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

Local Funding for School Districts

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

State Funding for School Districts

State funding for school districts is provided through the Foundation School Program, which provides each school district with a minimum level of funding (a "Basic Allotment") for each student in average daily attendance ("ADA"). The Basic Allotment is calculated for each school district using various weights and adjustments based on the number of students in average daily attendance and also varies depending on each district's compressed tax rate. This Basic Allotment formula determines most of the allotments making up a district's basic level of funding, referred to as "Tier One" of the Foundation School Program. The basic level of funding is then "enriched" with additional funds known as "Tier Two" of the Foundation School Program. Tier Two provides a guaranteed level of funding for each cent of local tax effort that exceeds the compressed tax rate (for most districts, M&O tax rates above \$1.00 per \$100 of taxable value). The Finance System also provides an Existing Debt Allotment ("EDA") to subsidize debt service on eligible outstanding school district bonds, an Instructional Facilities Allotment ("IFA") to subsidize debt service on newly issued bonds, and a New Instructional Facilities Allotment ("NIFA") to subsidize operational expenses associated with the opening of a new instructional facility. IFA primarily addresses the debt service needs of property-poor school districts. In 2017, the 85th Texas Legislature appropriated funds in the amount of \$1,378,500,000 for the 2018-19 State fiscal biennium for the EDA, IFA, and NIFA.

Tier One and Tier Two allotments represent the State's share of the cost of M&O expenses of school districts, with local M&O taxes representing the district's local share. EDA and IFA allotments supplement a school district's local I&S taxes levied for debt service on eligible bonds issued to construct, acquire and improve facilities. Tier One and Tier Two allotments and existing EDA and IFA allotments are generally required to be funded each year by the Texas Legislature. Since future-year IFA awards were not funded by the Texas Legislature for the 2018-19 State fiscal biennium and debt service assistance on school district bonds that are not yet eligible for EDA is not available, debt service on new bonds issued by districts to construct, acquire and improve facilities must be funded solely from local I&S taxes.

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

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

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

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

In addition to the operations funding components of the Foundation School Program discussed above, the Foundation School Program provides a facilities funding component consisting of the Instructional Facilities Allotment (IFA) program and the Existing Debt Allotment (EDA) program. These programs assist school districts in funding facilities by, generally, equalizing a district's I&S tax effort. The IFA guarantees each awarded school district a specified amount per student (the "IFA Guaranteed Yield") in State and local funds for each cent of tax effort to pay the principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. The guaranteed yield per cent of local tax effort per student in ADA has been \$35 since this program first began in 1997. New awards of IFA are only available if appropriated funds are allocated for such purpose by the State Legislature. To receive an IFA award, in years where the State Legislature allocates appropriated funds for new IFA awards, a school district must apply to the Commissioner in accordance with rules adopted by the Commissioner before issuing the bonds to be paid with IFA state assistance. The total amount of debt service assistance over a biennium for which a district may be awarded is limited to the lesser of (1) the actual debt service payments made by the district in the biennium in which the bonds are issued; or (2) the greater of (a) \$100,000 or (b) \$250 multiplied by the number of students in ADA. The IFA is also available for lease-purchase agreements and refunding bonds meeting certain prescribed conditions. Once a district receives an IFA award for bonds, it is entitled to continue receiving State assistance for such bonds without reapplying to the Commissioner. The guaranteed level of State and local funds per student per cent of local tax effort applicable to the bonds may not be reduced below the level provided for the year in which the bonds were issued. The 85th State Legislature did not appropriate any funds for new IFA awards for the 2018-2019 State fiscal biennium; however, awards previously granted in years the State Legislature did appropriate funds for new IFA awards will continue to be funded. State financial assistance is provided for certain existing eligible debt issued by school districts through the EDA program. The EDA guaranteed yield (the "EDA Yield") was the same as the IFA Guaranteed Yield (\$35 per cent of local tax effort per student in ADA). The 85th Texas Legislature changed the EDA Yield to the lesser of (i) \$40 or a greater amount for any year provided by appropriation; or (ii) the amount that would result in a total additional EDA of \$60 million more than the EDA to which districts would have been entitled to if the EDA Yield were \$35. The yield for the 2018-2019 fiscal year is approximately \$37. The portion of a district's local debt service rate that qualifies for EDA assistance is limited to the first 29 cents of debt service tax (or a greater amount for any year provided by appropriation by the Texas Legislature). In general, a district's bonds are eligible for

EDA assistance if (i) the district made payments on the bonds during the final fiscal year of the preceding State fiscal biennium, or (ii) the district levied taxes to pay the principal of and interest on the bonds for that fiscal year. Each biennium, access to EDA funding is determined by the debt service taxes collected in the final year of the preceding biennium. A district may not receive EDA funding for the principal and interest on a series of otherwise eligible bonds for which the district receives IFA funding.

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

2006 Legislation

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

2017 Legislation

The 85th Texas Legislature, including the regular session which concluded on May 29, 2017 and the special session which concluded on August 15, 2017, did not enact substantive changes to the Finance System. However, certain bills during the regular session and House Bill 21, which was passed during the special session and signed by the Governor on August 16, 2017, revised certain aspects of the formulas used to determine school district entitlements under the Finance System. In addition to amounts previously discussed, the 85th Texas Legislature additionally appropriated funds to (i) establish a Financial Hardship Transition Program, which provides grants ("Hardship Grants") to those districts which were heavily reliant on ASATR funding, and (ii) provide an Adjustment for Rapid Decline in Taxable Value of Property ("DPV Decline Adjustment") for districts which experienced a decline in their tax base of more than four percent for tax years 2015 and 2016. A district may receive either a Hardship Grant or a DPV Decline Adjustment, but cannot receive both. In a case where a district would have been eligible to receive funding under both programs, the district will receive the greater of the two amounts.

2019 Legislative Session

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

Wealth Transfer Provisions

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

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

A district may not adopt a tax rate until its effective wealth per student is at or below the equalized wealth level. If a district fails to exercise a permitted option, the Commissioner must reduce the district's property wealth per student to the equalized wealth level by detaching certain types of property from the district and annexing the property to a property-poor district or, if necessary, consolidate the district with a property-poor district. Provisions governing detachment and annexation of taxable property by the

Commissioner do not provide for assumption of any of the transferring district's existing debt. The Commissioner has not been required to detach property in the absence of a district failing to select another wealth-equalization option.

THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE EUSTACE INDEPENDENT SCHOOL DISTRICT

The District's wealth per student for the 2018-19 school year is less than the equalized wealth value. Accordingly, the District has not been required to exercise one of the permitted wealth equalization options. As a district with wealth per student less than the equalized wealth value, the District may benefit in the future by agreeing to accept taxable property or funding assistance from or agreeing to consolidate with a property-rich district to enable such district to reduce its wealth per student to the permitted level.

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

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

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

History and Purpose

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

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

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

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

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

While the School District Bond Guarantee Program and the Charter District Bond Guarantee Program relate to different types of bonds issued for different types of Texas public schools, and have different program regulations and requirements, a bond guaranteed under either part of the Guarantee Program has the same effect with respect to the guarantee obligation of the Fund thereto, and all guaranteed bonds are aggregated for purposes of determining the capacity of the Guarantee Program (see

“Capacity Limits for the Guarantee Program”). The Charter District Bond Guarantee Program as enacted by State law has not been reviewed by any court, nor has the Texas Attorney General been requested to issue an opinion, with respect to its constitutional validity.

The sole purpose of the PSF is to assist in the funding of public education for present and future generations. Prior to the adoption of the Total Return Constitutional Amendment, all interest and dividends produced by Fund investments flowed into the Available School Fund (the “ASF”), where they are distributed to local school districts and open-enrollment charter schools based on average daily attendance. Any net gains from investments of the Fund accrue to the corpus of the PSF. Prior to the approval by the voters of the State of the Total Return Constitutional Amendment, costs of administering the PSF were allocated to the ASF. With the approval of the Total Return Constitutional Amendment, the administrative costs of the Fund have shifted from the ASF to the PSF. In fiscal year 2018, preliminary, unaudited distributions to the ASF amounted to an estimated \$246.92 per student and the total amount distributed to the ASF was \$1,235.8 million.

Audited financial information for the PSF is provided annually through the PSF Comprehensive Annual Financial Report (the “Annual Report”), which is filed with the Municipal Securities Rulemaking Board (“MSRB”). The Annual Report includes the Message of the Executive Administrator of the Fund (the “Message”) and the Management’s Discussion and Analysis (“MD&A”). The Annual Report for the year ended August 31, 2017, as filed with the MSRB in accordance with the PSF undertaking and agreement made in accordance with Rule 15c2-12 (“Rule 15c2-12”) of the federal Securities and Exchange Commission (the “SEC”), as described below, is hereby incorporated by reference into this disclosure. Information included herein for the year ended August 31, 2017 is derived from the audited financial statements of the PSF, which are included in the Annual Report when it is filed and posted. Reference is made to the Annual Report for the complete Message and MD&A for the year ended August 31, 2017 and for a description of the financial results of the PSF for the year ended August 31, 2017, the most recent year for which audited financial information regarding the Fund is available. The 2017 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2017 Annual Report or any other Annual Report. The TEA posts each Annual Report, which includes statistical data regarding the Fund as of the close of each fiscal year, the most recent disclosure for the Guarantee Program, the Statement of Investment Objectives, Policies and Guidelines of the Texas Permanent School Fund, which is codified at 19 Texas Administrative Code, Chapter 33 (the “Investment Policy”), monthly updates with respect to the capacity of the Guarantee Program (collectively, the “Web Site Materials”) on the TEA web site at http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/ 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.

The Total Return Constitutional Amendment

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

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

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

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

With respect to the management of the Fund’s financial assets portfolio, the single most significant change made to date as a result of the Total Return Constitutional Amendment has been new asset allocation policies adopted from time to time by the

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

For a variety of reasons, each change in asset allocation for the Fund, including the 2016 modifications, have been implemented in phases, and that approach is likely to be carried forward when and if the asset allocation policy is again modified. At August 31, 2018, the Fund's financial assets portfolio was invested as follows: 40.54% in public market equity investments; 13.25% in fixed income investments; 10.37% in absolute return assets; 9.12% in private equity assets; 7.48% in real estate assets; 6.79% in risk parity assets; 5.96% in real return assets; 6.21% in emerging market debt; and 0.28% in unallocated cash. August 31, 2018 data is unaudited, which is subject to adjustment.

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

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

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

Management and Administration of the Fund

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

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

Texas law assigns control of the Fund's land and mineral rights to the three-member SLB, which consists of the elected Commissioner of the GLO, an appointee of the Governor, and an appointee of the Attorney General. Administrative duties related to the land and mineral rights reside with the GLO, which is under the guidance of the Commissioner of the GLO. In 2007,

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

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

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

Capacity Limits for the Guarantee Program

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

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

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

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

At its September 2015 meeting, the SBOE voted to modify the SDBGP Rules and the CDBGP Rules to increase the State Law Capacity from 3 times the cost value multiplier to 3.25 times. At that meeting, the SBOE also approved a new 5% capacity reserve for the Charter District Bond Guarantee Program. The change to the State Law Capacity became effective on February 1, 2016. At its November 2016 meeting, the SBOE again voted to increase the State Law Capacity and, in accordance with applicable requirements for the modification of SDBGP and CDBGP Rules, a second and final vote to approve the increase in the State Law Capacity occurred on February 3, 2017. As a result, the State Law Capacity increased from 3.25 times the cost value multiplier to 3.50 times effective March 1, 2017 and increased again to 3.75 times effective September 1, 2017; however, as described under "2017 Legislative Changes to the Charter District Bond Guarantee Program," the SBOE took action at its Winter 2018 meeting to rollback of a portion of the multiplier increase, which became effective in late March 2018. Based upon the unaudited cost basis of the Fund at August 31, 2018, the State Law Capacity increased from \$111,568,711,072 on August 31,

2017 to \$118,867,137,998 on August 31, 2018 (but at such date the IRS Limit was lower, \$117,318,653,038, so it is the currently effective capacity limit for the Fund).

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

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

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

The School District Bond Guarantee Program

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

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

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

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

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

The Charter District Bond Guarantee Program

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

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

As of February 21, 2018 (the most recent date for which data is available), the percentage of students enrolled in open-enrollment charter schools (excluding charter schools authorized by school districts) to the total State scholastic census was approximately 5.5%. As of November 5, 2018, there were 177 active open-enrollment charter schools in the State and there were 754 charter school campuses operating under such charters. Section 12.101, Texas Education Code, as amended by the Legislature in 2013, limits the number of charters that the Commissioner may grant to 215 charters as of the end of fiscal year 2014, with the number increasing in each fiscal year thereafter through 2019 to a total number of 305 charters. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see "Capacity Limits for the Guarantee Program." The Act provides that the Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

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

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

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

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

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

Beginning in July 2015, TEA began limiting new guarantees under the Charter District Bond Guarantee Program to conform to the Act and, subsequently, with CDBG Rules that require the maintenance of a capacity reserve for the Charter District Bond Guarantee Program. Following the increase in the Program multiplier in February 2016 and the update of the percentage of students enrolled in open-enrollment charter schools to the total State scholastic census in March 2016, some new capacity became available under the Charter District Bond Guarantee Program, but that capacity was quickly exhausted. In accordance with the action of the SBOE on February 3, 2017, additional capacity for the Charter District Bond Guarantee Program became effective in two increments, implemented on March 1, 2017 and on September 1, 2017 (as described under "2017 Legislative Changes to the Charter District Bond Guarantee Program," an item to reverse the September 1, 2017 increase in the Program multiplier was approved by the SBOE at its Winter 2018 meeting). In addition, legislation enacted during the Legislature's 2017

regular session modifies the manner of calculating the capacity of the Charter District Bond Guarantee Program (the "CDBGP Capacity"), which further increases the amount of the CDBGP Capacity, beginning with State fiscal year 2018, but that provision of the law does not increase overall Program capacity, it merely allocates capacity between the School District Bond Guarantee Program and the Charter District Bond Guarantee Program. See "Capacity Limits for the Guarantee Program" and "2017 Legislative Changes to the Charter District Bond Guarantee Program." Other factors that could increase the CDBGP Capacity include Fund investment performance, future increases in the Guarantee Program multiplier, changes in State law that govern the calculation of the CDBGP Capacity, as described below, growth in the relative percentage of students enrolled in open-enrollment charter schools to the total State scholastic census, legislative and administrative changes in funding for charter districts, changes in level of school district or charter district participation in the Program, or a combination of such circumstances.

2017 Legislative Changes to the Charter District Bond Guarantee Program

The CDBGP Capacity is established by the Act. During the 85th Texas Legislature, which concluded on May 29, 2017, Senate Bill 1480 ("SB 1480") was enacted. The complete text of SB 1480 can be found at <http://www.capitol.state.tx.us/tlodocs/85R/billtext/pdf/SB01480F.pdf#navpanes=0>. SB 1480 modified how the CDBGP Capacity will be established under the Act effective as of September 1, 2017, and made other substantive changes to the Act that affects the Charter District Bond Guarantee Program. Prior to the enactment of SB 1480, the CDBGP Capacity was calculated as the State Capacity Limit less the amount of outstanding bond guarantees under the Guarantee Program multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population. As of September 30, 2018, the amount of outstanding bond guarantees represented 68.04% of the IRS Limit (which is currently the applicable capacity limit) for the Guarantee Program (based on unaudited data). SB 1480 amended the CDBGP Capacity calculation so that the State Capacity Limit is multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population prior to the subtraction of the outstanding bond guarantees, thereby potentially substantially increasing the CDBGP Capacity. However, certain provisions of SB 1480, described below, and other additional factors described herein, could result in less than the maximum amount of the potential increase provided by SB 1480 being implemented by the SBOE or otherwise used by charter districts. Still other factors used in determining the CDBGP Capacity, such as the percentage of the charter district scholastic population to the overall public school scholastic population, could, in and of itself, increase the CDBGP Capacity, as that percentage has grown from 3.53% in September, 2012 to 5.50% in September 2018, representing a cumulative growth during that period of 55.81%. TEA is unable to predict how the ratio of charter district students to the total State scholastic population will change over time.

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

Taking into account the enactment of SB 1480 and the increase in the CDBGP Capacity effected thereby, at Winter 2018 meeting the SBOE approved the second of two required readings amending the SDBGP Rules to rollback the multiplier from 3.75 times market value to 3.50 times, and the rollback became effective in late March 2018.

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

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the "Charter District Reserve Fund"). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10 percent of the savings to the charter district that is a result of the lower interest rate on its bonds due to the guarantee by the PSF. SB 1480 modified the Act insofar as it pertains to the Charter District Reserve Fund. Effective September 1, 2017, the Act provides that a charter district that has a bond guaranteed must remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 20 percent of the savings to the charter district that is a result of the lower interest rate on the bond due to the guarantee by the PSF. The amount due shall be paid on receipt by the charter district of the bond proceeds. However, the deposit requirement will not apply if the balance of the Charter District Reserve Fund is at least equal to three percent (3.00%) of the total amount of outstanding guaranteed bonds issued by charter districts. As of September 30, 2018, the Charter District Reserve Fund represented approximately 0.50% of the guaranteed charter district bonds. SB 1480 also authorized the SBOE to manage the Charter District Reserve Fund in the same manner as it manages the PSF. Previously, the Charter District Reserve Fund was held by the Comptroller, but effective April 1 2018, the management of the Reserve Fund was transferred to the PSF division of TEA, where it will be held and invested as a non-commingled fund under the administration of the PSF staff.

Charter District Risk Factors

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

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

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

As described above, the Act includes a funding "intercept" function that applies to both the School District Bond Guarantee Program and the Charter District Bond Guarantee Program. However, school districts are viewed as the "educator of last resort" for students residing in the geographical territory of the district, which makes it unlikely that State funding for those school districts would be discontinued, although the TEA can require the dissolution and merger into another school district if necessary to ensure sound education and financial management of a school district. That is not the case with a charter district, however, and open-enrollment charter schools in the State have been dissolved by TEA from time to time. If a charter district that has bonds outstanding that are guaranteed by the Charter District Bond Guarantee Program should be dissolved, debt service on guaranteed bonds of the district would continue to be paid to bondholders in accordance with the Charter District Bond Guarantee Program, but there would be no funding available for reimbursement of the PSF by the Comptroller for such payments. As described under "The Charter District Bond Guarantee Program," the Act establishes a Charter District Reserve Fund, which could in the future be a significant reimbursement resource for the PSF. At September 30, 2018, the Charter District Reserve Fund contained \$7,164,188.

Potential Impact of Hurricane Harvey on the PSF

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

The TEA, members of the Legislature and the Governor, among others, have stated that they are developing programs to provide financial assistance to affected school districts and charter districts, particularly with regard to funding assistance for facility repairs and construction and to offset tax base and/or revenue loss to affected districts. The composition of any final programs that may be implemented cannot be predicted, and are likely to be subject to future State legislative and administrative actions, available amounts of federal and private disaster relief for affected schools, and other factors. For fiscal year 2018, TEA initiated programs designed to hold school districts and charter districts harmless for the loss of State funding associated with declines in average daily attendance. In the past, storm damage has caused multiple year impacts to affected schools with respect to both attendance figures and tax base (for school districts). In June 2018 TEA received results of a survey of tax appraisal districts in the area affected by the hurricane with respect to the impact of the hurricane on the tax rolls of affected school districts. In aggregate, the tax rolls of affected districts appear to have increased slightly for fiscal 2018 over 2017, but the increases were at a lower rate than had been anticipated in the State's general appropriation act for the biennium. TEA notes that as of June 2018 the negative effect of the hurricane on the average daily attendance of districts in the affected area appears to have been less than TEA had initially anticipated.

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

Ratings of Bonds Guaranteed Under the Guarantee Program

Moody's Investors Service, Inc., S&P Global Ratings and Fitch Ratings, Inc. rate bonds guaranteed by the PSF "Aaa," "AAA" and "AAA," respectively. Not all districts apply for multiple ratings on their bonds, however. See "RATING" 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⁾	33,962,040,017	43,918,273,565

⁽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 \$13.43 million, \$240.90 million, \$3,082.83 million, \$7.58 million, and \$4,247.36 million, respectively, and market values of approximately \$1,870.22 million, \$642.00 million, \$3,164.04 million, \$4.71 million, and \$4,247.36 million, respectively. At September 30, 2018, the PSF had a book value of \$33,937,270,391 and a market value of \$43,724,325,619. August 31, 2018 and September 30, 2018 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds

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

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

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

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

Fiscal Year Ended 8/31	School District Bonds		Charter District Bonds		Totals	
	No. of Issues	Principal Amount	No. of Issues	Principal Amount	No. of Issues	Principal Amount
2014 ⁽²⁾	2,869	\$58,061,805,783	10	\$302,545,000	2,879	\$58,364,350,783
2015	3,089	63,197,514,047	28	757,935,000	3,117	63,955,449,047
2016	3,244	67,342,303,445	35	961,025,000	3,279	68,303,328,445
2017	3,253	72,884,480,023	40	1,381,610,000	3,293	74,266,090,023
2018	3,249	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 September 30, 2018 (based on unaudited data, which is subject to adjustment), there were \$79,828,771,069 of bonds guaranteed under the Guarantee Program, representing 3,265 school district issues, aggregating \$78,395,836,069 in principal amount and 45 charter district issues, aggregating \$1,432,935,000 in principal amount. At September 30, 2018, the capacity allocation of the Charter District Bond Guarantee Program was \$3,109,688,908 (based on unaudited data, which is subject to adjustment). 2018 data is unaudited, which is subject to adjustment.

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

The following discussion is derived from the Annual Report for the year ended August 31, 2017, including the Message of the Executive Administrator of the Fund and the Management's Discussion and Analysis contained therein, and will be updated upon the release of the Annual Report for the year ended August 31, 2018. Reference is made to the Annual Report, when filed, for the complete Message and MD&A. Investment assets managed by the fifteen member SBOE are referred to throughout this MD&A as the PSF(SBOE) assets. As of August 31, 2017, the Fund's land, mineral rights and certain real assets are managed by the three-member SLB and these assets are referred to throughout as the PSF(SLB) assets. The current PSF asset allocation policy includes an allocation for real estate investments, and as such investments are made, and become a part of the PSF investment portfolio, those investments will be managed by the SBOE and not the SLB.

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

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

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

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

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

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

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

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

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

2011 Constitutional Amendment

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

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

investments on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium or if such pay out would exceed the Ten Year Total Return.

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

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

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

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

Other Events and Disclosures

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

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

Since 2007, TEA has made supplemental appropriation requests to the Legislature for the purpose of funding the implementation of the 2008 Asset Allocation Policy, but those requests have been denied or partly funded. In the 2011 legislative session, the Legislature approved an increase of 31 positions in the full-time equivalent employees for the administration of the Fund, which was funded as part of an \$18 million appropriation for each year of the 2012-13 biennium, in addition to the operational appropriation of \$11 million for each year of the biennium. The TEA has begun increasing the PSF administrative staff in accordance with the 2011 legislative appropriation, and the TEA received an appropriation of \$30.2 million for the administration of the PSF for fiscal years 2016 and 2017, respectively, and \$30.4 million for each of the fiscal years 2018 and 2019.

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

PSF Continuing Disclosure Undertaking

The SBOE has adopted an investment policy rule (the "TEA Rule") pertaining to the PSF and the Guarantee Program. The TEA Rule is codified in Section I of the TEA Investment Procedure Manual, which relates to the Guarantee Program and is posted to the TEA web site at http://tea.texas.gov/Finance_and_Grants/Texas_Permanent_School_Fund/Texas_Permanent_School_Fund_Disclosure_Statement_-_Bond_Guarantee_Program/. The most recent amendment to the TEA Rule was adopted by the SBOE on November 16, 2018, and is summarized below. Through the adoption of the TEA Rule and its commitment to guarantee bonds, the SBOE has made the following agreement for the benefit of the issuers, holders and beneficial owners of guaranteed bonds. The TEA (or its successor with respect to the management of the Guarantee Program) is required to observe the agreement for so long as it remains an "obligated person," within the meaning of Rule 15c2-12, with respect to guaranteed bonds. Nothing in the TEA Rule obligates the TEA to make any filings or disclosures with respect to guaranteed bonds, as the obligations of the TEA under the TEA Rule pertain solely to the Guarantee Program. The issuer or an "obligated person" of the guaranteed bonds has assumed the applicable obligation under Rule 15c-12 to make all disclosures and filings relating directly to guaranteed bonds, and the TEA takes no responsibility with respect to such undertakings. Under the TEA agreement, the TEA will be obligated to provide annually certain updated financial information and operating data, and timely notice of specified material events, to the MSRB.

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

Annual Reports

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

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

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

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

Event Notices

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

Availability of Information

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

Limitations and Amendments

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

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

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

Compliance with Prior Undertakings

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

SEC Exemptive Relief

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

TAX RATE LIMITATIONS

A school district is authorized to levy maintenance and operations ("M&O") taxes subject to approval of a proposition submitted to district voters. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the succeeding paragraphs. The maximum voted M&O tax rate for the District is \$1.50 per \$100 of assessed valuation as approved by the voters at an election held on July 14, 1962, pursuant to Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended ("Article 2784e-1").

Article 2784e-1 limits the District's annual M&O tax rate based upon a comparison between the District's outstanding bonded indebtedness and the District's taxable assessed value per \$100 of assessed valuation. Article 2784e-1 provides for a reduction of \$0.10 for each one percent (1%) or major fraction thereof increase in bonded indebtedness beyond seven percent (7%) of assessed valuation of property in the District. This limitation is capped when the District's bonded indebtedness is ten percent (10%) (or greater) of the District's assessed valuation which would result in an annual M&O tax rate not to exceed \$1.20. Lastly, the Texas Attorney General in reviewing the District's transcript of proceedings will allow the District to reduce the amount of its outstanding bonded indebtedness by the amount of funds (on a percentage basis) that the District receives in State assistance for the repayment of this bonded indebtedness (for example, if the District anticipates that it will pay 75% of its bonded indebtedness from State assistance, for the purposes of Article 2784e-1, the Texas Attorney General will assume that only 25% of the District's bonded indebtedness is outstanding and payable from local ad valorem taxes). The bonded indebtedness of the District after the issuance of the Bonds will be approximately 7.43% of the District's current taxable assessed valuation of property. See "APPENDIX A – VOTED GENERAL OBLIGATION DEBT – Ratio of Net General Obligation Debt to Net Taxable Valuation" herein.

The maximum M&O tax rate per \$100 of assessed valuation that may be adopted by the District may not exceed the lesser of (A) \$1.50, or such lower rate as described in the preceding paragraph, and (B) the sum of (1) the rate of \$0.17, and (2) the product of the "State Compression Percentage" multiplied by \$1.50.

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

DEBT LIMITATIONS

Under State law, there is no explicit bonded indebtedness limitation, although the tax rate limits described above under "TAX RATE LIMITATIONS" effectively impose a limit on the incurrence of debt. Such tax rate limits require school districts to demonstrate the ability to pay new debt secured by the district's debt service tax from a tax rate of \$0.50, and to pay all debt and operating expenses which must be paid from receipts of the district's maintenance tax from a tax not to exceed the maintenance tax limit described under the caption "TAX RATE LIMITATIONS." In demonstrating compliance with the requirement, a district may take into account State equalization payments, and, effective September 1, 1997, if compliance with such requirement is contingent on receiving State assistance, a district may not adopt a tax rate for a year for purposes of paying the principal of and interest on the bonds unless the district credits to the interest and sinking fund of the bond the amount of State assistance received or to be received in that year. The Texas Attorney General reviews a district's calculations showing the compliance with such test as a condition to the legal approval of the debt. The Bonds are "new debt" and are therefore subject to the \$0.50 threshold tax rate test. See also "TAX RATE LIMITATIONS".

EMPLOYEE BENEFIT PLANS AND OTHER POST-EMPLOYMENT BENEFITS

The District's employees participate in a retirement plan (the "Plan") with the State of Texas. The Plan is administered by the Teacher Retirement System of Texas ("TRS"). State contributions are made to cover costs of the TRS retirement plan up to certain statutory limits. The District is obligated for a portion of TRS costs relating to employee salaries that exceed the statutory limit. Aside from the District's contribution to TRS, the District has no pension fund expenditures or liabilities. For fiscal year ended August 31, 2018, the District made a contribution to TRS on a portion of their employee's salaries that exceeded the statutory minimum. The District generally does not offer any post-employment retirement benefits and has no liabilities for "Other Post Employment Retirement Benefits" as defined in GASB Statement No. 45. For a discussion of the TRS retirement plan, see "Note M – Defined Benefit Pension Plan" to the audited financial statements of the District that are attached hereto as Appendix D (the "Financial Statements").

As a result of its participation in the Plan and the TRS-Care Retired Plan and having no other post-retirement benefit plans, the District has no obligations for other post-employment benefits within the meaning of Governmental Accounting Standards Board ("GASB") Statement 45.

During the year ended August 31, 2018, employees of the District were covered by a fully-insured health insurance plan (the "Health Care Plan"). The District contributed \$267 per month per employee to the Health Care Plan. Employees, at their option, authorize payroll withholdings to pay premiums for dependents. See "Note O – Health Care" of the Financial Statements.

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

RATING

The Bonds are rated "AAA" by S&P Global Ratings ("S&P") based upon the guaranteed repayment thereof under the Permanent School Fund Guarantee Program of the Texas Education Agency (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein). The District's unenhanced, underlying rating, including the Bonds, is "A+" from S&P.

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

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

LEGAL MATTERS

The delivery of the Bonds is subject to the approval of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property in the District, and the approving legal opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel to the District ("Bond Counsel"), to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under section 103(a) of the Internal Revenue Code, subject to the matters described under "TAX MATTERS" herein. The form of Bond Counsel's opinion is attached hereto as Appendix C. 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.

Though it represents the Financial Advisor from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the District in connection with the issuance of the Bonds. Except as noted below, Bond Counsel was not requested to participate, and did not take part in the preparation of this Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under the captions or subcaptions "THE BONDS" (except for the information included in the second paragraph under the subcaption "Notice of Redemption and DTC Notices" and under the subcaptions "Permanent School Fund Guarantee" and "Payment Record," as to which no opinion is expressed), and "CONTINUING DISCLOSURE OF INFORMATION" (except for the information under the sub-caption "Compliance With Prior Undertakings," as to which no opinion is expressed), and Bond Counsel is of the opinion that the statements and information contained therein fairly and accurately reflect the provisions of the Order; further, Bond Counsel has reviewed the statements and information contained in this Official Statement under the captions and sub-captions "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM", "TAX RATE LIMITATIONS" (first paragraph only), "LEGAL MATTERS," "TAX MATTERS," "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," and "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE," and Bond Counsel is of the opinion that the statements and information contained therein are correct as to matters of law.

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

TAX MATTERS

Tax Exemption

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

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the District made in certificates pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the District with the provisions of the Order subsequent to the issuance of the Bonds. The Order contains covenants by the District with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage "profits" from the investment of the proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

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

Tax Changes

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

Ancillary Tax Consequences

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

Tax Accounting Treatment of Discount Bonds

The initial public offering price to be paid for certain Bonds may be less than the amount payable on such Bonds at maturity (the "Discount Bonds"). An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bonds. A portion of such original issue discount, allocable to the holding period of a Discount Bond by the initial purchaser, will be treated as interest for federal income tax purposes, excludable from gross income on the same terms and conditions as those for other interest on the Bonds. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during his taxable year.

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

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

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Bonds and with respect to the state and local tax consequences of

owning and disposing of Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on the Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

Tax Accounting Treatment of Premium Bonds

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

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

INVESTMENT POLICIES

Investments

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

Legal Investments

Under State law, the District is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, (2) direct obligations of the State or its agencies and instrumentalities, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the State or the United States or their respective agencies and instrumentalities, (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) certificates of deposit and share certificates (i) that are issued by or through an institution that has its main office or a branch office in Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (5) and clause (14) or in any other manner and amount provided by law for District deposits; or (ii) where: (a) the funds are invested by the District through a depository institution that has a main office or branch office in the State and that is selected by the District; (b) the depository institution selected by the District arranges for the deposit of funds in one or more federally insured depository institutions, wherever located, for the account of the District; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; (d) the depository institution acts as a custodian for the District with respect to the certificates of deposit; and (e) at the same time that the certificates of deposit are issued, the depository institution selected by the District receives deposits from customers of other federally insured depository institutions, wherever located, that is equal to or greater than the funds invested by the District through the depository institution selected under clause (ii)(a) above (7) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1) and require the security being purchased by the District to be pledged to the District, held in the District's name and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer or a financial institution doing business in the State, (8) bankers' acceptances with the remaining term of 270 days or less from the date of issuance, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (9) commercial paper with the remaining term of 270 days or less from the date of issuance that is rated at least A-1 or P-1 or the equivalent by at least (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (10) no-load money market mutual funds registered with and regulated by the United States Securities and Exchange Commission that comply with Federal Securities and Exchange Commission Rule 2a-7, (11) no-load mutual funds registered with the United States Securities and Exchange Commission that have an average weighted maturity of less than two years and have a duration of one year or more and are invested exclusively in obligations described in this paragraph or have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities, (13) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successors, and (14) obligations issued, assumed or guaranteed by the State of Israel. Texas law also permits the District to invest bond proceeds in a guaranteed investment contract subject to the limitations set forth in Chapter 2256, as amended, Texas Government Code.

Entities such as the District may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized including accrued income, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (5) and clauses (13) and (14) above, (b) pledged 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 (5) and clauses (13) and (14) above, clause (9) above and clauses (10) and (11) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to such investing entity or a third party designated by such investing entity; (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; and (iv) the agreement to lend securities has a term of one year or less.

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

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

Investment Policies

Under State law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for District funds, maximum allowable stated maturity of any individual investment owned by the District and the maximum average dollar-weighted maturity allowed for pooled fund groups methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Texas Public Funds Investment Act. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

State law also requires that District investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived". At least quarterly the investment officers of the District shall submit an investment report detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) State law. No person may invest District funds without express written authority from the Board.

Additional Provisions

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

Current Investments

As of October 31, 2018, the District had approximately \$2,522,739 (unaudited) invested in TexPool (a government investment pool that generally has the characteristics of a money-market mutual fund) and \$1,887,406 (unaudited) in an interest bearing account at a local bank. The market value of such investments (as determined by the District by reference to published quotations, dealer bids, and comparable information) is approximately 100% of the book value. No funds of the District are invested in derivative securities, i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

It is the obligation of the Purchaser to register or qualify the sale of the Bonds under the securities laws of any jurisdiction which so requires. The District agrees to cooperate, at the Purchaser'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.

FINANCIAL ADVISOR

SAMCO Capital Markets, Inc. is employed as Financial Advisor to the District to assist in the issuance of the Bonds. In this capacity, the Financial Advisor has compiled certain data relating to the Bonds that is contained in this Official Statement. The Financial Advisor has not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the District to determine the accuracy or completeness of this Official Statement. Because of its limited participation, the Financial

Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein. The fee of the Financial Advisor for services with respect to the Bonds is contingent upon the issuance and sale of the Bonds. In the normal course of business, the Financial Advisor may from time to time sell investment securities to the District for the investment of bond proceeds or other funds of the District upon the request of the District.

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

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

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

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

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

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

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

Notice of Certain Events

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

Availability of Information

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

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

Limitations and Amendments

The District has agreed to update information and to provide notices of events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that has been provided except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the District to comply with its agreement. Nothing in this paragraph is intended or shall act to disclaim, waive or limit the District's duties under federal or state securities laws.

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

Compliance with Prior Undertakings

During the 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

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

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

FORWARD-LOOKING STATEMENTS

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

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

WINNING BIDDER

After requesting competitive bids for the Bonds, the District accepted the bid of Frost Bank (the "Purchaser" or the "Initial Purchaser") to purchase the Bonds at the interest rates shown on page ii of this Official Statement at a price of par, plus a cash premium of \$4,239,151.40, plus accrued interest on the Bonds from their Dated Date to their date of initial delivery. The District can give no assurance that any trading market will be developed for the Bonds after their sale by the District to the Purchaser. The District has no control over the price at which the Bonds are subsequently sold and the initial yield at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Purchaser.

CERTIFICATION OF THE OFFICIAL STATEMENT

At the time of payment for and delivery of the Initial Bonds, the Purchaser will be furnished a certificate, executed by proper officials of the District, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the District contained in its Official Statement, and any addenda, supplement or amendment thereto, for the Bonds, on the date of such Official Statement, on the date of sale of said Bonds and the acceptance of the best bid therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the District and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the District, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the District believes to be reliable and the District has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the District, since August 31, 2018, the date of the last financial statements of the District appearing in the Official Statement.

CONCLUDING STATEMENT

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

The information set forth herein has been obtained from the District's records, audited financial statements and other sources which the District considers to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will ever be realized. All of the summaries of the statutes, documents and the Order contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and the Order. These summaries do not purport to be complete statements of such provisions and reference is made to such summarized documents for further information. Reference is made to official documents in all respects. All information contained in this Official Statement is subject, in all respects, to the complete body of information contained in the original sources thereof. In particular, no opinion or representation is rendered as to whether any projection will approximate actual results, and all opinions, estimates and assumption, whether or not expressly identified as such, should not be considered statements of fact.

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

The Order authorizing the issuance of the Bonds also approved the form and content of this Official Statement and any addenda, supplement or amendment thereto and authorized its further use in the re-offering of the Bonds by the Purchaser.

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

/s/ Ashley McKee

President, Board of Trustees

ATTEST:

/s/ Steven Bell

Secretary, Board of Trustees

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APPENDIX A

FINANCIAL INFORMATION OF THE DISTRICT

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EUSTACE INDEPENDENT SCHOOL DISTRICT

Financial Information

ASSESSED VALUATION ⁽¹⁾

2018/19 Total Valuation.....		\$ 803,734,967
Less Exemptions & Deductions ⁽²⁾ :		
State Homestead Exemption	\$ 52,960,703	
State Over-65 Exemption	10,048,160	
Disabled Homestead Exemption Loss	4,569,514	
Local Option Over-65 Exemption	50,713,885	
Veterans Exemption Loss	919,147	
Productivity Loss	99,350,110	
Other Exemptions	1,310	
Homestead Cap Loss	3,402,790	
	\$ 221,965,619	
2018/19 Net Taxable Valuation		\$ 581,769,348

(1) Source: Certified Values from the Henderson and Van Zandt County Appraisal Districts as of July 2018. The passage of a Texas Constitutional Amendment on November 3, 2015 increased the homestead exemption from \$15,000 to \$25,000. See "AD VALOREM TAX PROCEDURES -- Residential homestead Exemptions" in the Official Statement.
 (2) Excludes the values on which property taxes are frozen for persons 65 years of age or older and disabled taxpayers which totaled \$24,716,481 in 2017/18.

VOTED GENERAL OBLIGATION DEBT

Unlimited Tax Bonds Outstanding		\$ 8,915,000
Plus: The Bonds		35,255,000
Total Unlimited Tax Bonds		44,170,000
Less: Interest & Sinking Fund Balance (As of August 31, 2018) ⁽¹⁾		(925,944)
Net General Obligation Debt		\$ 43,244,056
Ratio of Net G.O. Debt to Net Taxable Valuation ⁽²⁾		7.43%
2019 Population Estimate ⁽⁴⁾		7,612
Per Capita Net Taxable Valuation		\$76,428
Per Capita Net G.O. Debt		\$5,681

(1) Source: Eustace ISD Audited Financial Statement.
 (2) The ratio of Net G.O. Debt to Net Taxable Valuation above, does not reflect the portion of the District's outstanding debt service that is payable from any debt subsidies that may be provided by the State of Texas. The District does not expect to receive state funding assistance for voted bond debt service for the 2018/19 fiscal year. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement and "DEBT SERVICE REQUIREMENTS" in this Appendix and see the "Audited Financial Report Fiscal Year Ended August 31, 2018" in Appendix D for more information relative to the District's outstanding obligations.
 (3) Source: Municipal Advisory Council of Texas.

PROPERTY TAX RATES AND COLLECTIONS

Fiscal Year	Net Taxable Valuation		% Collections ⁽⁴⁾	
	Valuation	Tax Rate	Current ⁽⁵⁾	Total ⁽⁵⁾
2006/07	\$ 410,796,504 ⁽¹⁾	\$ 1.5175 ⁽⁶⁾	93.70%	102.85%
2007/08	440,707,696 ⁽¹⁾	1.2680 ⁽⁶⁾	94.42%	99.96%
2008/09	478,781,610 ⁽¹⁾	1.2580	95.11%	98.84%
2009/10	504,979,603 ⁽¹⁾	1.2580	94.31%	98.37%
2010/11	516,719,880 ⁽¹⁾	1.2763	95.42%	101.03%
2011/12	513,887,796 ⁽¹⁾	1.2763	94.93%	98.89%
2012/13	542,808,382 ⁽¹⁾	1.2700	95.68%	102.32%
2013/14	548,849,803 ⁽¹⁾	1.2664	95.68%	99.19%
2014/15	564,766,161 ⁽¹⁾	1.2315	96.17%	100.91%
2015/16	558,264,916 ⁽¹⁾⁽²⁾	1.2315	96.16%	100.25%
2016/17	551,119,480 ⁽¹⁾⁽²⁾	1.2300	96.37%	100.48%
2017/18	561,860,942 ⁽¹⁾⁽²⁾	1.2300	96.39%	100.57%
2018/19	581,769,348 ⁽²⁾⁽³⁾	1.2200		

(1) Source: Comptroller of Public Accounts - Property Tax Division. See the Assessed Valuation section in this Appendix for additional information.
 (2) The passage of a Texas constitutional amendment on November 3, 2015 increased the homestead exemption from \$15,000 to \$25,000.
 (3) Certified Values from the Henderson and Van Zandt County Appraisal Districts as of July 2018.
 (4) Source: Eustace ISD Audited Financial Statements.
 (5) Excludes penalties and interest.
 (6) The declines in the District's Maintenance & Operation Tax for the 2006/07 and 2007/08 fiscal years are a function of House Bill 1 adopted by the Texas Legislature in May 2006. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement.

TAX RATE DISTRIBUTION

	2014/15	2015/16	2016/17	2017/18	2018/19
Maintenance & Operations	\$1.0400	\$1.0400	\$1.0400	\$1.0400	\$1.0400
Debt Service	\$0.1915	\$0.1915	\$0.1900	\$0.1900	\$0.1800
Total Tax Rate	\$1.2315	\$1.2315	\$1.2300	\$1.2300	\$1.2200

VALUATION AND FUNDED DEBT HISTORY

Fiscal Year	Net Taxable Valuation	Bond Debt Outstanding ⁽¹⁾	Ratio Debt to A.V. ⁽²⁾
2006/07	\$ 410,796,504	\$ 14,840,000	3.61%
2007/08	440,707,696	14,405,000	3.27%
2008/09	478,781,610	13,965,000	2.92%
2009/10	504,979,603	13,510,000	2.68%
2010/11	516,719,880	13,035,000	2.52%
2011/12	513,887,796	12,540,000	2.44%
2012/13	542,808,382	11,885,000	2.19%
2013/14	548,849,803	11,305,000	2.06%
2014/15	564,766,161	10,600,000	1.88%
2015/16	558,264,916	10,060,000	1.80%
2016/17	551,119,480	10,060,000	1.83%
2017/18	561,860,942	9,495,000	1.69%
2018/19	581,769,348 ⁽³⁾	43,565,000 ⁽⁴⁾	7.49%

(1) At Fiscal Year End.
 (2) See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement, "DEBT SERVICE REQUIREMENTS" in this Appendix and see the "Audited Financial Report Fiscal Year Ended August 31, 2018" in Appendix D for more information.
 (3) Certified Values from the Henderson and Van Zandt County Appraisal Districts as of July 2018.
 (4) Includes the Bonds.

ESTIMATED OVERLAPPING DEBT STATEMENT

Taxing Body	Amount	Percent Overlapping	Amount Overlapping
Henderson County	\$ -	9.39%	\$ -
City of Log Cabin	120,000	100.00%	120,000
Van Zandt County	3,547,000	0.12%	4,256
Total Overlapping Debt ⁽¹⁾			\$ 124,256
Eustace Independent School District ⁽²⁾			43,244,056
Total Direct & Overlapping Debt ⁽²⁾			\$ 43,368,312
Ratio of Net Direct & Overlapping Debt to Net Taxable Valuation		7.45%	
Per Capita Direct & Overlapping Debt		\$5,697	

(1) Equals gross-debt less self-supporting debt.
 (2) Includes the Bonds.

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

PRINCIPAL TAXPAYERS

2018/19 Top Ten Taxpayers ⁽¹⁾

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Atmos Energy Mid-Tex Pipeline	Oil & Gas	\$ 5,927,250	1.02%
Resolute Group Inc.	Real Estate	5,853,710	1.01%
Oncor Electric Delivery	Electric Utility	5,318,640	0.91%
Trinity Valley Electric Coop	Electric Utility	4,194,990	0.72%
Darwin Deason	Residential	2,766,720	0.48%
Kenneth N. Burroughs	Residential	2,430,520	0.42%
Starr L. Jr. and Christine H. Pitzer	Reisidential	2,177,270	0.37%
Rayburn County Electirc Co-Op	Electric Utility	2,110,660	0.36%
KMKC Properties LLC	Real Estate	1,991,770	0.34%
TexasBauers5 LLC	Commercial	1,925,860	0.33%
		<u>\$ 34,697,390</u>	<u>5.96%</u>

2017/18 Top Ten Taxpayers ⁽²⁾

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Resolute Group Inc.	Real Estate	\$ 5,821,630	1.04%
Atmos Energy Mid-Tex Pipeline	Oil & Gas	5,742,830	1.02%
Oncor Electric Delivery	Electric Utility	4,594,350	0.82%
Trinity Valley Electric Coop	Electric Utility	4,394,272	0.78%
Darwin Deason	Residential	2,724,180	0.48%
United Telephone Co	Telephone Utility	2,495,920	0.44%
Tristream Energy LLC	Oil & Gas	2,436,980	0.43%
Robert C. Van Cleave	Construction	2,380,930	0.42%
Starr L. Jr. and Christine H. Pitzer	Reisidential	2,147,460	0.38%
Rayburn County Electirc Co-Op	Electric Utility	2,059,180	0.37%
		<u>\$ 34,797,732</u>	<u>6.19%</u>

2016/17 Top Ten Taxpayers ⁽²⁾

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Resolute Group Inc.	Real Estate	\$ 5,538,320	1.00%
Oncor Electric Delivery	Electric Utility	3,450,220	0.63%
United Telephone Co	Telephone Utility	2,869,300	0.52%
Trinity Valley Electric Coop	Electric Utility	2,866,140	0.52%
Darwin Deason	Residential	2,724,180	0.49%
Robert C. Van Cleave	Construction	2,501,330	0.45%
Tristream Energy LLC	Oil & Gas	2,357,300	0.43%
Starr L. Jr. and Christine H. Pitzer	Reisidential	2,147,460	0.39%
Kevin & Michelle Scherer	Residential	1,911,530	0.35%
		<u>1,896,400</u>	<u>0.34%</u>
		<u>\$ 28,262,180</u>	<u>5.13%</u>

(1) Source: Henderson County Appraisal District.

(2) Source: Comptroller of Public Accounts - Property Tax Division.

CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY

<u>Category</u>	<u>2018/19</u> ⁽¹⁾	<u>% of</u> <u>Total</u>	<u>2017/18</u> ⁽²⁾	<u>% of</u> <u>Total</u>	<u>2016/17</u> ⁽²⁾	<u>% of</u> <u>Total</u>
Real, Residential, Single-Family	\$ 532,237,130	66.22%	\$ 514,550,630	65.81%	\$ 507,744,560	66.11%
Real, Residential, Multi-Family	344,360	0.04%	344,360	0.04%	344,360	0.04%
Real, Vacant Lots/Tracts	31,782,970	3.95%	31,639,000	4.05%	32,274,390	4.20%
Real, Acreage	104,181,480	12.96%	102,729,900	13.14%	100,273,410	13.06%
Real, Farm & Ranch Improvements	87,489,680	10.89%	83,644,890	10.70%	83,289,220	10.85%
Real, Commercial & Industrial	12,942,450	1.61%	14,135,220	1.81%	14,437,140	1.88%
Oil & Gas	13,100	0.00%	26,200	0.00%	912,555	0.12%
Utilities	23,594,207	2.94%	23,429,457	3.00%	16,888,102	2.20%
Tangible Personal, Commercial	4,479,190	0.56%	5,043,920	0.65%	5,383,634	0.70%
Tangible Personal, Industrial	1,856,270	0.23%	1,569,470	0.20%	1,798,780	0.23%
Tangible Personal, Mobile Homes & Other	4,316,110	0.54%	4,288,030	0.55%	4,050,030	0.53%
Tangible Personal, Residential Inventory	469,930	0.06%	471,980	0.06%	570,780	0.07%
Tangible Personal, Special Inventory	28,090	0.00%	21,270	0.00%	11,430	0.00%
Total Appraised Value	\$ 803,734,967	100.00%	\$ 781,894,327	100.00%	\$ 767,978,391	100.00%
Less:						
Homestead Cap Adjustment	\$ 3,402,790		\$ 3,308,421		\$ 3,551,320	
Productivity Loss	99,350,110		98,742,320		95,679,310	
Exemptions	119,212,719 ⁽³⁾		117,982,644 ⁽³⁾		117,628,281 ⁽³⁾	
Total Exemptions/Deductions ⁽⁴⁾	<u>\$ 221,965,619</u>		<u>\$ 220,033,385</u>		<u>\$ 216,858,911</u>	
Net Taxable Assessed Valuation	\$ 581,769,348		\$ 561,860,942		\$ 551,119,480	

<u>Category</u>	<u>2015/16</u> ⁽²⁾	<u>% of</u> <u>Total</u>	<u>2014/15</u> ⁽²⁾	<u>% of</u> <u>Total</u>	<u>2013/14</u> ⁽²⁾	<u>% of</u> <u>Total</u>
Real, Residential, Single-Family	\$ 507,596,240	65.25%	\$ 500,248,720	65.15%	\$ 485,467,820	64.63%
Real, Residential, Multi-Family	344,360	0.04%	344,360	0.04%	214,730	0.03%
Real, Vacant Lots/Tracts	33,071,840	4.25%	33,888,980	4.41%	33,271,820	4.43%
Real, Acreage	100,362,750	12.90%	100,802,590	13.13%	100,505,830	13.38%
Real, Farm & Ranch Improvements	83,590,960	10.75%	79,956,610	10.41%	76,540,310	10.19%
Real, Commercial & Industrial	21,187,240	2.72%	19,802,473	2.58%	19,423,701	2.59%
Oil & Gas	2,371,128	0.30%	3,660,302	0.48%	6,295,207	0.84%
Utilities	17,334,324	2.23%	18,138,163	2.36%	18,084,933	2.41%
Tangible Personal, Commercial	5,670,140	0.73%	4,520,160	0.59%	4,515,480	0.60%
Tangible Personal, Industrial	1,829,618	0.24%	1,895,945	0.25%	2,208,698	0.29%
Tangible Personal, Mobile Homes & Other	3,934,020	0.51%	3,830,160	0.50%	3,856,190	0.51%
Tangible Personal, Residential Inventory	572,330	0.07%	771,480	0.10%	756,160	0.10%
Tangible Personal, Special Inventory	12,400	0.00%	20,900	0.00%	8,890	0.00%
Total Appraised Value	\$ 777,877,350	100.00%	\$ 767,880,843	100.00%	\$ 751,149,769	100.00%
Less:						
Homestead Cap Adjustment	\$ 5,344,880		\$ 6,478,140		\$ 6,734,440	
Productivity Loss	96,498,130		96,309,370		95,953,810	
Exemptions	117,769,424 ⁽³⁾		100,327,172		99,611,716	
Total Exemptions/Deductions ⁽⁴⁾	<u>\$ 219,612,434</u>		<u>\$ 203,114,682</u>		<u>\$ 202,299,966</u>	
Net Taxable Assessed Valuation	\$ 558,264,916		\$ 564,766,161		\$ 548,849,803	

(1) Source: Certified Totals from the Henderson and Van Zandt County Appraisal Districts as of July 2018.

(2) Source: Comptroller of Public Accounts - Property Tax Division.

(3) The passage of a Texas constitutional amendment on November 3, 2015 increased the homestead exemption from \$15,000 to \$25,000.

(4) Excludes values on which property taxes are frozen for persons 65 years of age or older and disabled taxpayers.

PRINCIPAL REPAYMENT SCHEDULE

Fiscal Year Ending 8/31	Outstanding Bonds	Plus: The Bonds	Total	Bonds Unpaid At Year End	Percent of Principal Retired
2019	\$ 605,000.00	\$ -	\$ 605,000.00	\$ 43,565,000.00	1.37%
2020	630,000.00	235,000.00	865,000.00	42,700,000.00	3.33%
2021	660,000.00	270,000.00	930,000.00	41,770,000.00	5.43%
2022	685,000.00	310,000.00	995,000.00	40,775,000.00	7.69%
2023	705,000.00	325,000.00	1,030,000.00	39,745,000.00	10.02%
2024	730,000.00	340,000.00	1,070,000.00	38,675,000.00	12.44%
2025	755,000.00	360,000.00	1,115,000.00	37,560,000.00	14.96%
2026	780,000.00	375,000.00	1,155,000.00	36,405,000.00	17.58%
2027	805,000.00	395,000.00	1,200,000.00	35,205,000.00	20.30%
2028	830,000.00	415,000.00	1,245,000.00	33,960,000.00	23.12%
2029	850,000.00	440,000.00	1,290,000.00	32,670,000.00	26.04%
2030	880,000.00	460,000.00	1,340,000.00	31,330,000.00	29.07%
2031		1,085,000.00	1,085,000.00	30,245,000.00	31.53%
2032		1,130,000.00	1,130,000.00	29,115,000.00	34.08%
2033		1,175,000.00	1,175,000.00	27,940,000.00	36.74%
2034		1,225,000.00	1,225,000.00	26,715,000.00	39.52%
2035		1,275,000.00	1,275,000.00	25,440,000.00	42.40%
2036		1,325,000.00	1,325,000.00	24,115,000.00	45.40%
2037		1,380,000.00	1,380,000.00	22,735,000.00	48.53%
2038		1,435,000.00	1,435,000.00	21,300,000.00	51.78%
2039		1,495,000.00	1,495,000.00	19,805,000.00	55.16%
2040		1,565,000.00	1,565,000.00	18,240,000.00	58.71%
2041		1,645,000.00	1,645,000.00	16,595,000.00	62.43%
2042		1,730,000.00	1,730,000.00	14,865,000.00	66.35%
2043		1,820,000.00	1,820,000.00	13,045,000.00	70.47%
2044		1,910,000.00	1,910,000.00	11,135,000.00	74.79%
2045		2,010,000.00	2,010,000.00	9,125,000.00	79.34%
2046		2,115,000.00	2,115,000.00	7,010,000.00	84.13%
2047		2,220,000.00	2,220,000.00	6,905,000.00	84.37%
2048		2,335,000.00	2,335,000.00	4,675,000.00	89.42%
2049		2,455,000.00	2,455,000.00	-	100.00%
Total	<u>\$ 8,915,000.00</u>	<u>\$ 35,255,000.00</u>	<u>\$ 44,170,000.00</u>		

DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 8/31	Outstanding Debt Service	Plus: The Bonds ⁽¹⁾			Combined Total ^{(1) (2)}
		Principal	Interest	Total	
2019	\$ 892,050.00	\$ -	\$ 956,987.50	\$ 956,987.50	\$ 1,849,037.50
2020	890,675.00	235,000.00	1,635,850.00	1,870,850.00	2,761,525.00
2021	893,100.00	270,000.00	1,624,400.00	1,894,400.00	2,787,500.00
2022	894,200.00	310,000.00	1,609,900.00	1,919,900.00	2,814,100.00
2023	893,050.00	325,000.00	1,594,025.00	1,919,025.00	2,812,075.00
2024	893,575.00	340,000.00	1,577,400.00	1,917,400.00	2,810,975.00
2025	893,025.00	360,000.00	1,559,900.00	1,919,900.00	2,812,925.00
2026	893,300.00	375,000.00	1,541,525.00	1,916,525.00	2,809,825.00
2027	893,350.00	395,000.00	1,522,275.00	1,917,275.00	2,810,625.00
2028	893,787.50	415,000.00	1,502,025.00	1,917,025.00	2,810,812.50
2029	889,150.00	440,000.00	1,480,650.00	1,920,650.00	2,809,800.00
2030	893,200.00	460,000.00	1,460,450.00	1,920,450.00	2,813,650.00
2031		1,085,000.00	1,429,550.00	2,514,550.00	2,514,550.00
2032		1,130,000.00	1,385,250.00	2,515,250.00	2,515,250.00
2033		1,175,000.00	1,339,150.00	2,514,150.00	2,514,150.00
2034		1,225,000.00	1,291,150.00	2,516,150.00	2,516,150.00
2035		1,275,000.00	1,241,150.00	2,516,150.00	2,516,150.00
2036		1,325,000.00	1,189,150.00	2,514,150.00	2,514,150.00
2037		1,380,000.00	1,135,050.00	2,515,050.00	2,515,050.00
2038		1,435,000.00	1,078,750.00	2,513,750.00	2,513,750.00
2039		1,495,000.00	1,020,150.00	2,515,150.00	2,515,150.00
2040		1,565,000.00	951,125.00	2,516,125.00	2,516,125.00
2041		1,645,000.00	870,875.00	2,515,875.00	2,515,875.00
2042		1,730,000.00	786,500.00	2,516,500.00	2,516,500.00
2043		1,820,000.00	697,750.00	2,517,750.00	2,517,750.00
2044		1,910,000.00	604,500.00	2,514,500.00	2,514,500.00
2045		2,010,000.00	506,500.00	2,516,500.00	2,516,500.00
2046		2,115,000.00	403,375.00	2,518,375.00	2,518,375.00
2047		2,220,000.00	295,000.00	2,515,000.00	2,515,000.00
2048		2,335,000.00	181,125.00	2,516,125.00	2,516,125.00
2049		2,455,000.00	61,375.00	2,516,375.00	2,516,375.00
	<u>\$ 10,712,462.50</u>	<u>\$ 35,255,000.00</u>	<u>\$ 34,532,862.50</u>	<u>\$ 69,787,862.50</u>	<u>\$ 80,500,325.00</u>

(1) Includes accrued interest in the amount of \$123,041.25.

(2) Based on its wealth per student, the District does not expect to receive any state financial assistance for the payment of debt service for the fiscal year 2018/19. The amount of State aid for debt service may substantially differ from year to year, depending on a number of factors, including amounts, if any, appropriated for that purpose by the Texas Legislature. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement.

TAX ADEQUACY WITH RESPECT TO THE DISTRICT'S BONDS

Projected Maximum Debt Service Requirement ⁽¹⁾	\$ 2,814,100.00
Projected State Financial Assistance for Hold Harmless of Increased Homestead Exemption ⁽²⁾	18,599.00
Projected Net Debt Service Requirement	\$ 2,795,501.00
\$0.48537 Tax Rate @ 99% Collections Produces	\$ 2,795,501.04
2018/19 Certified Net Taxable Assessed Valuation	\$ 581,769,348

(1) Includes the Bonds.

(2) The amount of state financial assistance for debt service, if any, may differ substantially each year depending on a variety of factors, including the amount, if any, appropriated for that purpose by the state legislature and a school district's wealth per student. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement.

AUTHORIZED BUT UNISSUED BONDS

Following the issuance of the Bonds, the District will not have authorized but unissued unlimited ad valorem tax bonds from the November 6, 2018 or any other election. The District may incur other financial obligations payable from its collection of taxes and other sources of revenue, including maintenance tax notes payable from its collection of maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes.

COMPARATIVE STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES ⁽¹⁾

	Fiscal Year Ended August 31				
	2014	2015	2016	2017	2018
Beginning Fund Balance	\$ 4,281,949	\$ 3,724,939	\$ 3,865,717	\$ 3,258,587	\$ 2,707,778
Revenues:					
Local and Intermediate Sources	\$ 5,564,351	\$ 5,839,640	\$ 5,725,392	\$ 5,668,083	\$ 5,829,497
State Sources	5,578,579	6,224,516	7,139,605	7,498,116	7,657,781
Federal Sources & Other	151,870	196,366	173,862	231,179	286,787
Total Revenues	\$ 11,294,800	\$ 12,260,522	\$ 13,038,859	\$ 13,397,378	\$ 13,774,065
Expenditures:					
Instruction	\$ 6,445,317	\$ 7,087,138	\$ 7,655,761	\$ 7,613,712	\$ 7,996,782
Instructional Resources & Media Services	93,540	91,238	92,698	82,142	74,888
Curriculum & Instructional Staff Development	107,338	106,898	96,967	124,810	136,335
Instructional Leadership	134,453	147,351	156,069	237,986	180,517
School Leadership	667,944	744,870	760,982	766,633	814,726
Guidance, Counseling & Evaluation Services	476,319	520,676	507,109	546,859	571,815
Social Work Services	41,450	50,568	27,085	22,032	13,379
Health Services	97,400	97,834	102,738	108,844	112,177
Student (Pupil) Transportation	601,272	579,260	518,701	611,475	500,921
Cocurricular/Extracurricular Activities	584,237	558,160	639,859	746,358	661,084
General Administration	414,257	435,483	442,657	459,707	488,295
Plant Maintenance and Operations	1,128,588	1,138,266	1,156,481	1,406,338	1,241,751
Security and Monitoring Services	27,502	38,611	78,443	48,925	35,830
Data Processing Services	448,579	300,926	293,741	570,302	262,390
Facilities Acquisition and Constructon	472,718	105,438	989,854	471,853	1,106,209
Other Intergovernmental Charges	110,896	122,948	126,844	130,211	132,488
Total Expenditures	\$ 11,851,810	\$ 12,125,665	\$ 13,645,989	\$ 13,948,187	\$ 14,329,587
Excess (Deficiency) of Revenues over Expenditures	\$ (557,010)	\$ 134,857	\$ (607,130)	\$ (550,809)	\$ (555,522)
Other Resources and (Uses):					
Sale of Real and Personal Property	\$ -	\$ 5,921	\$ -	\$ -	\$ -
Transfers Out (Use)	-	-	-	-	(1,676)
Total Other Resources (Uses)	\$ -	\$ 5,921	\$ -	\$ -	\$ (1,676)
Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	\$ (557,010)	\$ 140,778	\$ (607,130)	\$ (550,809)	\$ (557,198)
Ending Fund Balance	\$ 3,724,939	\$ 3,865,717	\$ 3,258,587	\$ 2,707,778	\$ 2,150,580 ⁽²⁾

(1) See "MANAGEMENT'S DISCUSSION AND ANALYSIS - Economic Factors and Next Year's Budgets and Rates" in Appendix D hereto for a discussion of the 2017/18 budget and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Possible Effects of Wealth Transfer Provisions on the District's Financial Condition" in the Official Statement.

(2) Over the last three fiscal years, the District has undertaken multiple facility and capital improvement pay-as-you-go projects. These are one time, planned expenditures and draws on the General Fund Balance. With the passage of the November 2018 Bond program and with the completion of these projects over the past three years, the District does not anticipate significantly reducing the General Fund Balance any further over the near term.

CHANGE IN NET ASSETS ⁽¹⁾

	Fiscal Year Ended August 31				
	2014	2015	2016	2017	2018
Revenues:					
Program Revenues:					
Charges for Services	\$ 403,261	\$ 404,887	\$ 395,900	\$ 349,319	\$ 367,244
Operating Grants and Contributions	2,332,566	2,191,281	2,938,544	2,850,799	167,012
General Revenues:					
Property Taxes Levied for General Purposes	5,289,405	5,468,477	5,395,780	5,347,508	5,462,037
Property Taxes Levied for Debt Service	1,154,427	1,013,868	996,057	977,893	1,000,407
State Aid - Formula Grants	5,147,585	5,727,602	6,665,974	6,991,055	7,035,689
Grants and Contributions Not Restricted	60,649	110,807	82,578	147,082	-
Investment Earnings	23,347	22,345	18,469	16,273	28,728
Miscellaneous	282,786	198,815	181,170	187,628	173,034
	<u>\$ 14,694,026</u>	<u>\$ 15,138,082</u>	<u>\$ 16,674,472</u>	<u>\$ 16,867,557</u>	<u>\$ 14,234,151</u>
Expenses:					
Instruction	\$ 8,062,346	\$ 8,425,070	\$ 9,707,740	\$ 9,691,879	\$ 6,503,341
Instruction Resources & Media Services	112,929	110,357	113,214	96,805	70,416
Curriculum & Staff Development	107,338	106,726	97,661	125,376	113,432
Instructional Leadership	160,126	146,062	161,923	243,962	113,804
School Leadership	679,205	751,956	808,681	805,256	543,206
Guidance, Counseling & Evaluation Services	513,927	517,064	529,444	573,673	408,185
Social Work Services	41,450	51,644	28,346	22,600	8,357
Health Services	99,065	97,115	108,898	125,963	89,039
Student Transportation	517,146	506,673	524,271	605,888	458,370
Food Service	818,937	948,778	1,061,495	1,060,983	1,044,772
Cocurricular/Extracurricular Activities	788,976	774,971	847,526	945,408	756,391
General Administration	429,732	447,144	476,561	496,307	375,234
Plant Maintenance & Operations	1,128,358	1,116,418	1,181,866	1,454,656	1,075,918
Security and Monitoring Services	28,907	41,764	74,023	53,861	36,967
Data Processing Services	410,162	312,961	294,367	595,088	220,394
Debt Service - Interest on Long-term Debt	412,695	307,372	299,728	269,585	241,000
Debt Service - Bond Issuance Cost and Fees	226,931	287,968	1,250	1,500	1,000
Capital Outlay	21,536	125	76,993	85	1,980
Other Intergovernmental Charges	110,896	122,948	126,844	130,211	132,488
Total Expenditures	<u>\$ 14,670,662</u>	<u>\$ 15,073,116</u>	<u>\$ 16,520,831</u>	<u>\$ 17,299,086</u>	<u>\$ 12,194,294</u>
Change in Net Assets	\$ 23,364	\$ 64,966	\$ 153,641	\$ (431,529)	\$ 2,039,857
Beginning Net Assets	\$ 12,249,573	\$ 12,272,937	\$ 10,695,954	\$ 10,849,595	\$ 10,418,066
Prior Period Adjustment	\$ -	\$ (1,641,949) ⁽²⁾	\$ -	\$ -	\$ (9,163,523) ⁽³⁾
Ending Net Assets	<u>\$ 12,272,937</u>	<u>\$ 10,695,954</u>	<u>\$ 10,849,595</u>	<u>\$ 10,418,066</u>	<u>\$ 3,294,400</u>

(1) The foregoing information represents government-wide financial information provided in accordance with GASB 34, which the District adopted for the 2002 fiscal year.

(2) The prior period adjustment was from the District adopting GASB Statement No. 68 for Accounting and Reporting for Pensions.

(3) The prior period adjustment was from the District adopting GASB Statement No. 75 for Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.

APPENDIX B

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

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EUSTACE INDEPENDENT SCHOOL DISTRICT

General and Economic Information

Eustace Independent School District (the "District") is an agricultural area that includes the City of Eustace, a retail center located 61 miles southeast of Dallas on U.S. Highway 175. A portion of the Cedar Creek Reservoir lies within the District. While nearly the entire District is located in Henderson County, a small portion is located in Van Zandt County.

Henderson County was created and organized in 1846 from Houston and Nacogdoches Counties. The economy is based on manufacturing, agribusiness and mineral recovery.

Source: Texas Municipal Report for Eustace ISD and Henderson County.

Enrollment Statistics

<u>Year Ending 8/31</u>	<u>Enrollment</u>
2008	1,558
2009	1,489
2010	1,462
2011	1,453
2012	1,413
2013	1,426
2014	1,452
2015	1,537
2016	1,566
2017	1,554
2018	1,548
Current	1,569

District Staff

Teachers	120
Teachers' Aides & Secretaries	60
Auxiliary Personnel	52
Administrators	14
Other	<u>14</u>
Total	260

Facilities

<u>Campus</u>	<u>Grades</u>	<u>Current Enrollment</u>	<u>Capacity</u>	<u>Year Built</u>	<u>Year of Addition/ Renovation</u>
Eustace Primary School	PK-2	448	500	1985	2006
Eustace Intermediate School	3-5	344	400	1996	2006
Eustace Middle School	6-8	350	450	1972	2006
Eustace High School	9-12	427	525	1984	2006

Principal Employers within the District

<u>Name of Company</u>	<u>Type of Business</u>	<u>Number of Employees</u>
Eustace ISD	Public Education	260
NGL	Gas Plant	20
City of Eustace	Municipality	13
Dollar General	Retail	8

Unemployment Rates

	<u>November 2016</u>	<u>November 2017</u>	<u>November 2018</u>
Henderson County	4.5%	3.7%	3.5%
State of Texas	4.5%	3.8%	3.5%

Source: Texas Workforce Commission.

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APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

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Norton Rose Fulbright US LLP
300 Convent Street, Suite 2100
San Antonio, Texas 78205-3792
United States

Tel +1 210 224 5575
Fax +1 210 270 7205
nortonrosefulbright.com

FINAL

IN REGARD to the authorization and issuance of the “Eustace Independent School District Unlimited Tax School Building Bonds, Series 2019” (the *Bonds*), dated January 15, 2019, in the aggregate original principal amount of \$35,255,000, we have reviewed the legality and validity of the issuance thereof by the Eustace Independent School District (the *Issuer*). The Bonds are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity). The Bonds have Stated Maturities of February 15 in each of the years 2020 through 2039, February 15, 2043, February 15, 2046, and February 15, 2049, unless optionally or mandatorily redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Bonds. Interest on the Bonds accrues from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the order (the *Order*) authorizing the issuance of the Bonds. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Order.

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

WE HAVE EXAMINED the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the proceedings of the Issuer in connection with the issuance of the Bonds, including the Order; (2) customary certifications and opinions of officials of the Issuer; (3) certificates executed by officers of the Issuer relating to the expected use and investment of proceeds of the Bonds and certain other funds of the Issuer, and to certain other facts solely within the knowledge and control of the Issuer; and (4) such other documentation, including an examination of the Bond executed and delivered initially by the Issuer, and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such certificates. We express no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

Norton Rose Fulbright US LLP is a limited liability partnership registered under the laws of Texas.

Norton Rose Fulbright US LLP, Norton Rose Fulbright LLP, Norton Rose Fulbright Australia, Norton Rose Fulbright Canada LLP and Norton Rose Fulbright South Africa Inc are separate legal entities and all of them are members of Norton Rose Fulbright Verein, a Swiss verein. Norton Rose Fulbright Verein helps coordinate the activities of the members but does not itself provide legal services to clients. Details of each entity, with certain regulatory information, are available at nortonrosefulbright.com.

Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, in connection with the authorization and issuance of “EUSTACE INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2019”

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

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

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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

APPENDIX D

**AUDITED FINANCIAL REPORT
FISCAL YEAR ENDED AUGUST 31, 2018**

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EUSTACE INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2018

EUSTACE INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2018

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EUSTACE INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2018

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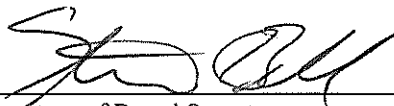
CERTIFICATE OF BOARD

Eustace Independent School District
Name of School District

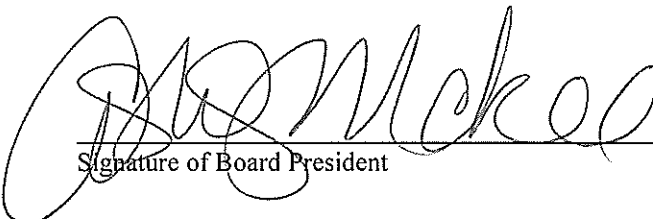
Henderson
County

107-905
Co. - Dist. No.

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and approved disapproved for the year ended August 31, 2018 at a meeting of the board of school trustees of such school district on the 13th day of December, 2018.



Signature of Board Secretary



Signature of Board President

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

SMITH, LAMBRIGHT & ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Marlin R. Smith, CPA
J. W. Lambright, CPA

Cheri E. Kirkland, CPA
David N. Hopkins, CPA

P. O. Box 912
505 E. Tyler
Athens, Texas 75751
(903) 675-5674
FAX (903) 675-5676
smithlambright.com

**Unmodified Opinions on Basic Financial Statements
Accompanied by Required Supplementary Information and Other Information**

Independent Auditor's Report

Board of School Trustees
Eustace Independent School District
P. O. Box 188
Eustace, Texas 75124

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Eustace Independent School District (the "District"), as of and for the year ended August 31, 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.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of August 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Required Supplementary Information and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The budgetary comparison schedule - general fund, schedule of district's proportionate share of the net pension liability - TRS, schedule of district contributions - TRS, schedule of the District's proportionate share of the net OPEB liability - TRS, schedule of District contributions for other post-employment benefits - TRS, combining and individual nonmajor fund financial statements, required TEA schedules and 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 budgetary comparison schedule - general fund, schedule of district's proportionate share of the net pension liability - TRS, schedule of district contributions - TRS, schedule of the District's proportionate share of the net OPEB liability - TRS, schedule of District contributions for other post-employment benefits - TRS, combining and individual nonmajor fund financial statements, required TEA schedules and 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 statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedule - general fund, schedule of district's proportionate share of the net pension liability - TRS, schedule of district contributions - TRS, combining and individual nonmajor fund financial statements, required TEA schedules and 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 December 10, 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.

Respectfully submitted,

Smith, Lambright & Associates, P.C.

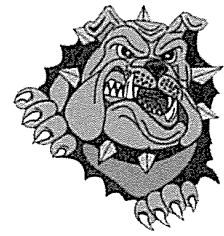
SMITH, LAMBRIGHT & ASSOCIATES, P. C.
Certified Public Accountants
Athens, Texas

December 10, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS



EUSTACE INDEPENDENT SCHOOL DISTRICT



DEANNA HAYNES
Assistant Superintendent

COY HOLCOMBE
Superintendent

STAN SOWERS
Assistant Superintendent

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Eustace Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2018. Please read it in conjunction with the independent auditors' report, and the District's Basic Financial Statements.

Financial Highlights

Over the course of this year's operations, the District's total net assets decreased to \$3,294,400.

During the year, the District had expenses and other uses that were \$2,039,857 less than the taxes and revenues. This compares to last year when expenses were more than revenues by \$431,529

The General Fund ended the year with a fund balance of \$2,150,580.

The resources available for appropriation were \$557,198 less than budgeted for the General Fund.

Expenditures were overall under budgeted appropriations.

Using the Annual Report

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities. These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget.

The fiduciary statements provide financial information concerning activities for which the District acts as trustee only.

Notes to the financial statements provide narrative explanations of additional information to assist in clarification and complete understanding of the combined financial statements.

The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring and regulatory agencies for assurance that the District is using funds in compliance with the terms of grants.

Reporting the District as a Whole

Statement of Net Assets and Statement of Activities

This section of the financial reports provides an analysis of the District's overall financial condition and operations. Its primary purpose is to show whether the District's financial position is better or worse as a result of the years' activities. The Statement of Net Assets includes the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. The accrual basis of accounting is applied to these activities.

The revenues are divided into those provided by grants and revenues provided by taxpayers or TEA. All District assets and liabilities are reported in this section, regardless of life or service; (current/future).

The net assets of the District provide one measure of the District's financial health. A District whose net assets are increasing over time is one with improving financial health. Another measure of the overall health of the District is reflected in changes in average daily attendance, condition of facilities, and the property tax base.

The Statement of Net Assets and the Statement of Activities divide the District into 2 types of activities.

Governmental activities report most of the District's basic services, including instruction, counseling, co-curricular activities, food services, transportation, maintenance, and general administration. Property taxes, fees, state revenue, and federal grants finance most of these activities.

Trust/Fiduciary activities include student activities, scholarship fund and clearing funds. The District acts as steward of these funds.

Reporting the District's Most Significant Funds

Fund Financial Statements

The most significant funds of the District are included in this section. The district is required to establish separate funds for grants. It also maintains separate funds to help control and manage funds for particular purposes such as campus activities, food services and debt service.

Governmental Funds

Most of the district's basic services are reported in governmental funds. The modified accrual basis of accounting is used to report these activities. This method of accounting measures the receipt and disbursement of cash and financial assets that can be readily converted to cash. Governmental fund statements provide a detailed short-term view of the district's general operations and basic services provided.

Budgeted Special Revenue Funds

These categories of funds include Title I Part A- Improving Basic Programs, Special Education IDEA-B Formula, IDEA-B Preschool, Title II, Part A- Teacher & Principal Training & Recruiting, Title IV, Title V, Advanced Placement, Summer Feeding Program, Carl D Perkins, Instructional Materials Allotment, Campus Activities, and Food Service. These groups of funds have revenue resources including grants, federal programs, and state programs.

Debt Service Funds

The Debt Service fund accounts for bonded debt payments and tax revenues that fund the debt.

The District as Trustee

All the fiduciary activities of the District are reported in separate Statements of Agency Funds. These resources are excluded from the District's other financial statements because the District cannot use these assets to finance operation. Its only responsibility in the disbursing of these funds is to ensure the assets are used for the intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net assets (Table I) and changes in net assets (Table II) of the District's governmental and business-type activities.

Net assets of the District's governmental activities decreased from *\$10,418,066* to \$3,294,400. Unrestricted net assets — the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements were (\$5,979,023). The decrease in total Net Assets was due to the District's increase in Personnel, Salary Increases, Technology Purchases, HVAC Improvements, New Expedition, New Turf and Track, and Security Upgrades.

To compensate for some of the cost increases this year and to avoid the loss of State funds, the District took the following actions.

- Budget adjusted throughout the school year
- Most of the remodeling projects were completed by the District's staff, which resulted in considerable savings.

The cost of all governmental activities this year was \$12,194,294 compared to \$17,299,086 last year. However, as shown in the Statement of Activities the amount that our taxpayers ultimately financed for these activities through District taxes was only \$6,462,444 because some of the costs were paid by those who directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions or by State equalization funding.

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet) reported a combined fund balance of \$3,305,746 which is lower than last year's total of \$3,872,388. Several times during the course of the year; the District's budget was revised by the Board of Trustees. These budget amendments fall into two categories. The first category includes increases or decreases in revenues or funding. The second category involved amendments moving funds from programs that did not need all the resources originally appropriated to them to programs with resource needs.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

the end of the school year, the District reported \$17,756,042 in net capital assets. These assets include all vehicles, facilities, and equipment. This amount represents a net increase of \$254,058 as compared to last year.

The additions to capital assets during the year were computer software, improvements to the network system for the district, security systems and cameras, band instruments, computers, new buses, and capital improvement projects.

Debt

The District has an outstanding amount of \$8,915,000 in bonded debt at year-end.

Economic Factors and Next Year's Budget Rate

The budget for 2018-2019 was based on many factors:

- (1) Increased interest rates on investments
- (2) Increase in property values
- (3) Energy savings with Ideal Impact
- (4) Increased cost of campus copiers
- (5) Increased salaries – Added personnel
- (6) Salary increases for all employees
- (7) Increased supply budget for all campuses
- (8) Increase in utilities
- (9) Major Technology Upgrades
- (10) Security Upgrades
- (11) Guardian Program
- (12) Assessment Program – MAP
- (13) Increase for TVCC dual course tuition
- (14) Increase for TVCC books and supplies

The unemployment rate for the area register below the state average: however, the district has higher than average number of low-income families. Senior citizens who carry the Over-65 Homestead exemption comprise a large percentage of the Districts population.

When the 2018-2019 budget was adopted, all these indicators were considered. The current budget reflects a **0.27 % Increase** over last year's total.

Revenue resources for the 2018-2019 budget are from property tax collections and local sources.

- Local – 44%
- State – 56%

Contacting the District's Financial Management

This report is intended to assist citizens, taxpayers, investors, and creditors with the understanding of the financial status of the Eustace Independent School District—how resources are managed and the accountability for funds received. If you have any questions concerning the report or need additional information, contact the District's business office at PO Box 188, Eustace, TX 75124.

Eustace Independent School District
Table I
Net Assets

Governmental Activities	2017	2018
Current and Other Assets	\$ 5,958,374.00	\$ 5,392,451.00
Capital Assets	\$ 17,501,984.00	\$ 17,756,042.00
Total Assets	\$ 23,460,358.00	\$ 23,148,493.00
 Deferred Outflows - TRS	 \$ 1,244,378.00	 \$ 1,155,098.00
 Current Liabilities	 \$ 781,743.00	 \$ 816,123.00
Long Term Liabilities	\$ 13,330,462.00	\$ 17,590,066.00
Total Liabilities	\$ 14,112,205.00	\$ 18,406,189.00
 Deferred Inflow - TRS	 \$ 174,465.00	 \$ 2,603,002.00
Investment in Capital Assets	\$ 7,197,205.00	\$ 8,118,257.00
Restricted Federal & State Program	\$ 243,869.00	\$ 92,811.00
Restricted for Debt Service	\$ 759,628.00	\$ 925,944.00
Restricted for Campus Activities	\$ 142,075.00	\$ 136,411.00
Restricted for Other Purposes	\$ -	\$ -
Unrestricted Assets	\$ 2,075,289.00	\$ (5,979,023.00)
Total Net Assets	\$ 10,418,066.00	\$ 3,294,400.00

Eustace Independent School District
Table II
Statement of Activities

Primary Government

Governmental Activities

Program Revenues

	2017	2018
Charges for Services	\$349,319.00	\$367,244.00
Operating Grants & Contributions	<u>\$2,850,799.00</u>	<u>\$167,012.00</u>
Total Program Revenues	<u>\$3,200,118.00</u>	<u>\$534,256.00</u>

Expenses

Instructional, Curriculum, Media	\$9,914,060.00	\$6,687,189.00
Instructional / School Leadership	\$1,049,218.00	\$657,010.00
Student Support Services	\$1,328,124.00	\$963,951.00
Child Nutrition	\$1,060,983.00	\$1,044,772.00
Co-Curricular Activities	\$945,408.00	\$756,391.00
General Administration	\$496,307.00	\$375,234.00
Plant Maintenance, Security, Data Processing	\$2,103,605.00	\$1,333,279.00
Debit Services	\$271,085.00	\$242,000.00
Capital Outlay	\$85.00	\$1,980.00
Intergovernmental Charges	\$0.00	\$0.00
Other Intergovernmental Charges	<u>\$130,211.00</u>	<u>\$132,488.00</u>
Total Expenses	<u>\$17,299,086.00</u>	<u>\$12,194,294.00</u>

General Revenues

Property Taxes, Levied for General Purposes	\$5,347,508.00	\$5,462,037.00
Property Taxes, Levied for Debt Service	\$977,893.00	\$1,000,407.00
State Aide - Formula Grants	\$6,991,055.00	\$7,035,689.00
Unrestricted Grants / Contributions	\$147,082.00	\$0.00
Investment Earnings	\$16,273.00	\$28,728.00
Miscellaneous Local & Intermediate Revenue	<u>\$187,628.00</u>	<u>\$173,034.00</u>
Total General Revenue	<u>\$13,667,439.00</u>	<u>\$13,699,895.00</u>

Change in Net Assets	\$153,641.00	\$2,039,857.00
Net Assets - Beginning	\$10,695,954.00	\$10,418,066.00
Prise Period Adjustment		-\$9,163,523.00
Net Assets - Ending	\$10,849,595.00	\$3,294,400.00

FINANCIAL STATEMENTS

EUSTACE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2018

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 1,898,554
1120 Current Investments	1,584,268
1220 Property Taxes - Delinquent	1,351,183
1230 Allowance for Uncollectible Taxes	(67,560)
1240 Due from Other Governments	623,620
1267 Due from Fiduciary Funds	2,386
Capital Assets:	
1510 Land and Improvements	1,083,979
1520 Buildings, Net	15,554,085
1530 Furniture and Equipment, Net	1,117,978
1000 Total Assets	23,148,493
DEFERRED OUTFLOWS OF RESOURCES	
1703 Deferred Resource Outflow Related to TRS OPEB	88,467
1705 Deferred Resource Outflow Related to TRS Pension	1,066,631
1700 Total Deferred Outflows of Resources	1,155,098
LIABILITIES	
2140 Interest Payable	13,042
2160 Accrued Wages Payable	800,652
2300 Unearned Revenue	2,429
Noncurrent Liabilities:	
2501 Due Within One Year	605,000
2502 Due in More Than One Year	9,032,785
2540 Net Pension Liability (District's Share)	2,726,414
2545 Net OPEB Liability (District's Share)	5,225,867
2000 Total Liabilities	18,406,189
DEFERRED INFLOWS OF RESOURCES	
2603 Deferred Resource Inflow Related to TRS OPEB	2,185,990
2605 Deferred Resource Inflow Related to TRS Pension	417,012
2600 Total Deferred Inflows of Resources	2,603,002
NET POSITION	
3200 Net Investment in Capital Assets	8,118,257
3820 Restricted for Federal and State Programs	92,811
3850 Restricted for Debt Service	925,944
3870 Restricted for Campus Activities	136,411
3900 Unrestricted	(5,979,023)
3000 Total Net Position	\$ 3,294,400

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

EUSTACE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2018

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
Codes	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 6,503,341	\$ 73,106	\$ (53,506)	\$ (6,483,741)
12 Instructional Resources and Media Services	70,416	-	(10,049)	(80,465)
13 Curriculum and Instructional Staff Development	113,432	-	(11,511)	(124,943)
21 Instructional Leadership	113,804	-	(27,796)	(141,600)
23 School Leadership	543,206	-	(142,489)	(685,695)
31 Guidance, Counseling and Evaluation Services	408,185	-	(86,433)	(494,618)
32 Social Work Services	8,357	-	(2,933)	(11,290)
33 Health Services	89,039	-	(20,794)	(109,833)
34 Student (Pupil) Transportation	458,370	-	(70,235)	(528,605)
35 Food Services	1,044,772	122,450	856,439	(65,883)
36 Extracurricular Activities	756,391	170,023	(66,803)	(653,171)
41 General Administration	375,234	-	(61,921)	(437,155)
51 Facilities Maintenance and Operations	1,075,918	1,665	(96,954)	(1,171,207)
52 Security and Monitoring Services	36,967	-	(1,563)	(38,530)
53 Data Processing Services	220,394	-	(36,440)	(256,834)
72 Debt Service - Interest on Long-Term Debt	241,000	-	-	(241,000)
73 Debt Service - Bond Issuance Cost and Fees	1,000	-	-	(1,000)
81 Capital Outlay	1,980	-	-	(1,980)
99 Other Intergovernmental Charges	132,488	-	-	(132,488)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 12,194,294	\$ 367,244	\$ 167,012	(11,660,038)
Data Control Codes	General Revenues:			
	Taxes:			
MT	Property Taxes, Levied for General Purposes			5,462,037
DT	Property Taxes, Levied for Debt Service			1,000,407
SF	State Aid - Formula Grants			7,035,689
IE	Investment Earnings			28,728
MI	Miscellaneous Local and Intermediate Revenue			173,034
TR	Total General Revenues			13,699,895
CN	Change in Net Position			2,039,857
NB	Net Position - Beginning			10,418,066
PA	Prior Period Adjustment			(9,163,523)
NE	Net Position--Ending			\$ 3,294,400

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

EUSTACE INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2018

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
ASSETS				
1110 Cash and Cash Equivalents	\$ 768,508	\$ 925,944	\$ 204,102	\$ 1,898,554
1120 Investments - Current	1,584,268	-	-	1,584,268
1220 Property Taxes - Delinquent	1,150,934	200,249	-	1,351,183
1230 Allowance for Uncollectible Taxes	(57,547)	(10,013)	-	(67,560)
1240 Due from Other Governments	479,717	-	143,903	623,620
1260 Due from Other Funds	2,386	-	-	2,386
1000 Total Assets	<u>\$ 3,928,266</u>	<u>\$ 1,116,180</u>	<u>\$ 348,005</u>	<u>\$ 5,392,451</u>
LIABILITIES				
2160 Accrued Wages Payable	\$ 684,298	\$ -	\$ 116,354	\$ 800,652
2300 Unearned Revenue	-	-	2,429	2,429
2000 Total Liabilities	<u>684,298</u>	<u>-</u>	<u>118,783</u>	<u>803,081</u>
DEFERRED INFLOWS OF RESOURCES				
2601 Unavailable Revenue - Property Taxes	1,093,388	190,236	-	1,283,624
2600 Total Deferred Inflows of Resources	<u>1,093,388</u>	<u>190,236</u>	<u>-</u>	<u>1,283,624</u>
FUND BALANCES				
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	-	-	92,811	92,811
3480 Retirement of Long-Term Debt	-	925,944	-	925,944
Assigned Fund Balance:				
3590 Other Assigned Fund Balance	-	-	136,411	136,411
3600 Unassigned Fund Balance	2,150,580	-	-	2,150,580
3000 Total Fund Balances	<u>2,150,580</u>	<u>925,944</u>	<u>229,222</u>	<u>3,305,746</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 3,928,266</u>	<u>\$ 1,116,180</u>	<u>\$ 348,005</u>	<u>\$ 5,392,451</u>

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

EUSTACE INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
AUGUST 31, 2018

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$	3,305,746
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$34,122,905 and the accumulated depreciation was (\$16,620,921). In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The long term debt was \$10,304,779. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net position. Note: Beginning Balances related to TRS are NOT included in this amount.		7,197,205
2 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2018 capital outlays and debt principal payments is to increase (decrease) net position.		1,793,759
3 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68. The net position related to TRS included a deferred resource outflow in the amount of \$1,066,631, a deferred resource inflow in the amount of \$417,012, and a net pension liability in the amount of \$2,726,414.. This resulted in an increase (decrease) in net position.		(2,076,795)
4 Included in the items related to debt is the recognition of the District's proportionate share of the net OPEB liability required by GASB 75. The net position related to TRS included a deferred resource outflow in the amount of \$88,467, a deferred resource inflow in the amount of \$2,185,990, and a net OPEB liability in the amount of \$5,225,867.. This resulted in an increase (decrease) in net position.		(7,323,390)
5 The 2018 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(941,868)
6 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.		1,339,743
19 Net Position of Governmental Activities	\$	3,294,400

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

EUSTACE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 5,829,497	\$ 1,032,331	\$ 222,192	\$ 7,084,020
5800 State Program Revenues	7,657,781	27,335	34,136	7,719,252
5900 Federal Program Revenues	286,787	-	1,844,277	2,131,064
5020 Total Revenues	<u>13,774,065</u>	<u>1,059,666</u>	<u>2,100,605</u>	<u>16,934,336</u>
EXPENDITURES:				
Current:				
0011 Instruction	7,996,782	-	1,014,057	9,010,839
0012 Instructional Resources and Media Services	74,888	-	-	74,888
0013 Curriculum and Instructional Staff Development	136,335	-	-	136,335
0021 Instructional Leadership	180,517	-	-	180,517
0023 School Leadership	814,726	-	-	814,726
0031 Guidance, Counseling and Evaluation Services	571,815	-	-	571,815
0032 Social Work Services	13,379	-	-	13,379
0033 Health Services	112,177	-	-	112,177
0034 Student (Pupil) Transportation	500,921	-	-	500,921
0035 Food Services	-	-	1,158,720	1,158,720
0036 Extracurricular Activities	661,084	-	105,264	766,348
0041 General Administration	488,295	-	-	488,295
0051 Facilities Maintenance and Operations	1,241,751	-	-	1,241,751
0052 Security and Monitoring Services	35,830	-	-	35,830
0053 Data Processing Services	262,390	-	-	262,390
Debt Service:				
0071 Principal on Long-Term Debt	-	580,000	-	580,000
0072 Interest on Long-Term Debt	-	312,350	-	312,350
0073 Bond Issuance Cost and Fees	-	1,000	-	1,000
Capital Outlay:				
0081 Facilities Acquisition and Construction	1,106,209	-	-	1,106,209
Intergovernmental:				
0099 Other Intergovernmental Charges	132,488	-	-	132,488
6030 Total Expenditures	<u>14,329,587</u>	<u>893,350</u>	<u>2,278,041</u>	<u>17,500,978</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(555,522)</u>	<u>166,316</u>	<u>(177,436)</u>	<u>(566,642)</u>
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	-	1,676	1,676
8911 Transfers Out (Use)	(1,676)	-	-	(1,676)
7080 Total Other Financing Sources (Uses)	<u>(1,676)</u>	<u>-</u>	<u>1,676</u>	<u>-</u>
1200 Net Change in Fund Balances	(557,198)	166,316	(175,760)	(566,642)
0100 Fund Balance - September 1 (Beginning)	<u>2,707,778</u>	<u>759,628</u>	<u>404,982</u>	<u>3,872,388</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 2,150,580</u>	<u>\$ 925,944</u>	<u>\$ 229,222</u>	<u>\$ 3,305,746</u>

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

EUSTACE INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2018

EXHIBIT C-4

Total Net Change in Fund Balances - Governmental Funds	\$	(566,642)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2018 capital outlays and debt principal payments is to increase (decrease) net position.		1,793,759
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.		(941,868)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.		35,500
GASB 68 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$294,383. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in the net pension liability. This caused a decrease in net position totaling \$278,961. Finally, the proportionate share of the pension expense on the plan as a whole had to be recorded. The net pension expense decreased the change in net position by \$136,447. The net result is an increase (decrease) in the change in net position.		(121,025)
GASB 75 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$87,646. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net OPEB liability. This caused a decrease in net position totaling \$62,480. Finally, the proportionate share of the TRS OPEB expense on the plan as a whole had to be recorded. The net OPEB expense decreased the change in net position by (\$1,814,967). The net result is an increase (decrease) in the change in net position.		1,840,133
 Change in Net Position of Governmental Activities	 <u>\$</u>	 <u>2,039,857</u>

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

EUSTACE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2018

	Private Purpose Trust Funds	Agency Fund
ASSETS		
Cash and Cash Equivalents	\$ 649	\$ 85,774
Investments - Current	28,525	-
Total Assets	<u>29,174</u>	<u>\$ 85,774</u>
LIABILITIES		
Due to Other Funds	2,386	\$ -
Due to Student Groups	-	85,774
Total Liabilities	<u>2,386</u>	<u>\$ 85,774</u>
NET POSITION		
Restricted for Scholarships	<u>26,788</u>	
Total Net Position	<u>\$ 26,788</u>	

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

EUSTACE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY FUND NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2018

	Private Purpose Trust Funds
<hr/>	
ADDITIONS:	
Local and Intermediate Sources	\$ 8,235
Total Additions	<u>8,235</u>
DEDUCTIONS:	
Other Operating Costs	6,800
Total Deductions	<u>6,800</u>
Change in Net Position	1,435
Total Net Position - September 1 (Beginning)	<u>25,353</u>
Total Net Position - August 31 (Ending)	<u><u>\$ 26,788</u></u>

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

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Eustace Independent School District (“The District”) is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the “Board”) elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and other authoritative sources identified in *GASB Statement No. 56*; and it complies with the requirements of the appropriate version of Texas Education Agency’s *Financial Accountability System Resource Guide* (the “Resource Guide”) and the requirements of contracts and grants of agencies from which it receives funds.

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 fiduciary net position of the Teacher Retirement System of Texas (TRS) TRS Care Plan has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to other post-employment benefits, OPEB expense, and information about assets, liabilities and additions to/deductions from TRS Care’s fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments as this is a pay-as-you-go plan and all cash is held in a cash account.

A. REPORTING ENTITY

The Board of Trustees (the “Board”) has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public, has the authority to make decisions, appoint administrators and managers, significantly influence operations, and has primary accountability for fiscal matters. As such, the District is not included in any other governmental “reporting entity” as defined by *GASB Statement No. 14, The Financial Reporting Entity*. There are no component units included within the reporting entity. The District receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities.

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the District's nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates how other people or entities that participate in programs the District operates have shared in the payment of the direct costs. Direct costs are identifiable with a specific function. Program revenues of the District include charges for services and operating grants and contributions. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the District. Examples includes tuition paid by students not residing in the district, school lunch charges, etc. The "grants and contributions" column includes amounts paid by organizations outside the District to help meet the operational or capital requirements of a given function. Examples include grants under the Elementary and Secondary Education Act. If a revenue is not a program revenue, it is a general revenue used to support all of the District's functions. Taxes are always general revenues.

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

The fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for District operations, they are not included in the government-wide statements. The District considers some governmental and enterprise funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are nonoperating.

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the 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.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The District considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the District to refund all or part of the unused amount.

The proprietary fund types are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The Agency funds apply the accrual basis of accounting but do not have a measurement focus. All assets and all liabilities associated with operation of these funds are included on the Statement of Net Position. The total net position is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net position.

The fiduciary fund types are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable.

The Agency funds apply the accrual basis of accounting but do not have a measurement focus as they report only assets and liabilities.

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

D. FUND ACCOUNTING

The District's accounts are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which are comprised of each fund's assets, liabilities, equity, revenues, and expenditures or expenses.

The District reports the following fund types:

Governmental Funds:

1. **General Fund** - The general fund is the District's primary operating fund and is always reported as a major fund. It accounts for all financial resources except those required to be accounted for in another fund.
2. **Special Revenue Funds** - The District accounts for resources restricted to, or designated for specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.
3. **Debt Service Fund** - The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.
4. **Capital Projects Fund** - The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund.

Fiduciary Funds:

5. **Private Purpose Trust Funds** - The District accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit the District. The District's Private Purpose Trust Funds are the Scholarship Funds.
6. **Agency Fund** - The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Fund is the student activity fund.

E. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and highly liquid investments such as certificates of deposits, money market funds, local government investment pools, Treasury bills, and commercial paper that have a maturity from time of purchase of three months or less.

F. INVENTORIES

The District records purchases of supplies as expenditures. Inventory on the balance sheet is recorded at cost and represents supplies and materials purchased for the subsequent school year. Food service commodities are recorded at fair market value as supplied by the Texas Department of Human Services.

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

G. PREPAYMENTS

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments in both government-wide and fund financial statements.

H. CAPITAL ASSETS

Capital assets, which include land, buildings, furniture and equipment are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, furniture and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Vehicles	10
Furniture and Equipment	5 - 10

Land and construction in progress are not depreciated.

I. DEFERRED OUTFLOWS / DEFERRED INFLOWS OF RESOURCES

GASB No. 63 and GASB No. 65 provide guidance on financial reporting related to deferred outflows of resources and deferred inflows of resources. The objective of these statements is to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position.

In addition to assets, the Balance Sheet and Statement of Net Position may report a separate section for deferred outflows of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the Balance Sheet and Statement of Net Position may report a separate section for deferred inflows of resources. This separate financial statement element, Deferred Inflows of Resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow or resource (revenue) until that time.

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

J. LONG TERM DEBT

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

K. FUND BALANCE

The Governmental Accounting Standards Board has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories list below:

1. Nonspendable fund balance - includes amounts that cannot be spent because they are either not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable.
2. Restricted Fund Balance - includes amounts that are restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions of enabling legislation.
3. Committed Fund Balance - includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the District’s Board of Trustees. Those committed amounts cannot be used for any other purposes unless the Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.
4. Assigned Fund Balance - includes amounts that are constrained by the District’s intent to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by the Board or by other officials to which the Board has delegated the authority to assign amounts to be used for specific purposes. When it is appropriate for fund balance to be assigned, the Board delegates the responsibility to assign funds to the Superintendent or his/her designee.
5. Unassigned Fund Balance - is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The District will utilize funds in the following spending order: Restricted, Committed, Assigned and Unassigned.

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

L. USE OF ESTIMATES

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

M. DATA CONTROL CODES

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

N. TEACHER RETIREMENT SYSTEM

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/deduction 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 of the system are reported at fair value.

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net position for governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

<u>Capital Assets at the Beginning of the year</u>	<u>Historical Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Value at the Beginning of the Year</u>	<u>Change in Net Position</u>
Land	\$ 69 490	\$	\$ 69 490	
Construction in Progress				
Buildings & Improvements	30 145 502	13 938 406	16 207 096	
Furniture & Equipment	3 900 053	2 682 515	1 217 538	
Land Improvements	<u>7 860</u>	<u></u>	<u>7 860</u>	
Totals	<u>\$ 34 122 905</u>	<u>\$ 16 620 921</u>		
Change in Net Position				<u>\$ 17 501 984</u>
<u>Long-term Liabilities at the Beginning of the year</u>			<u>Payable at the Beginning of the Year</u>	
Bonds Payable			\$ 9 495 000	
Premium (Discount) on Issuance of Bonds			670 579	
Compensated Absences			<u>139 200</u>	
Change in Net Position				<u>(10 304 779)</u>
Net Adjustment to Net Position				<u>\$ 7 197 205</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2018

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Exhibit C-4 provides a reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net position of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net asset balance and the change in net position. The details of this adjustment are as follows:

	Amount	Adjustments to Changes in Net Position	Adjustments to Net Position
Current Year Capital Outlay:			
Land Improvements	\$ 1 006 629	\$	\$
Buildings & Improvements	97 600		
Furniture & Equipment	109 530		
Construction in Progress			
Total Capital Outlay	1 213 759	1 213 759	1 213 759
Debt Payments:			
Bond Principal	580 000		
Total Principal Payments	\$ 580 000	580 000	580 000
Total Adjustment to Net Position		\$ 1 793 759	\$ 1 793 759

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

C. EXPLANATION OF OTHER DIFFERENCES

Another element of the reconciliation on Exhibits C-2 and C-4 is described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details for this element are as follows:

	<u>Amount</u>	<u>Adjustments to Change in Net Position</u>	<u>Adjustments to Net Position</u>
Adjustments to Revenue and Deferred Revenue:			
Taxes Collected from Prior Year Levies	\$ 259 864	\$ (259 864)	\$
Uncollected taxes(assumed collectible) from Current Year Levy	225 127	225 127	225 127
Uncollected Taxes (assumed collectible) from Prior Year Levy	1 058 497		1 058 497
Accrued Interest on Debt:			
Prior Year	14 118	14 118	
Current Year	13 042	(13 042)	(13 042)
Bond Premium Amortization:			
Current Year Amortization	70 274	70 274	70 274
Reclassify Other Liabilities:			
Compensated Absences	16 720	16 720	16 720
Capital Asset Adjustment	17 833	<u>(17 833)</u>	<u>(17 833)</u>
Total		<u>\$ 35 500</u>	<u>\$ 1 339 743</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2018

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the Food Service Fund (which is included in the Special Revenue Fund). The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund budget report appears in Exhibit G-1 and the other two reports are in Exhibits J-4 and J-5.

The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

1. Prior to August 20 the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board.

Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end.

Each budget is controlled at the organizational level by the administration, appropriate department head or campus principal within Board allocations at the revenue and expenditure function /object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

A reconciliation of fund balances for both appropriated budget and nonappropriated budget special revenue funds is as follows:

	August 31, 2018 Fund Balance
Appropriated Budget Funds - Food Service Special Revenue Fund	\$ 92 811
Nonappropriated Budget Funds	136 411
All Special Revenue Funds	\$ 229 222

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

B. ENCUMBRANCE ACCOUNTING

Encumbrance accounting, under which purchase orders, contracts, and other commitments are recorded in order to reserve that portion of the applicable appropriation, is used in all governmental funds. Encumbrance accounting is utilized to ensure effective budgetary control and accountability. Encumbrances outstanding at year-end are commitments that do not constitute expenditures or liabilities. Since appropriations lapse at the end of each fiscal year, outstanding encumbrances are appropriately provided for in the subsequent fiscal year's budget to provide for the liquidation of the prior commitments. There were no outstanding encumbrances at the end of the fiscal year that were subsequently provided for in the 2018-2019 budget.

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

The Public funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar - weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

State statutes and Board policy authorize the District to invest in 1) Obligations of, or guaranteed by, governmental entities as permitted by Government Code 2256.009.; 2) Certificates of deposit and share certificates as permitted by Government Code 2256.010.; 3) Fully collateralized repurchase agreements permitted by Government Code 2256.011.; 4) A securities lending program as permitted by Government Code 2256.0115.; 5) Banker's acceptances as permitted by Government Code 2256.012.; 6) Commercial paper as permitted by Government Code 2256.013.; 7) No load money market mutual funds and no load mutual funds as permitted by Government Code 2256.014.; 8) A guaranteed investment contract as an investment vehicle for bond proceeds, provided it meets the criteria and eligibility requirements established by Government Code 2256.015.; and 9) Public funds investment pools as permitted by Government Code 2256.016.

In compliance with the Public Funds Investment Act, the District has adopted an investment policy. The District is in substantial compliance with the requirements of the Act and with local policies. The risks that the District may be subject are:

- a. Custodial Credit Risk - Deposits: This is the risk that in the event of a bank failure, the District's deposits, including checking, money market accounts and certificates of deposit, may not be returned to it.

The funds of the District must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance. During 2017-2018 the District's combined deposits were fully insured by federal depository insurance or collateralized with securities pledged to the District and held by the District's agent.

The largest combined balances of cash, savings and time deposit accounts amounted to \$8,611,721 and occurred on February 7, 2018. The amount of bond or market value of securities pledged as of the date of the highest combined balance on deposit was \$10,519,338. The total amount of FDIC coverage at the time of the highest combined balance was \$500,000.

- b. Custodial Credit Risk - Investments: This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Any investment that is both uninsured and unregistered is exposed to custodial credit risk if the investment is held by the counterparty, or if the investment is held by the counterparty's trust department or agent, but not in the name of the investor government. Investments are subject to custodial credit risk only if they are evidenced by securities that exist in physical or book entry form. Positions in external investment pools are not subject to custodial credit risk.

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

- c. Interest Rate Risk: Interest rate risk occurs when potential purchasers of debt securities do not agree to pay face value for those securities if interest rates rise. Investments with interest rates that are fixed for longer periods are likely to be subject to more variability in their fair values as a result of future changes in interest rates.
- d. Concentration of Credit Risk: Concentration risk is defined as positions of five percent or more in the securities of a single issuer. This is the issuer of the underlying investment, and not a pool. This does not apply to U.S. Government securities.

CASH DEPOSITS

At August 31, 2018, the amount of the District’s cash balance in checking accounts was \$1,984,977.

INVESTMENTS - CASH EQUIVALENTS

The District’s investments - cash equivalents at August 31, 2018, are shown below:

<u>Investment Type</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Money Market Accounts	\$ 28 752	\$ 28 752	.120235
Texpool	<u>1 584 041</u>	<u>1 584 010</u>	.065753
Total Investments	<u>\$ 1 612 793</u>	<u>\$ 1 612 762</u>	

INVESTMENTS - OTHER

The District’s investments - other at August 31, 2018, are shown below:

	<u>Cost</u>	<u>Fair Value</u>	<u>Weighed Average Maturity (Years)</u>
N/A	\$ _____	\$ _____	
Total Investments	<u>\$ _____</u>	<u>\$ _____</u>	

Local government investment pools operate in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940. Local government investment pools use amortized cost rather than market value to report net assets to compute share prices. Accordingly the market value of the position in these pools is the same as the value of the shares in each pool, which approximates the carrying amount. The investment pools are organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code.

For the purpose of the statement of cash flows for proprietary fund types, if applicable, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

B. PROPERTY TAXES

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are delinquent if not paid by February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Delinquent taxes not paid by June 30 are subject to penalty and interest charges plus delinquent collection fees for attorney costs. Property taxes are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period.

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the General and Debt Service Funds are based on historical experience in collecting 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.

The assessed value of the property tax roll on January 1, 2017 upon which the levy for the 2017-2018 fiscal year was based, was \$537,325,810. The tax rates assessed for the year ended August 31, 2018 to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.04 and \$.19 \$100 valuation, respectively, for a total of \$1.23 per \$100 valuation. Current tax collections for the year ended August 31, 2018 were 96.4% of the year end adjusted tax levy. As of August 31, 2018, property taxes receivable totaled \$1,150,934 and \$200,249 for the General and Debt Service Funds respectively.

C. RECEIVABLE FROM OTHER GOVERNMENTS

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2018 are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Receivable from Other Governments.

	General Fund	Debt Service Fund	Other Funds	Total
State Entitlements	\$ 479 717	\$	\$	\$ 479 717
State Grants				
Federal Grants			143 903	143 903
Total	<u>\$ 479 717</u>	<u>\$ 0</u>	<u>\$ 143 903</u>	<u>\$ 623 620</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

D. INTERFUND BALANCES AND TRANSFERS

Interfund balances at August 31, 2018 consisted of the following individual fund amounts:

<u>Fund</u>	<u>Due From</u>	<u>Due to</u>
General Fund:		
Trust Fund	\$ 2 386	\$
Trust Fund:		
General Fund	<u> </u>	<u>2 386</u>
Totals	<u>\$ 2 386</u>	<u>\$ 2 386</u>

Interfund transfers for the year ended August 31, 2018 consisted of the following individual fund amounts:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund:		
Special Revenue Fund	<u> </u>	<u>\$ 1 676</u>
Special Revenue Fund:		
General Fund	<u>1 676</u>	<u> </u>
Totals	<u>\$ 1 676</u>	<u>\$ 1 676</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

E. RECEIVABLES AND PAYABLES

Receivables at August 31, 2018, were as follows:

	General Fund	Debt Service Fund	Other Funds	Total
Property Taxes (Net)	\$ 1 093 387	\$ 190 236	\$	\$ 1 283 623
Other Governments	479 717		143 903	623 620
Other Funds	2 386			2 386
Totals	\$ 1 575 490	\$ 190 236	\$ 143 903	\$ 1 909 629

Payables at August 31, 2018, were as follows:

	General Fund	Debt Service Fund	Other Funds	Total
Accrued Wages	\$ 684 298	\$	\$ 116 354	\$ 800 652
Totals	684 298	\$ 0	\$ 116 354	\$ 800 652

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

F. CAPITAL ASSET ACTIVITY

Capital asset activity for the District for the year ended August 31, 2018, follows:

	Beginning Balance	Additions	Retirements/ Adjustments	Ending Balance
Nondepreciable Capital Assets				
Land	\$ 69 490	\$	\$	\$ 69 490
Construction in Progress	0			
Non-Depreciable Assets - Grants				
Subtotal Nondepreciable Assets	69 490			69 490
Depreciable Capital Assets				
Building & Improvements	30 145 502	97 600	(16 900)	30 226 202
Furniture & Equipment	3 900 053	109 530	(131 200)	3 878 383
Land Improvements	7 860	1 006 629		1 014 489
Subtotal Depreciable Assets	34 053 415	1 213 759	(148 100)	35 119 074
Total at Historical Cost	34 122 905	1 213 759	(148 100)	35 188 564
Less Accumulated Depreciation for:				
Buildings & Improvements	13 938 406	750 611	(16 900)	14 672 117
Furniture & Equipment	2 682 515	191 257	(113 367)	2 760 405
Total Accumulated Depreciation	16 620 921	941 868	(130 267)	17 432 522
Governmental Activities Capital Assets, Net				
	\$ 17 501 984	\$ 271 891	\$ (17 833)	\$ 17 756 042

Depreciation expense was charged to governmental functions as follows:

11	Instruction	\$ 514 035
12	Instructional Resources and Media Services	13 206
23	School Leadership	18 577
31	Guidance, Counseling and Evaluation Services	14 090
33	Health Service	14 719
34	Student (Pupil) Transportation	131 166
35	Food Services	33 144
36	Cocurricular/Extracurricular Activities	114 670
41	General Administration	25 986
51	Plant Maintenance and Operations	37 443
52	Security and Monitoring Services	4 425
53	Data Processing Services	20 407
Total Depreciation Expense		\$ 941 868

EUSTACE INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2018

G. BONDS PAYABLE

Bonded indebtedness of the District is reflected in the Long-Term Debt Account Group, and current requirements for principal and interest expenditures are accounted for in the Debt Service Fund.

A summary of changes in bonds payable for the year ended August 31, 2018 is as follows:

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding 9/1/17	Issued	Retired	Amounts Outstanding 8/31/18	Interest Current Year
Unlimited Tax Refunding Bonds Series 2013	2.0% to 4.0%	\$ 7 635 000	6 750 000		425 000	6 355 000	204 600
Unlimited Tax Refunding Bonds Series 2015	2.55% to 5.0%	\$ 2 745 000	\$ 2 745 000		155 000	2 590 000	107 750
Totals			<u>\$ 9 495 000</u>	<u>\$ 0</u>	<u>\$ 580 000</u>	<u>\$ 8 915 000</u>	<u>\$ 312 350</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

Debt service requirements are as follows:

Year Ended August 31,	General Obligations		
	Principal	Interest	Total Requirements
2019	\$ 605 000	\$ 287 050	\$ 892 050
2020	630 000	260 675	890 675
2021	660 000	233 100	893 100
2022	685 000	209 200	894 200
2023	705 000	188 050	893 050
2024 - 2028	3 900 000	567 038	4 467 038
2029 - 2030	<u>1 730 000</u>	<u>52 350</u>	<u>1 782 350</u>
Totals	<u>\$ 8 915 000</u>	<u>\$ 1 797 463</u>	<u>\$ 10 712 463</u>

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2018.

The District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. As of August 31, 2018 \$9,285,000 of bonds considered defeased are still outstanding.

H. CHANGES IN LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended August 31, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds Payable:					
General Obligation Bonds	\$ 9 495 000	\$ _____	\$ 580 000	\$ 8 915 000	\$ 605 000
Premium (Discount) on Issuance of Bonds:					
Premium	\$ 670 579	\$ _____	\$ 70 274	\$ 600 305	\$ _____
Compensated Absences	\$ 139 200	\$ _____	\$ 16 720	\$ 122 480	\$ _____
Total Governmental Activities Long-term Liabilities	<u>\$ 10 304 779</u>	<u>\$ _____</u>	<u>\$ 666 994</u>	<u>\$ 9 637 785</u>	<u>\$ 605 000</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

I. UNEARNED REVENUE AND UNAVAILABLE REVENUE

Unearned revenue at the fiscal year-end consisted of the following:

	General Fund	Debt Service Fund	Other Funds	Total
State Grant	\$ 0	\$ 0	\$ 2 429	\$ 2 429
	0	0	2 429	2 429

Unavailable revenue at the fiscal year end consisted of the following:

Net Property Taxes	\$ 1 093 388	\$ 190 236	\$ 0	\$ 1 283 624
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J. FUND BALANCE

Fund Balance is classified as nonspendable, restricted, committed, assigned and/or unassigned. The individual fund balances of the District are:

Fund Balance	General Fund	Debt Service Fund	Other Funds	Total
Nonspendable:				
Inventory	\$	\$	\$	\$
Prepaid Items				
Restricted:				
Federal Grants			92 811	92 811
State Grants				
Debt Service		925 944		925 944
Capital Projects				
Other				
Committed:				
Construction				
Assigned:				
Campus Activity			136 411	136 411
Unassigned	2 150 580			2 150 580
Total Fund Balances	\$ 2 150 580	\$ 925 944	\$ 229 222	\$ 3 305 746

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

K. LOCAL AND INTERMEDIATE SOURCES OF REVENUES

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

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Funds</u>	<u>Total</u>
Property Taxes	\$ 5 493 889	\$ 1 003 292	\$	\$ 6 497 181
Penalties, Interest & Other				
Tax Related Income	140 275	25 404		165 679
Food Sales			122 450	122 450
Investment Income	24 951	3 635	142	28 728
Co-curricular Student				
Activities	70 673		99 350	170 023
Other	<u>99 709</u>		<u>250</u>	<u>99 959</u>
Total	<u>\$ 5 829 497</u>	<u>\$ 1 032 331</u>	<u>\$ 222 192</u>	<u>\$ 7 084 020</u>

L. COMMITMENTS UNDER OPERATING LEASES

Commitments under operating (noncapitalized) lease agreements for equipment provided for minimum future rental payments as of August 31, 2018, as follows:

<u>Year Ended August 31</u>	<u>Total</u>
2019	\$ 71 405
2020	<u>59 504</u>
Total Minimum Rentals	<u>\$ 130 909</u>
Rental Expenditures in Fiscal Year 2017	<u>\$ 71 405</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

M. DEFINED BENEFIT PENSION PLAN

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

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

Pension Plan Fiduciary Net Position. Detailed information about the Teacher Retirement System'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.texas.gov/TRS%20Documents/cafr2016.pdf>; 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, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description above.

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

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. It also added a 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees effective for fiscal year 2015 as discussed in Note 1 of the TRS 2014 CAFR. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

Contribution Rates		
	2017	2018
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
District's 2018 Current Fiscal Year Contributions		\$ 294 383
District's 2018 Current Fiscal Year Member Contributions		\$ 771 614
District's 2017 Measurement Year NECE On-Behalf Contributions		486 295

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

As the non-employer contributing entity for public education, 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 including public 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 source, a privately sponsored source, from non-educational and general, or local funds.

EUSTACE INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2018

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

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

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

Valuation Date	August 31, 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	2.5%
Salary Increases Including Inflation	3.5% to 9.5%
Ad Hoc Post Employment Benefit Changes	None

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

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

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%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2016 are summarized below:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns *
Global Equity			
U.S.	18%	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%
Inflations Expectations			2.2%
Alpha			1.0%
Total	<u>100%</u>		<u>8.7%</u>

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

EUSTACE INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2018

Discount Rate Sensitivity Analysis. The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 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:	\$ <u>4 596 195</u>	\$ <u>2 726 414</u>	\$ <u>1 169 517</u>

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2018, the District reported a liability of \$2,726,414 or 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	\$ 2 726 414
State's proportionate share that is associated with the District	4 754 289
Total	<u>\$ 7 480 703</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 thru August 31, 2017.

At August 31, 2017 the employer's proportion of the collective net pension liability was .0085268078%, which was an increase (decrease) of (.000519923%) 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 August 31, 2018, the District recognized pension expense of \$362,638 and revenue of \$362,638 for support provided by the State.

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

At August 31, 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 39 889	\$ 147 032
Changes in actuarial assumptions	124 192	71 097
Difference between projected and actual investment earnings		198 695
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	608 167	188
Total as of August 31, 2016 measurement date	772 248	417 012
Contributions paid to TRS subsequent to the measurement date	294 383	
Total as of fiscal year end	\$ 1 066 631	\$ 417 012

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

Year ended August 31:	Pension Expense Amount
2019	\$ 53 021
2020	227 055
2021	39 649
2022	(14 454)
2023	30 439
Thereafter	17 526

Long-Term Liability Disclosure

	Beginning Balance	Additions	Retirements	Ending Balance
Net Pension Liability	\$ 3 025 683	\$ (19 810)	\$ 279 459	\$ 2 726 414

EUSTACE INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2018

N. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS

Plan Description

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

OPEB Plan Fiduciary Net Position

Detail information about the TRS-Care's fiduciary net position is available in the separately-issued TRS Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, 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 school, 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 dependent 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 Sept. 1, 2016 - Dec. 31, 2017

	TRS-Care 1 Basic Plan	TRS-Care 2 Optional Plan	TRS-Care 3 Optional Plan
Retiree	\$ 0	\$ 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			

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

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.

CONTRIBUTION RATES		
	2017	2018
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.00%	1.25%
Employers	0.55%	0.75%
Federal/private Funding remitted by Employers	1.00%	1.25%
District’s 2018 Employer Contributions		\$ 87 646
District’s 2018 Member Contributions		\$ 65 137
District’s 2017 NECE On-behalf Contributions		\$ 84 180

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 2016 and \$182.6 million in fiscal year 2018.

EUSTACE INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2018

Actuarial Assumptions

The total OPEB liability in the August 31, 2017 actuarial valuation was determined using the following actuarial assumptions: *Actuarial Assumptions can be found in the 2017 TRS CAFR, Note 10, page 82.*

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	2.5%
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	2.5%
Projected Salary Increases	3.5% - 9.5%
Healthcare Trend Rates	4.5% 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

Other Information

There was a significant plan change adopted in 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.

EUSTACE INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2018

Discount Rate

A single discount rate of 3.42% was used to measure the total OPEB liability. There was a change of .44 percent in the discount rate since the previous year. *The Discount Rate can be found in the 2017 TRS CAFR on page 83.* 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.**

Discount Rate Sensitivity Analysis

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 Net OPEB Liability.

	1% Decrease in Discount Rate (2.42%)	Current Single Discount Rate (3.42%)	1% Increase in Discount Rate (4.42%)
District’s proportionate share of the Net OPEB liability:	\$ <u>6 167 820</u>	\$ <u>5 225 867</u>	\$ <u>4 468 748</u>

Healthcare Cost Trend Rates Sensitivity Analysis

The following presents the Net OPEB Liability of the plan using the assumed healthcare cost trend rate, as well as what the net OPEB liability would be if it were calculated using a trend rate that is one-percentage point lower or one-percentage point higher than the assumed healthcare cost trend rate.

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase in
Proportionate share of net OPEB liability:	\$ <u>4 351 056</u>	\$ <u>5 225 867</u>	\$ <u>6 373 723</u>

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

At August 31, 2018, the District reported a liability of \$5,225,867 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 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	\$	5 225 867
State’s proportionate share that is associated with the District		<u>7 041 080</u>
Total	\$	<u><u>12 266 947</u></u>

EUSTACE INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2018

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 contribution of all employers to the plan for the period September 1, 2016 thru August 31, 2017.

At August 31, 2017 the employer's proportion of the collective Net OPEB Liability was .0120172852% the same proportion measured as of August 31, 2016.

Since this is the first year of implementation, the District does not have the proportion measured as of August 31, 2016. The Notes to the Financial Statements for August 31, 2016 for TRS stated that the change in proportion was immaterial and, therefore, disregarded this year.

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:

There was a significant plan change adopted in 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.

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

For the year ended August 31, 2018, the District recognized OPEB expense of \$(2,356,133) and revenue of \$(2,356,133). For support provided by the State. (Refer to the 2017 Schedule of On-Behalf Contributions for this information posted on the TRS website under GASB Statements 74 & 75.)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experience	\$	\$ 109 094
Changes in actuarial assumptions		2 076 896
Difference between projected and actual investment earnings	794	
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	27	
Total as of August 31 measurement date	\$ 821	\$ 2 185 990
Contributions paid to TRS subsequent to the measurement date (To be calculated by employer)	87 646	
Total as of fiscal year end	<u>\$ 88 467</u>	<u>\$ 2 185 990</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

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:

Year ended August 31:	OPEB Expense Amount
2019	(288 335)
2020	(288 335)
2021	(288 335)
2022	(288 335)
2023	(288 534)
Thereafter	(743 295)

Long-Term Liability Disclosure

	Beginning Balance	Additions	Retirements	Ending Balance
Net OPEB Liability	\$ 9 226 003	\$ (3 937 658)	\$ 62 478	\$ 5 225 867

O. HEALTH CARE

During the year ended August 31, 2018 employees of the Eustace Independent School District were covered by the state sponsored health insurance plan. The district paid premiums of \$267 per month per employee to the plan and employees, at their option, authorized payroll withholdings to pay premiums for dependents.

All premiums were paid to TRS-ActiveCare, the statewide health coverage program for public education employees administered by Aetna. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the District and TRS ActiveCare is renewable September 1 of each year and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for Aetna are available for the most recent year and have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

P. SCHOOL DISTRICT RETIREE HEALTH PLAN

Plan Description

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

Medicare Part D:

Federal Government Retiree Drug Subsidy - Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. On-behalf payments must be recognized as equal revenues and expenditures/expenses by the District. The allocation of these on-behalf payments is based on the ratio of a reporting entity's covered payroll to the entire payroll reported by all reporting entities. The amount allocated on-behalf for the year ended August 31, 2018 is estimated by TRS at \$44,449.

Q. COMPENSATED ABSENCES

Vacations are to be taken within the same year they are earned, and any unused days at the end of the year are forfeited. Therefore, no liability has been accrued in the accompanying general purpose financial statements. Employees of the District are entitled to sick leave based on category/class of employment. Sick leave is allowed to be accumulated but does not vest for most employees.

The District adopted a policy to buy back unused state leave upon retirement. The policy provides a table to determine the amount of the benefit based on years of service in the District for professional and auxiliary employees and the maximum number of days available. The accumulated leave benefit at August 31, 2018 was \$122,480 and is recorded in the Long Term Debt Account Group.

R. CONSTRUCTION AND OTHER COMMITMENTS AND CONTINGENCIES

The District participates in numerous state and Federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectibility of any related receivable at August 31, 2018 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

S. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disaster. During fiscal year 2018 the district purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

T. SUBSEQUENT EVENTS

The District has evaluated subsequent events through December 10; the date which the financial statements were available for distribution. The voters of the District approved a bond proposal of \$38.6 million on November 6, 2018 for various construction and renovation projects.

U. PRIOR PERIOD ADJUSTMENT

During fiscal year 2018, the District adopted GASB Statement No. 75 for Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. With GASB 75, the District must assume their proportionate share of the Net OPEB liability of the Teacher Retirement System of Texas. Adoption of GASB 75 required a prior period adjustment to report the effect of GASB 75 retroactively. The prior period adjustment totaled \$(9,163,523) which resulted in a restated beginning net position balance of \$1,254,543.

REQUIRED SUPPLEMENTARY INFORMATION

EUSTACE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 5,958,109	\$ 5,864,665	\$ 5,829,497	\$ (35,168)
5800	State Program Revenues	7,526,918	7,526,918	7,657,781	130,863
5900	Federal Program Revenues	130,000	229,349	286,787	57,438
5020	Total Revenues	13,615,027	13,620,932	13,774,065	153,133
EXPENDITURES:					
Current:					
0011	Instruction	8,058,834	8,093,397	7,996,782	96,615
0012	Instructional Resources and Media Services	88,809	85,012	74,888	10,124
0013	Curriculum and Instructional Staff Development	110,617	140,711	136,335	4,376
0021	Instructional Leadership	178,167	185,317	180,517	4,800
0023	School Leadership	808,143	820,772	814,726	6,046
0031	Guidance, Counseling and Evaluation Services	571,063	578,012	571,815	6,197
0032	Social Work Services	27,748	15,899	13,379	2,520
0033	Health Services	108,816	115,097	112,177	2,920
0034	Student (Pupil) Transportation	480,564	524,120	500,921	23,199
0036	Extracurricular Activities	686,728	716,216	661,084	55,132
0041	General Administration	510,770	515,149	488,295	26,854
0051	Facilities Maintenance and Operations	1,244,538	1,320,348	1,241,751	78,597
0052	Security and Monitoring Services	58,248	50,864	35,830	15,034
0053	Data Processing Services	424,802	441,786	262,390	179,396
Capital Outlay:					
0081	Facilities Acquisition and Construction	120,000	1,116,493	1,106,209	10,284
Intergovernmental:					
0099	Other Intergovernmental Charges	132,000	132,488	132,488	-
6030	Total Expenditures	13,609,847	14,851,681	14,329,587	522,094
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	5,180	(1,230,749)	(555,522)	675,227
OTHER FINANCING SOURCES (USES):					
8911	Transfers Out (Use)	-	-	(1,676)	(1,676)
1200	Net Change in Fund Balances	5,180	(1,230,749)	(557,198)	673,551
0100	Fund Balance - September 1 (Beginning)	2,707,778	2,707,778	2,707,778	-
3000	Fund Balance - August 31 (Ending)	\$ 2,712,958	\$ 1,477,029	\$ 2,150,580	\$ 673,551

EUSTACE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2018

	FY 2018 Plan Year 2017	FY 2017 Plan Year 2016	FY 2016 Plan Year 2015	FY 2015 Plan Year 2014
District's Proportion of the Net Pension Liability (Asset)	0.008526808%	0.008006885%	0.0082935%	0.0054254%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 2,726,414	\$ 3,025,683	\$ 2,931,642	\$ 1,449,199
State's Proportionate Share of the Net Pension Liability (Asset) Associated with the District	4,754,289	5,795,182	5,588,592	4,639,475
Total	<u>\$ 7,480,703</u>	<u>\$ 8,820,865</u>	<u>\$ 8,520,234</u>	<u>\$ 6,088,674</u>
District's Covered Payroll	\$ 9,491,436	\$ 9,072,308	\$ 8,950,731	\$ 8,402,980
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	28.72%	33.35%	32.75%	17.25%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	82.17%	78.00%	78.43%	83.25%

Note: GASB 68, Paragraph 81 requires that the information on this schedule be data from the period corresponding with the periods covered as of the measurement dates of August 31, 2017 for year 2018, August 31, 2016 for Year 2017, August 31, 2015 for Year 2016 and August 31, 2014 for 2015.

Note: In accordance with GASB 68, Paragraph 138, only four years of data are presented this reporting period. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

EUSTACE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR PENSIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR FISCAL YEAR 2018

	2018	2017	2016	2015
Contractually Required Contribution	\$ 294,383	\$ 278,961	\$ 254,583	\$ 244,392
Contribution in Relation to the Contractually Required Contribution	(294,383)	(278,961)	(254,583)	(244,392)
Contribution Deficiency (Excess)	\$ -0-	\$ -0-	\$ -0-	\$ -0-
District's Covered Payroll	\$ 10,020,881	\$ 9,491,436	\$ 9,072,308	\$ 8,905,731
Contributions as a Percentage of Covered Payroll	2.94%	2.94%	2.81%	2.74%

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31 of the preceding year.

Note: In accordance with GASB 68, Paragraph 138, only four years of data are presented this reporting period. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

EUSTACE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
 TEACHER RETIREMENT SYSTEM OF TEXAS
 FOR THE YEAR ENDED AUGUST 31, 2018

	<u>FY 2018</u> <u>Plan Year 2017</u>
District's Proportion of the Net Liability (Asset) for Other Post Employment Benefits	0.012017285%
District's Proportionate Share of Net Post Employment Benefit Liability (Asset)	\$ 5,225,867
State's Proportionate Share of the Net Post Employment Benefit Liability (Asset) Associated with the District	7,041,080
Total	<u>\$ 12,266,947</u>
District's Covered Payroll	\$ 9,491,436
District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	55.06%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.91%

Note: GASB Codification, Vol. 2, P50.238 states that the information on this schedule should be determined as of the measurement date. Therefore the amounts reported for FY 2018 are based on the August 31, 2017 measurement date.

This schedule shows only the year for which this information is available. Additional information will be added until 10 years of data are available and reported.

EUSTACE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR OTHER POSTEMPLOYMENT BENEFITS (OPEB)
 TEACHER RETIREMENT SYSTEM OF TEXAS
 FOR FISCAL YEAR 2018

	2018
Contractually Required Contribution	\$ 87,646
Contribution in Relation to the Contractually Required Contribution	(87,646)
	\$ -0-
Contribution Deficiency (Excess)	-0-
District's Covered Payroll	\$ 10,020,881
Contributions as a Percentage of Covered Payroll	0.87%

Note: GASB Codification, Vol. 2, P50.238 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31 of the preceding year.

Information in this schedule should be provided only for the years where data is available. Eventually 10 years of data should be presented.

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED AUGUST 31, 2018

PENSIONS:

Changes of Benefit Terms

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

Changes of Assumptions

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

OTHER POST-EMPLOYMENT BENEFITS:

Changes of Benefit Term

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

Changes of Assumptions

There was a significant plan change adopted in 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.

COMBINING STATEMENTS

EUSTACE INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2018

Data Control Codes	211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	240 National Breakfast and Lunch Program	
ASSETS					
1110	Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ 65,262
1240	Due from Other Governments	39,854	33,475	881	62,226
1000	Total Assets	<u>\$ 39,854</u>	<u>\$ 33,475</u>	<u>\$ 881</u>	<u>\$ 127,488</u>
LIABILITIES					
2160	Accrued Wages Payable	\$ 39,854	\$ 33,475	\$ 881	\$ 34,677
2300	Unearned Revenue	-	-	-	-
2000	Total Liabilities	<u>39,854</u>	<u>33,475</u>	<u>881</u>	<u>34,677</u>
FUND BALANCES					
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	-	-	-	92,811
Assigned Fund Balance:					
3590	Other Assigned Fund Balance	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>92,811</u>
4000	Total Liabilities and Fund Balances	<u>\$ 39,854</u>	<u>\$ 33,475</u>	<u>\$ 881</u>	<u>\$ 127,488</u>

EXHIBIT H-1 (Cont'd)

242 Summer Feeding Program	244 Career and Technical - Basic Grant	255 ESEA II,A Training and Recruiting	270 ESEA VI, Pt B Rural & Low Income	289 Title IV Part A	397 Teacher Training Reimbursement	410 State Textbook Fund	429 Other State Grants
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 977	\$ 1,452
-	-	4,682	2,785	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,682</u>	<u>\$ 2,785</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 977</u>	<u>\$ 1,452</u>
\$ -	\$ -	\$ 4,682	\$ 2,785	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	977	1,452
-	-	4,682	2,785	-	-	977	1,452
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,682</u>	<u>\$ 2,785</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 977</u>	<u>\$ 1,452</u>

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EUSTACE INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2018

Data Control Codes	461 Campus Activity Funds	Total Nonmajor Governmental Funds	
ASSETS			
1110	Cash and Cash Equivalents	\$ 136,411	\$ 204,102
1240	Due from Other Governments	-	143,903
1000	Total Assets	<u>\$ 136,411</u>	<u>\$ 348,005</u>
LIABILITIES			
2160	Accrued Wages Payable	\$ -	\$ 116,354
2300	Unearned Revenue	-	2,429
2000	Total Liabilities	<u>-</u>	<u>118,783</u>
FUND BALANCES			
Restricted Fund Balance:			
3450	Federal or State Funds Grant Restriction	-	92,811
Assigned Fund Balance:			
3590	Other Assigned Fund Balance	136,411	136,411
3000	Total Fund Balances	<u>136,411</u>	<u>229,222</u>
4000	Total Liabilities and Fund Balances	<u>\$ 136,411</u>	<u>\$ 348,005</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes	211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	240 National Breakfast and Lunch Program
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ 122,592
5800 State Program Revenues	-	-	-	7,747
5900 Federal Program Revenues	476,904	394,293	12,159	855,003
5020 Total Revenues	<u>476,904</u>	<u>394,293</u>	<u>12,159</u>	<u>985,342</u>
EXPENDITURES:				
Current:				
0011 Instruction	476,904	394,293	12,159	-
0035 Food Services	-	-	-	1,155,438
0036 Extracurricular Activities	-	-	-	-
6030 Total Expenditures	<u>476,904</u>	<u>394,293</u>	<u>12,159</u>	<u>1,155,438</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	-	(170,096)
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	-	-	-
1200 Net Change in Fund Balance	-	-	-	(170,096)
0100 Fund Balance - September 1 (Beginning)	-	-	-	262,907
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 92,811</u>

242 Summer Feeding Program	244 Career and Technical - Basic Grant	255 ESEA II,A Training and Recruiting	270 ESEA VI, Pt B Rural & Low Income	289 Title IV Part A	397 Teacher Training Reimbursement	410 State Textbook Fund	429 Other State Grants
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	570	25,474	345
1,606	16,697	48,886	26,271	12,458	-	-	-
1,606	16,697	48,886	26,271	12,458	570	25,474	345
-	16,697	48,886	26,271	12,458	570	25,474	345
3,282	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
3,282	16,697	48,886	26,271	12,458	570	25,474	345
(1,676)	-	-	-	-	-	-	-
1,676	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

EUSTACE INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes	461 Campus Activity Funds	Total Nonmajor Governmental Funds
REVENUES:		
5700 Total Local and Intermediate Sources	\$ 99,600	\$ 222,192
5800 State Program Revenues	-	34,136
5900 Federal Program Revenues	-	1,844,277
5020 Total Revenues	<u>99,600</u>	<u>2,100,605</u>
EXPENDITURES:		
Current:		
0011 Instruction	-	1,014,057
0035 Food Services	-	1,158,720
0036 Extracurricular Activities	105,264	105,264
6030 Total Expenditures	<u>105,264</u>	<u>2,278,041</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(5,664)	(177,436)
OTHER FINANCING SOURCES (USES):		
7915 Transfers In	-	1,676
1200 Net Change in Fund Balance	(5,664)	(175,760)
0100 Fund Balance - September 1 (Beginning)	<u>142,075</u>	<u>404,982</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 136,411</u>	<u>\$ 229,222</u>

REQUIRED TEA SCHEDULES

EUSTACE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2018

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2009 and prior years	Various	Various	\$ Various
2010	1.040000	0.218000	476,828,914
2011	1.040000	0.236300	479,576,888
2012	1.040000	0.236300	479,326,165
2013	1.040000	0.230000	507,956,169
2014	1.040000	0.226400	513,916,377
2015	1.040000	0.191500	532,628,423
2016	1.040000	0.191500	531,771,856
2017	1.040000	0.190000	526,680,367
2018 (School year under audit)	1.040000	0.190000	537,325,810
1000 TOTALS			

(10) Beginning Balance 9/1/2017	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2018
\$ 447,795	\$ -	\$ 21,766	\$ 2,322	\$ (55,098)	\$ 368,609
63,538	-	3,404	714	(4,276)	55,144
70,587	-	4,364	992	(3,394)	61,837
89,815	-	6,516	1,481	(2,735)	79,083
96,143	-	8,261	1,827	(2,676)	83,379
106,461	-	8,442	1,838	(2,969)	93,212
123,839	-	14,089	2,594	(3,839)	103,317
157,039	-	30,550	5,625	(3,516)	117,348
232,531	-	54,063	9,877	(16,313)	152,278
-	6,609,107	5,342,434	976,022	(53,675)	236,976
<u>\$ 1,387,748</u>	<u>\$ 6,609,107</u>	<u>\$ 5,493,889</u>	<u>\$ 1,003,292</u>	<u>\$ (148,491)</u>	<u>\$ 1,351,183</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
 FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 133,268	\$ 133,268	\$ 122,592	\$ (10,676)
5800 State Program Revenues	6,000	6,000	7,747	1,747
5900 Federal Program Revenues	821,854	860,360	855,003	(5,357)
5020 Total Revenues	961,122	999,628	985,342	(14,286)
EXPENDITURES:				
0035 Food Services	957,922	1,172,955	1,155,438	17,517
6030 Total Expenditures	957,922	1,172,955	1,155,438	17,517
1200 Net Change in Fund Balances	3,200	(173,327)	(170,096)	3,231
0100 Fund Balance - September 1 (Beginning)	262,907	262,907	262,907	-
3000 Fund Balance - August 31 (Ending)	\$ 266,107	\$ 89,580	\$ 92,811	\$ 3,231

EUSTACE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 895,350	\$ 895,350	\$ 1,032,331	\$ 136,981
5800	State Program Revenues	-	-	27,335	27,335
5020	Total Revenues	895,350	895,350	1,059,666	164,316
EXPENDITURES:					
Debt Service:					
0071	Principal on Long-Term Debt	580,000	580,000	580,000	-
0072	Interest on Long-Term Debt	312,350	312,350	312,350	-
0073	Bond Issuance Cost and Fees	3,000	3,000	1,000	2,000
6030	Total Expenditures	895,350	895,350	893,350	2,000
1200	Net Change in Fund Balances	-	-	166,316	166,316
0100	Fund Balance - September 1 (Beginning)	759,628	759,628	759,628	-
3000	Fund Balance - August 31 (Ending)	\$ 759,628	\$ 759,628	\$ 925,944	\$ 166,316

COMPLIANCE, INTERNAL CONTROL AND FEDERAL AWARDS

SMITH, LAMBRIGHT & ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Marlin R. Smith, CPA
J. W. Lambright, CPA

Cheri E. Kirkland, CPA
David N. Hopkins, CPA

P. O. Box 912
505 E. Tyler
Athens, Texas 75751
(903) 675-5674
FAX (903) 675-5676
smithlambright.com

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

Independent Auditor's Report

Board of School Trustees
Eustace Independent School District
P. O. Box 188
Eustace, Texas 75124

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the District as of and for the year ended August 31, 2018 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 10, 2018.

Internal Control Over Financial Reporting

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

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

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

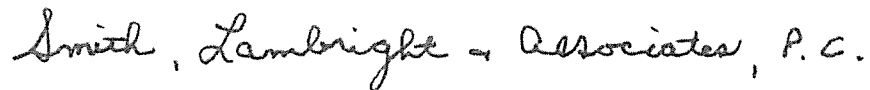
Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,



SMITH, LAMBRIGHT & ASSOCIATES, P. C.
Certified Public Accountants
Athens, Texas

December 10, 2018

SMITH, LAMBRIGHT & ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Marlin R. Smith, CPA
J. W. Lambright, CPA

Cheri E. Kirkland, CPA
David N. Hopkins, CPA

P. O. Box 912
505 E. Tyler
Athens, Texas 75751
(903) 675-5674
FAX (903) 675-5676
smithlambright.com

**Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance;
and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

Independent Auditor's Report

Board of School Trustees
Eustace Independent School District
P. O. Box 188
Eustace, Texas 75124

Report on Compliance for Each Major Federal Program

We have audited the District 's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2018. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2018.

Report on Internal Control Over Compliance

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

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

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

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

Respectfully submitted,



SMITH, LAMBRIGHT & ASSOCIATES, P. C.
Certified Public Accountants
Athens, Texas

December 10, 2018

EUSTACE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED AUGUST 31, 2018

I. Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards:

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ yes X none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Title 2 CFR 200.516(a) _____ yes X no

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
	Child Nutrition Cluster:
10.533	School Breakfast Program
10.555	National School Lunch Program
10.559	Summer Feeding Program

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low risk auditee? X yes _____ no

District Contact Person Coy Holcombe, Ed.D.
 Superintendent

EUSTACE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED AUGUST 31, 2018

II. Financial Statement Findings

The audit disclosed no finding required to be reported.

III. Federal Awards Findings and Questioned Costs

The audit disclosed no finding required to be reported.

EUSTACE INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2018

N/A

EUSTACE INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2018

N/A

EUSTACE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED AUGUST 31, 2018

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	18-610101107905	\$ 437,051
ESEA, Title I, Part A - Improving Basic Programs	84.010A	19-610101107905	39,853
Total CFDA Number 84.010A			476,904
*IDEA - Part B, Formula	84.027	18-660001107905	360,818
*IDEA - Part B, Formula	84.027	19-660001107905	33,475
Total CFDA Number 84.027			394,293
*IDEA - Part B, Preschool	84.173	18-661001107905	11,278
*IDEA - Part B, Preschool	84.173	19-661001107905	881
Total CFDA Number 84.173			12,159
Total Special Education Cluster (IDEA)			406,452
Career and Technical - Basic Grant	84.048	18-420006107905	16,697
ESEA, Title VI, Part B - Rural & Low Income Prog.	84.358B	18-696001107905	23,486
ESEA, Title VI, Part B - Rural & Low Income Prog.	84.358B	19-696001107905	2,785
Total CFDA Number 84.358B			26,271
ESEA, Title II, Part A, Supporting Effective Instr	84.367A	18-694501107905	44,204
ESEA, Title II, Part A, Supporting Effective Instr	84.367A	19-694501107905	4,682
Total CFDA Number 84.367A			48,886
Title IV, Part A, Subpart 1	84.424A	18-680101107905	12,458
Total Passed Through State Department of Education			987,668
TOTAL U.S. DEPARTMENT OF EDUCATION			987,668
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
**School Breakfast Program	10.553		180,413
**National School Lunch Program-Cash Assistance	10.555		603,453
**National School Lunch Prog.-Non-Cash Assistance	10.555		71,137
Total CFDA Number 10.555			674,590
**Summer Feeding Program-Cash Assistance	10.559		1,606
Total Child Nutrition Cluster			856,609
Total Passed Through the State Department of Agriculture			856,609
TOTAL U.S. DEPARTMENT OF AGRICULTURE			856,609
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,844,277

*Clustered Programs

**Clustered Programs

Note A - Funds received from ESC Region 7 for Head Start reimbursements of \$94,058 in the General Fund are not considered as federal financial assistance for purposes of this schedule. The program is reported as a federal program of ESC Region 7.

Note B - Funds received from the SHARS program of \$192,729 in the General Fund are not considered as federal financial assistance for purposes of this schedule.

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

EUSTACE INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED AUGUST 31, 2018

- For all Federal programs, the District uses the fund types specified in Texas Education Agency’s *Financial Accountability System Resource Guide*. Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund.
- The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in the General Fund or in a Special Revenue Fund which are Governmental Fund types.

With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets. The modified accrual basis of accounting is used for the Governmental Fund types. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred revenues until earned.

- The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions of the Period of Availability of Federal Funds.
- The National School Breakfast and Lunch Programs and the USDA donated commodities are accounted for in the nonmajor governmental funds. The Impact Aid, if any, is accounted for in the General Fund. Expenditures are not specifically attributable to these revenue sources and are shown on this schedule in an amount equal to revenue for balancing purposes only. The revenue for indirect costs is recognized in the General Fund.
- The expenditures shown on the Schedule of Expenditures of Federal Awards (SEFA) does not equal to total federal revenues shown on Exhibit C-3 by the amount of federal revenue recorded in various funds as shown below. These amounts are not subject to the Single Audit Act and are not required to be included in the SEFA.

Amount reported on the Schedule of Expenditures of Federal Awards \$	1 844 277
SHARS Revenue reported in the General Fund	192 729
Region 7 Head Start Reimbursement	94 058
Federal Program Revenue Reported on Exhibit C-3	\$ 2 131 064

Financial Advisory Services
Provided By:

SAMCO CAPITAL MARKETS, INC.