

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

\$9,365,000*

ANAHUAC INDEPENDENT SCHOOL DISTRICT
(Chambers County, Texas)

Unlimited Tax Refunding Bonds
Series 2019

Bids Due
October 17, 2019
at 10:30 A.M. Central Time

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

OFFICIAL NOTICE OF SALE

\$9,365,000*

ANAHUAC INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Chambers County, Texas)

UNLIMITED TAX REFUNDING BONDS, SERIES 2019

THE SALE

BONDS OFFERED FOR SALE AT COMPETITIVE BID: The Board of Trustees (the "Board") of the Anahuac Independent School District (the "District" or the "Issuer") is offering for sale at competitive bid its \$9,365,000* Unlimited Tax Refunding Bonds, Series 2019 (the "Bonds"). Bidders may submit bids for the Bonds by either of the following methods:

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

BIDS BY INTERNET: Interested bidders may, at their option and risk, submit their bid by electronic media, as described below, by 10:30 A.M. Central Time, on October 17, 2019. Bidders submitting a bid by internet **shall not** be required to submit signed Official Bid Forms prior to the award. Any prospective bidder that intends to submit an electronic bid must submit its electronic bid via the facilities of the i-Deal, LLC Parity System ("PARITY") and should, as a courtesy, register with PARITY by 9:30 A.M., Central Time, on October 17, 2019 indicating their intent to submit a bid by internet.

In the event of a malfunction in the electronic bidding process, bidders may submit their bids by facsimile, as described below. Any bid received after the scheduled time for their receipt will not be accepted.

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

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

BIDS BY FACSIMILE: Interested bidders may, at their option and risk, submit their bid by facsimile to the District's Financial Advisor, SAMCO Capital Markets, Inc., Attention: Mr. Doug Whitt at (214) 279-8683 by 10:30 A.M., Central Time, on October 17, 2019. Bidders submitting a bid by facsimile **shall not** be required to submit signed Official Bid Forms prior to the award. Any prospective bidder that intends to submit a bid by facsimile should, as a courtesy, submit an email message to dwhitt@samcocapital.com by 9:30 A.M., Central Time, on October 17, 2019 indicating their intent to submit a bid by facsimile.

Neither the District nor SAMCO Capital Markets, Inc. is responsible for any failure of the Financial Advisor's or the bidder's fax machine. Bids received by facsimile after the bid deadline will not be accepted. Bidders who fax bids do so at their own risk. All such bids are binding on the bidder.

PLACE AND TIME OF BID OPENING: The bids for the Bonds will be opened at the District's offices at 10:30 A.M. Central Time, on October 17, 2019.

AWARD OF THE BONDS: In the order authorizing the Bonds adopted on September 30, 2019 (the "Order"), the Board has delegated authority to certain District officials (each, an "Authorized Official") the authority to execute a pricing certificate (the "Approval Certificate") and to establish the final terms and effectuate the sale of the Bonds, which terms will be evidenced in the Approval Certificate. Upon the opening of the bids as described above, the Authorized Official shall award the Bonds by executing the Official Bid Form and the Approval Certificate. The District, acting through the Authorized Official, reserves the right to reject any and all bids and to waive any irregularities except time of submission.

THE BONDS

DESCRIPTION: The Bonds will be dated November 1, 2019 (the "Dated Date") with interest payable initially on February 15, 2020 and semiannually thereafter on each August 15 and February 15 until stated maturity. The Bonds will be issued as fully registered obligations in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository (the "Securities Depository"). Book-entry interests in the Bonds will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Bonds ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, the principal of and interest on the Bonds will be payable by BOKF, NA, Dallas, Texas as Paying Agent/Registrar, to the Securities Depository, which will in turn remit such principal and interest to its Participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds. (See "BOOK-ENTRY-ONLY SYSTEM" in the Preliminary Official Statement.)

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

MATURITY SCHEDULE

Maturity 2/15	Principal Amount*	Maturity 2/15	Principal Amount*
2020	\$670,000	2026	\$840,000
2021	1,100,000	2027	865,000
2022	755,000	2028	895,000
2023	770,000	2029	915,000
2024	790,000	2030	950,000
2025	815,000		

ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE BONDS: After selecting the winning bid, the aggregate principal amount of the Bonds and the principal amortization schedule may be adjusted as determined by the District and its Financial Advisor in \$5,000 increments to reflect the actual interest rates and to create a substantially level debt service schedule for the District. Such adjustments will not change the aggregate principal amount of the Bonds by more than 10% from the amount set forth herein or change the principal amount due on the Bonds in any year by more than 20%. The dollar amount bid for the Bonds by the winning bidder will be adjusted proportionately to reflect any increase or decrease in the aggregate principal amount of the Bonds finally determined to be issued. The District will use its best efforts to communicate to the winning bidder any such adjustment within four (4) hours after the opening of the bids. Purchaser's compensation will be based upon the final par amount after any adjustment thereto, subsequent to the receipt and tabulation of the winning bid, within the aforementioned parameters.

In the event of any adjustment of the maturity schedule for the Bonds as described above, no rebidding or recalculation of the proposals submitted will be required or permitted. Any such adjustment of the aggregate principal amount of the Bonds and/or the maturity schedule for the Bonds made by the District or its Financial Advisor shall be subsequent to the award of the Bonds to the winning bidder as determined pursuant to "CONDITIONS OF THE SALE – BASIS OF AWARD" herein and shall not affect such determination. The winning bidder may not withdraw its bid as a result of any changes made within the aforementioned limits.

SERIAL BONDS AND/OR TERM BONDS: Bidders may provide that all of the Bonds be issued as serial maturities or may provide that maturities 2020 through 2030 be combined into one or more term bonds (the "Term Bonds").

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

NO OPTIONAL REDEMPTION: Unless the Purchaser designates Bonds as Term Bonds, in which event those Bonds will be subject to mandatory sinking fund redemption, the Bonds will not be subject to optional redemption prior to maturity.

QUALIFIED TAX-EXEMPT OBLIGATIONS: The District will designate the Bonds as "qualified tax-exempt obligations" for financial institutions. (See "TAX MATTERS – Qualified Tax-Exempt Obligations" in the Preliminary Official Statement.)

AUTHORITY FOR ISSUANCE AND SECURITY FOR PAYMENT: The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, including, particularly, Chapter 1207, Texas Government Code, as amended, and the Order. As permitted by the provisions of Chapter 1207, the Board, in the Order, delegated the authority to certain District officials to execute a pricing certificate (the "Approval Certificate") establishing the final pricing terms for the Bonds. The Bonds are direct obligations of the District and are payable as to both principal and interest from ad valorem taxes to be levied annually on all taxable property within the District, without legal limitation as to rate or amount. (See "THE BONDS – Security" in the Preliminary Official Statement.)

PERMANENT SCHOOL FUND GUARANTEE: The District has received conditional approval from the Texas Education Agency for the payment of principal of and interest on 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 PERMANENT SCHOOL FUND GUARANTEE PROGRAM" in the Preliminary Official Statement.)

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

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

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

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

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

OFFICIAL STATEMENT AND OTHER TERMS AND COVENANTS IN THE ORDER: Further details regarding the Bonds and certain covenants of the District contained in the Order are set forth in the Preliminary Official Statement, to which reference is made for all purposes.

CONDITIONS OF THE SALE

TYPES OF BIDS AND INTEREST RATES: The Bonds will be sold in one block, on an "All or None" basis, and at a price of not less than their par value, plus accrued interest on the Bonds from the Dated Date of the Bonds to the date of Initial Delivery (defined herein) of the Bonds. **No bid producing a cash premium on the Bonds that results in a dollar price of less than \$103.50 nor greater than \$110.00 will be considered; provided, however, that any bid is subject to adjustment as described under the caption "THE BONDS – ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE BONDS."** Bidders are invited to name the rate(s) of interest to be borne by the Bonds, provided that each rate bid must be in a multiple of 1/8 of 1% or 1/20 of 1% and the net effective interest rate for the Bonds (calculated in the manner required by Chapter 1204, as amended, Texas Government Code) must not exceed 15%. **The highest rate bid may not exceed the lowest rate bid by more than 200 basis points (or 2.00% in rate).** **No limitation is imposed upon bidders as to the number of rates or changes which may be used.** All Bonds of one stated maturity must bear one and the same rate. No bids involving supplemental interest rates will be considered.

BASIS OF AWARD: The sale of the Bonds will be awarded to the bidder making a bid that conforms to the specifications herein and which produces the **lowest True Interest Cost (defined herein) rate on the Bonds to the District.** The "True Interest Cost" rate is that rate which, when used to compute the total present value as of the **Dated Date** of all debt service payments on the Bonds on the basis of semi-annual compounding, produces an amount equal to the sum of the par value of the Bonds plus the premium bid (but not interest accrued from the Dated Date to the date of their Initial Delivery). In the event of a bidder's error in interest cost rate calculations, the interest rates, and premium set forth in the Official Bid Form will be considered as the intended bid.

In order to provide the District with information required to enable it to comply with certain conditions of the Internal Revenue Code of 1986, as amended (the "Code") relating to the exclusion of interest on the Bonds from the gross income of their owners, the Purchaser will be required to complete, execute, and deliver to the District (on or before the date of Initial Delivery of the Bonds) a certification as to their "issue price" (the "Issue Price Certificate") in the form and to the effect attached hereto or accompanying this Official Notice of Sale, subject to the conditions set forth in "ESTABLISHMENT OF ISSUE PRICE" below.

ESTABLISHMENT OF ISSUE PRICE:

(a) The winning bidder shall assist the District in establishing the issue price of the Bonds and shall execute and deliver to the District by the date of Initial Delivery an "issue price" or similar certificate setting forth the reasonably expected initial offering price to the public, together with the supporting pricing wires or equivalent communications, such issue price certificate substantially in the form attached hereto, with such modifications as may be appropriate or necessary, in the reasonable judgment of the winning bidder, the District, and Norton Rose Fulbright US LLP, the District's Bond Counsel (but not to the extent that would preclude the establishment of issue price of the Bonds under applicable federal regulations). All actions to be taken by the District under this Official Notice of Sale to establish the issue price of the Bonds may be taken on behalf of the District by the District's Financial Advisor and any notice or report to be provided to the District may be provided to the District's Financial Advisor.

(b) The District intends that the provisions of Treasury Regulation Section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of the Bonds) will apply to the initial sale of the Bonds (the "competitive sale requirements") because:

- (1) the District shall disseminate this Official Notice of Sale to potential underwriters (defined below) in a manner that is reasonably designed to reach potential underwriters;
- (2) all bidders shall have an equal opportunity to bid;
- (3) the District may receive bids from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and
- (4) the District anticipates awarding the sale of the Bonds to the bidder who submits a firm offer to purchase the Bonds at the highest price (or lowest interest cost), as set forth in this Official Notice of Sale.

Any bid submitted pursuant to this Official Notice of Sale shall be considered a firm offer for the purchase of the Bonds, as specified in the bid.

(c) In the event that the competitive sale requirements are not satisfied, the District shall so advise the winning bidder. In such event, the District intends to treat the initial offering price to the public (defined below) as of the sale date (defined below) of each maturity of the Bonds as the issue price of that maturity (the "hold-the-offering-price rule"). The District shall promptly advise the winning bidder, at or before the time of award of the Bonds, if the competitive sale requirements were not satisfied, in which case the hold-the-offering-price rule shall apply to the Bonds. **Bids will not be subject to cancellation in the event that the competitive sale requirements are not satisfied and the hold-the-offering-price rule applies.** In the event that the competitive sale requirements are not satisfied, resulting in the application of the hold-the-offering price rule, the issue price certificate shall be modified as necessary in the reasonable judgment of Bond Counsel and the District.

(d) By submitting a bid, the winning bidder shall (i) confirm that the underwriters have offered or will offer the Bonds to the public on or before the date of award at the offering price or prices (the "initial offering price"), or at the corresponding yield or yields, set forth in the bid submitted by the winning bidder and (ii) agree, on behalf of the underwriters participating in the purchase of the Bonds, that the underwriters will neither offer nor sell unsold Bonds of any maturity to which the hold-the-offering-price rule applies to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

- (1) the close of the fifth (5th) business day after the sale date; or
- (2) the date on which the underwriters have sold at least 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

The winning bidder shall promptly advise the District when the underwriters have sold 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public, if that occurs prior to the close of the fifth (5th) business day after the sale date.

(e) If the competitive sale requirements are not satisfied, then until the 10% test has been satisfied as to each maturity of the Bonds, the winning bidder agrees to promptly report to the District the prices at which the unsold Bonds of that maturity have been sold to the public. That reporting obligation shall continue, whether or not the date of Initial Delivery has occurred, until the 10% test has been satisfied as to the Bonds of that maturity or until all Bonds of that maturity have been sold. The 10% test shall be considered satisfied with respect to a maturity when at least 10% of the Bonds of that maturity have been sold to the public at a particular price.

(f) The District acknowledges that, in making the representation set forth above, the winning bidder will rely on (i) the agreement of each underwriter to comply with the hold-the-offering-price rule, as set forth in an agreement among underwriters and the related pricing wires, (ii) in the event a selling group has been created in connection with the initial sale of the Bonds to the public, the agreement of each dealer who is a member of the selling group to comply with the hold-the-offering-price rule, as set forth in a selling group agreement and the related pricing wires, and (iii) in the event that an underwriter is a party to a retail or other third-party distribution agreement that was employed in connection with the initial sale of the Bonds to the public, the agreement of each broker-dealer that is a party to such agreement to comply with the hold-the-offering-price rule, as set forth in the retail or other third-party distribution agreement and the related pricing wires. The District further acknowledges that each underwriter shall be solely liable for its failure to comply with its agreement regarding the hold-the-offering-price rule and that no underwriter shall be liable for the failure of any other underwriter, or of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a retail or other third-party distribution agreement to comply with its corresponding agreement regarding the hold-the-offering-price rule as applicable to the Bonds.

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

(h) Sales of any Bonds to any person that is a related party (defined below) to an underwriter shall not constitute sales to the public for purposes of this Official Notice of Sale. Further, for purposes of this section of the Official Notice of Sale entitled "ESTABLISHMENT OF ISSUE PRICE":

- (1) "public" means any person other than an underwriter or a related party,
- (2) "underwriter" means (A) any person that agrees pursuant to a written contract with the District (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a retail or other third-party distribution agreement participating in the initial sale of the Bonds to the public),
- (3) a purchaser of any of the Bonds is a "related party" to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (i) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and
- (4) "sale date" means the date that the Bonds are awarded by the District to the winning bidder.

GOOD FAITH DEPOSIT: A bank cashier's check, payable to the order of "Anahuac Independent School District", in the amount of \$187,300 which is 2% of the proposed par value of the Bonds (the "Good Faith Deposit"), is required to accompany any bid. The Good Faith Deposit of the Purchaser will be retained uncashed by the District pending the Purchaser's compliance with the terms of its bid and this Official Notice of Sale. In the event the Purchaser should fail or refuse to take up and pay for the Bonds in accordance with its bid, then said check shall be cashed and accepted by the District as full and complete liquidated damages. The Good Faith Deposit may accompany the Official Bid Form or it may be submitted separately; however, if submitted separately, it shall be made available to the District prior to the opening of the bids, and shall be accompanied by instructions from the bank on which it is drawn which authorizes its use as a Good Faith Deposit by the Purchaser who shall be named in such instructions. **The Good Faith Deposit of the Purchaser will be returned to the Purchaser on the date of Initial Delivery.** No interest will be allowed on the Good Faith Deposit. Checks accompanying bids other than the winning bid will be returned promptly after the bids are opened, and an award of the Bonds has been made by the District.

ADDITIONAL CONDITION OF AWARD — DISCLOSURE OF INTERESTED PARTY FORM:

New obligation of the District to receive information from winning bidder if bidder is not a publicly traded business entity (a "Privately Held Bidder"). Effective January 1, 2018, pursuant to Texas Government Code Section 2252.908 (the "Interested Party Disclosure Act"), the District may not award the Bonds to a winning bidder which is a Privately Held Bidder unless such party submits a Certificate of Interested Parties Form 1295 (the "Disclosure Form") to the District as prescribed by the Texas Ethics Commission ("TEC"). In the event that a Privately Held Bidder's bid for the Bonds is the best bid received, the District, acting through its financial

advisor, will promptly notify the winning Privately Held Bidder. That notification will serve as the District's conditional verbal acceptance of the bid, and will obligate the winning Privately Held Bidder to establish (unless such winning Privately Held Bidder has previously so established) an account with the TEC, and promptly file a completed Disclosure Form, as described below, in order to allow the District to complete the award.

Process for completing the Disclosure Form. For purposes of illustration, the Disclosure Form is attached hereto, and reference should be made to such form for the following information needed to complete it: (a) item 2 – name of the governmental entity (Anahuac Independent School District) and (b) item 3 – the identification number assigned to this contract by the District (0001) and description of the goods or services (Purchase of the Anahuac Independent School District Unlimited Tax Refunding Bonds, Series 2019). The Interested Party Disclosure Act and the rules adopted by the TEC with respect thereto (the "Disclosure Rules") require a non-publicly traded business entity contracting with the District to complete the Disclosure Form electronically at <https://www.ethics.state.tx.us/main/file.htm>, print, sign, and deliver, in physical form, the certified Disclosure Form that is generated by the TEC's "electronic portal" to the District. The Disclosure Form must be sent by email, to the District's financial advisor at dwhitt@samcocapital.com, as soon as possible following the notification of conditional verbal acceptance and prior to the final written award. Upon receipt of the final written award, the Disclosure Form with original signatures must be submitted by mail to Clay Binford, c/o Norton Rose Fulbright US LLP, 111 W. Houston Street, Suite 1800, San Antonio, Texas 78205.

Preparations for completion, and the significance of, the reported information. In accordance with the Interested Party Disclosure Act, the information reported by the winning Privately Held Bidder must be declared by an authorized agent of the Privately Held Winning Bidder. No exceptions may be made to that requirement. The Interested Party Disclosure Act and the Disclosure Form provides that such acknowledgment is made "under penalty of perjury." Consequently, a winning Privately Held Bidder should take appropriate steps prior to completion of the Disclosure Form to familiarize itself with the Interested Party Disclosure Act, the Disclosure Rules and the Disclosure Form. Time will be of the essence in submitting the form to the District, and no final award will be made by the District regarding the sale of the Bonds until a completed Disclosure Form is received. If applicable, the District reserves the right to reject any bid that does not satisfy the requirement of a completed Disclosure Form, as described herein. Neither the District nor its consultants have the ability to verify the information included in a Disclosure Form, and neither party has an obligation nor undertakes responsibility for advising any bidder with respect to (1) the bidder's obligation to submit the Disclosure Form or (2) the proper completion of the Disclosure Form. Consequently, an entity intending to bid on the Bonds should consult its own advisors to the extent it deems necessary and be prepared to submit the completed form, if required, promptly upon notification from the District that its bid is the conditional winning bid. Instructional videos on logging in and creating a certificate are provided on the TEC's website at https://www.ethics.state.tx.us/whatsnew/elf_info_form1295.htm.

ADDITIONAL CONDITION OF AWARD – COMPLIANCE WITH H.B. 89 AND S.B. 252, 85TH TEXAS LEGISLATURE:

Each bidder, through submittal of an executed Official Bid Form, hereby verifies that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, do not boycott Israel and, to the extent this Notice of Sale and Official Bid Form is a contract for goods or services, will not boycott Israel during the term of this agreement. The foregoing verification is made solely to comply with Section 2270.002, Texas Government Code, and to the extent such Section does not contravene applicable Texas or Federal law. As used in the foregoing verification, 'boycott Israel' means refusing to deal with, terminating business activities with, or otherwise taking any action that is intended to penalize, inflict economic harm on, or limit commercial relations specifically with Israel, or with a person or entity doing business in Israel or in an Israeli-controlled territory, but does not include an action made for ordinary business purposes. Each bidder, through submittal of an executed Official Bid Form, understands 'affiliate' to mean an entity that controls, is controlled by, or is under common control with the bidder and exists to make a profit.

Each bidder, through submittal of an executed Official Bid Form, hereby represents that neither it nor any of its parent company, wholly- or majority-owned subsidiaries, and other affiliates is a company identified on a list prepared and maintained by the Texas Comptroller of Public Accounts under Section 2252.153 or Section 2270.0201, Texas Government Code, and posted on any of the following pages of such officer's internet website:

<https://comptroller.texas.gov/purchasing/docs/sudan-list.pdf>,
<https://comptroller.texas.gov/purchasing/docs/iran-list.pdf>, or
<https://comptroller.texas.gov/purchasing/docs/fto-list.pdf>.

The foregoing representation is made solely to comply with Section 2252.152, Texas Government Code, and to the extent such Section does not contravene applicable Texas or Federal law and excludes the bidder and each of its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, that the United States government has affirmatively declared to be excluded from its federal sanctions regime relating to Sudan or Iran or any federal sanctions regime relating to a foreign terrorist organization. Each bidder, through submittal of an executed Official Bid Form, understands "affiliate" to mean any entity that controls, is controlled by, or is under common control with the bidder and exists to make a profit.

IMPACT OF BIDDING SYNDICATE ON AWARD: For purposes of contracting for the sale of the Bonds, the entity signing the bid form as Purchaser shall be solely responsible for the payment of the purchase price of the Bonds. The Purchaser may serve as a syndicate manager and contract under a separate agreement with other syndicate members. However, the District is not a party to that agreement and any information provided regarding syndicate managers would be for informational purposes only.

OFFICIAL STATEMENT

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

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

Thereafter, the Issuer will complete and authorize distribution of the final Official Statement, being a modification of the Preliminary Official Statement, identifying the Initial Purchaser and containing such omitted information. The Issuer does not intend to amend or supplement the Official Statement otherwise, except to take into account certain subsequent events, if any, as described below. By

delivering the final Official Statement or any amendment or supplement thereto in the requested quantity to the Initial Purchaser on or after the sale date, the Issuer intends the same to be final as of such date, within the meaning of the Rule. Notwithstanding the foregoing, the Issuer makes no representation concerning the absence of material misstatements or omissions from the Official Statement, except only as and to the extent under "CERTIFICATION OF THE OFFICIAL STATEMENT" as described below.

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

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

CERTIFICATION OF THE OFFICIAL STATEMENT: At the time of payment for and delivery of the hereinafter defined Initial Bond ("Initial Delivery"), the Initial Purchaser will be furnished a certificate, executed by proper officials of the Issuer, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the Issuer contained in its Official Statement, and any addenda, supplement or amendment thereto, for the Bonds, on the date of such Official Statement, on the date of sale of said Bonds and the acceptance of the best bid therefor, and on the date of Initial Delivery, were and are true and correct in all material respects; (b) insofar as the Issuer and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the Issuer, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the Issuer believes to be reliable and the Issuer has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the Issuer, since August 31, 2018, the date of the last financial statements of the Issuer appearing in the Official Statement. The Official Statement and this Official Notice of Sale will be approved as to form and content and the use thereof in the offering of the Bonds will be authorized, ratified and approved by the Board on the date of sale, and the Initial Purchaser will be furnished, upon request, at the time of payment for and the Initial Delivery of the Bonds, a certified copy of such approval, duly executed by the proper officials of the Issuer.

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

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

DELIVERY AND ACCOMPANYING DOCUMENTS

INITIAL DELIVERY OF INITIAL BOND: Initial Delivery will be accomplished by the issuance of one or more fully registered Bonds in the aggregate principal amount of the Bonds payable to the Purchaser (the "Initial Bond" or "Initial Bonds"), signed by the duly appointed officers of the Board, by their manual or facsimile signatures, approved by the Texas Attorney General, and registered and manually signed by the Texas Comptroller of Public Accounts. Initial Delivery will be at the corporate trust office of the Paying Agent/Registrar. Upon delivery of the Initial Bonds, they shall be immediately canceled and one definitive Bond for each maturity in the aggregate principal amount of the Bonds payable to Cede & Co. will be delivered to DTC in connection with DTC's Book-Entry-Only System. Payment for the Bonds must be made in immediately available funds for unconditional credit to the District, or as otherwise directed by the District. The Purchaser will be given six business days' notice of the time fixed for delivery of the Bonds. It is anticipated that the delivery of the Initial Bond can be made on or about November 20, 2019, but if for any reason the District is unable to make delivery by December 18, 2019, then the District shall immediately contact the Purchaser and offer to allow the Purchaser to extend its obligation to take up and pay for the Bonds an additional thirty days. If the Purchaser does not elect to extend its offer within six days thereafter, then its Good Faith Deposit will be returned, and both the District and the Purchaser shall be relieved of any further obligation. In no event shall the District be liable for any damages by reason of its failure to deliver the Bonds, provided that such failure is due to circumstances beyond the District's reasonable control.

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

CONDITIONS TO DELIVERY: The obligation to take up and pay for the Bonds is subject to the following conditions: the issuance of an approving opinion of the Attorney General of the State of Texas, the Initial Purchaser's receipt of the legal opinion of Bond Counsel

and the certificate regarding the Official Statement, and the non-occurrence of the events described below under the caption "NO MATERIAL ADVERSE CHANGE". In addition, if the Issuer fails to comply with its obligations described under "OFFICIAL STATEMENT" above, the Initial Purchaser may terminate its contract to purchase the Bonds by delivering written notice to the Issuer within five (5) days thereafter.

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

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

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

GENERAL CONSIDERATIONS

RATING: The Bonds are rated "AAA" by S&P Global Ratings ("S&P"), based upon the guarantee under the Texas Permanent School Fund Guarantee Program. The District's current unenhanced, underlying rating, including the Bonds, is "A+" by S&P. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if in the judgment of said rating company, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds. Neither the District nor the Purchaser has undertaken any responsibility to advise owners of the Bonds of any lowering or withdrawal of such rating.

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

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

ADDITIONAL COPIES: Subject to the limitations described herein, additional copies of this Official Notice of Sale, the Official Bid Form, and the Official Statement may be obtained from SAMCO Capital Markets, Inc., 5800 Granite Parkway, Suite 210, Plano, Texas 75024.

In the Order, the Board delegated to the Authorized Official the authority to approve the form and content of the Official Statement, and any addenda, supplement or amendment thereto, and the Board authorized its further use in the reoffering of the Bonds by the Purchaser.

ANAHUAC INDEPENDENT SCHOOL DISTRICT

/s/ Lane Bertrand

President, Board of Trustees

ATTEST:

/s/ Dr. John Redman

Secretary, Board of Trustees

Dated: October 10, 2019

OFFICIAL BID FORM

President and Board of Trustees
 Anahuac Independent School District
 804 Mikhael Ricks Drive
 Anahuac, Texas 77514

October 17, 2019

Ladies & Gentlemen:

Reference is made to your Official Notice of Sale and Preliminary Official Statement dated October 10, 2019 of \$9,365,000* ANAHUAC INDEPENDENT SCHOOL DISTRICT Unlimited Tax Refunding Bonds, Series 2019 (the "Bonds"), both of which constitute a part hereof (the terms of which are hereto agreed as evidenced by our submission of this bid).

For your legally issued Bonds, as described in said Official Notice of Sale and Preliminary Official Statement, we will pay you a price of par value thereof plus accrued interest from their date to the date of delivery to us, plus a cash premium of \$ _____ **(no bid producing a cash premium that results in a dollar price of less than \$103.50 nor greater than \$110.00 will be considered)** for Bonds maturing and bearing interest as follows:

Maturity (2/15)	Principal Amount*	Interest Rate	Maturity (2/15)	Principal Amount*	Interest Rate
2020	\$670,000	_____	2026	\$840,000	_____
2021	1,100,000	_____	2027	865,000	_____
2022	755,000	_____	2028	895,000	_____
2023	770,000	_____	2029	915,000	_____
2024	790,000	_____	2030	950,000	_____
2025	815,000	_____			

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

Term Bond Maturity Date	Year of First Mandatory Redemption	Principal Amount of Term Bond	Interest Rate
February 15	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Our calculation (which is not a part of this bid) of the interest cost in accordance with the above bid is:

TRUE INTEREST COST _____ %

By accepting this bid, we understand the District will provide the copies of the Official Statement and of any amendments or supplements thereto in accordance with the Official Notice of Sale.

The Initial Bond(s) shall be registered in the name of _____ ("Purchaser"). We will advise DTC of registration instructions at least five business days prior to the date set for Initial Delivery. It is the obligation of the Purchaser of the Bonds to complete the DTC Eligibility Questionnaire.

Cashier's Check of the _____ (bank), _____ (location), in the amount of \$187,300 which represents our Good Faith Deposit is attached hereto or has been made available to you prior to the opening of the bid, in accordance with the terms set forth in the Official Notice of Sale and the Preliminary Official Statement. The Good Faith Deposit of the Purchaser will be returned to the Purchaser on the date of Initial Delivery upon completion of the closing.

We agree to accept delivery of the Initial Bond(s) through DTC and make payment for the Initial Bond(s) in immediately available funds at BOKF, NA, Dallas, Texas, no later than 10:00 A.M., Central Time, on November 20, 2019 or thereafter on the date the Initial Bond(s) are tendered for delivery, pursuant to the terms set forth in the Official Notice of Sale.

The undersigned agrees to the provisions of the Official Notice of Sale under the heading "CONDITIONS OF THE SALE - ESTABLISHMENT OF ISSUE PRICE" and, as evidence thereof agrees to complete, execute and deliver to the District by the date of delivery of the Bonds, a certificate relating to the "issue price" of the Bonds in the form and to the effect attached to or accompanying the Official Notice of Sale, with such changes thereto as may be acceptable to the District (as provided under "CONDITIONS OF THE SALE - ESTABLISHMENT OF ISSUE PRICE" in the Official Notice of Sale).

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

Through submittal of this executed Official Bid Form, the undersigned verifies that it does not and will not "boycott Israel" and is not on the Texas Comptroller's list concerning "foreign terrorist organizations" as prepared and maintained thereby under applicable Texas law, all as more fully provided in the Official Notice of Sale under the heading "ADDITIONAL CONDITION OF AWARD – COMPLIANCE WITH H.B. 89 AND S.B. 252, 85th TEXAS LEGISLATURE".

For purposes of contracting for the sale of the Bonds, the entity signing the bid form as Purchaser shall be solely responsible for the payment of the purchase price of the Bonds. The Purchaser may serve as a syndicate manager and contract under a separate agreement with other syndicate members. However, the District is not a party to that agreement and any information provided regarding syndicate managers would be for informational purposes only.

Upon notification of conditional verbal acceptance, the undersigned will complete an electronic form of the Certificate of Interested Parties Form 1295 (the "Disclosure Form") through the Texas Ethics Commission's (the "TEC") electronic portal and the resulting certified Disclosure Form that is generated by the TEC's electronic portal will be printed, signed, notarized and sent by email to the District's financial advisor at dwhitt@samcocapital.com. The undersigned understands that the failure to provide the certified Disclosure Form will prohibit the District from providing final written award of the enclosed bid.

Respectfully submitted,

(Purchaser)

(Signature - Title)

(Telephone)

[District signature page follows.]

ACCEPTANCE CLAUSE

THE FOREGOING BID IS IN ALL THINGS HEREBY ACCEPTED this October 17, 2019 by an Authorized Official of the District by authority conveyed in the Order of the Board of Trustees of the ANAHUAC INDEPENDENT SCHOOL DISTRICT adopted on September 30, 2019.

Authorized Official

CERTIFICATE OF INTERESTED PARTIES

FORM 1295

1 of 1

Complete Nos. 1 - 4 and 6 if there are interested parties.
Complete Nos. 1, 2, 3, 5, and 6 if there are no interested parties.

**OFFICE USE ONLY
CERTIFICATION OF FILING**

1 Name of business entity filing form, and the city, state and country of the business entity's place of business.

2 Name of governmental entity or state agency that is a party to the contract for which the form is being filed.

Anahuac Independent School District

3 Provide the identification number used by the governmental entity or state agency to track or identify the contract, and provide a description of the services, goods, or other property to be provided under the contract.

0001

Purchase of the Anahuac Independent School District Unlimited Tax Refunding Bonds, Series 2019

4	Name of Interested Party	City, State, Country (place of business)	Nature of interest (check applicable)	
			Controlling	Intermediary

5 Check only if there is NO Interested Party.

6 UNSWORN DECLARATION

My name is _____, and my date of birth is _____.

My address is _____, _____, _____, _____, _____.
(street) (city) (state) (zip code) (country)

I declare under penalty of perjury that the foregoing is true and correct.

Executed in _____ County, State of _____, on the _____ day of _____, 20____.
(month) (year)

Signature of authorized agent of contracting business entity
(Declarant)

\$9,365,000*
ANAHUAC INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX REFUNDING BONDS, SERIES 2019

ISSUE PRICE CERTIFICATE

The undersigned, on behalf of _____, _____, _____
 (“_____”), hereby certifies as set forth below with respect to the sale of the above-captioned obligations (the “Bonds”) of the Anahuac Independent School District (the “Issuer”).

1. Reasonably Expected Initial Offering Price.

(a) As of the Sale Date, the reasonably expected initial offering prices of the Bonds to the Public by _____ are the prices listed in Schedule A (the “Expected Offering Prices”). The Expected Offering Prices are the prices for the Maturities of the Bonds used by _____ in formulating its bid to purchase the Bonds. Attached as Schedule B is a true and correct copy of the bid provided by _____ to purchase the Bonds.

(b) _____ was not given the opportunity to review other bids prior to submitting its bid.

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

2. Defined Terms.

(a) *Maturity* means Bonds with the same credit and payment terms. Bonds with different maturity dates, or Bonds with the same maturity date but different stated interest rates, are treated as separate Maturities.

(b) *Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term “related party” for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(c) *Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Bonds. The Sale Date of the Bonds is October 17, 2019.

(d) *Underwriter* means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail or other third-party distribution agreement participating in the initial sale of the Bonds to the Public).

*Preliminary. Subject to change.

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents _____ interpretation of any laws, including specifically sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Tax Certificate with respect to the Bonds and with respect to compliance with the federal income tax rules affecting the Bonds, and by Norton Rose Fulbright US LLP in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Bonds.

By: _____
Name: _____
Title: _____

Dated: _____

SCHEDULE A
EXPECTED OFFERING PRICES

SCHEDULE B
COPY OF UNDERWRITER'S BID

PRELIMINARY OFFICIAL STATEMENT
Dated: October 10, 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.

The District will designate the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions.

\$9,365,000*
ANAHUAC INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Chambers County, Texas)
Unlimited Tax Refunding Bonds, Series 2019

Dated Date: November 1, 2019

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

The Anahuac Independent School District Unlimited Tax Refunding Bonds, Series 2019 (the "Bonds") are being issued pursuant to the Constitution and general laws of the State of Texas, including Chapter 1207, Texas Government Code, as amended ("Chapter 1207"), and an order (the "Order") authorizing the issuance of the Bonds adopted on September 30, 2019 by the Board of Trustees (the "Board") of the Anahuac Independent School District (the "District"). As permitted by Chapter 1207, the Board, in the Order, will delegate the authority to certain District officials to execute a pricing certificate (the "Approval Certificate") establishing the pricing terms for the Bonds. The Bonds are payable as to principal and interest from the proceeds of an ad valorem tax levied annually, without legal limit as to rate or amount, against all taxable property located within the District. The District has received conditional approval from the Texas Education Agency for the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined), which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "THE BONDS – Permanent School Fund Guarantee" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

Interest on the Bonds will accrue from the Dated Date specified above and will be payable on February 15 and August 15 of each year, commencing February 15, 2020, until stated maturity. The Bonds will be issued in fully registered form in principal denominations of \$5,000 or any integral multiple thereof. Principal of the Bonds will be payable by the Paying Agent/Registrar, which initially is 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, New York, New York ("DTC"). Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer of the Bonds. (See "BOOK-ENTRY-ONLY SYSTEM").

Proceeds from the sale of the Bonds will be used to (i) refund a portion of the District's outstanding bonds for debt service savings and (ii) pay the costs of issuing the Bonds. (See "PLAN OF FINANCING - Purpose", "PLAN OF FINANCING - Refunded Bonds" and "Schedule I – Schedule of Refunded Bonds").

The Bonds are not subject to optional redemption prior to stated maturity. However, the Purchaser (defined below) may select consecutive maturities of Bonds to be grouped together as a term bonds (the "Term Bonds"), and only such Term Bonds would be subject to mandatory sinking fund redemption as set forth in the final Official Statement. (See "THE BONDS – No Redemption").

MATURITY SCHEDULE
(On Inside Cover)

The Bonds are offered for delivery when, as and if issued, and received by the initial purchaser thereof 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 facilities of DTC on or about November 20, 2019.

BIDS DUE OCTOBER 17, 2019 BY 10:30 A.M. CENTRAL TIME

**Preliminary, subject to change.*

\$9,365,000*
ANAHUAC INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Chambers County, Texas)
UNLIMITED TAX REFUNDING BONDS, SERIES 2019

MATURITY SCHEDULE
Base CUSIP No.: 032645⁽¹⁾

Maturity Date <u>2/15</u>	Principal Amount*	Interest Rate	Initial Yield	CUSIP No. Suffix⁽¹⁾
2020	\$ 670,000			
2021	1,100,000			
2022	755,000			
2023	770,000			
2024	790,000			
2025	815,000			
2026	840,000			
2027	865,000			
2028	895,000			
2029	915,000			
2030	950,000			

(Interest to accrue from the Dated Date)

**Preliminary, subject to change.*

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

ANAHUAC INDEPENDENT SCHOOL DISTRICT

BOARD OF TRUSTEES

<u>Name</u>	<u>Date Initially Elected</u>	<u>Current Term Expires</u>	<u>Occupation</u>
Lane Bertrand, President	2014	2020	Construction – Self Employed
Chris Jircik, Vice President	2011	2021	Harris County PD
Dr. John Redman, Secretary	2014	2020	Bayside Clinic
Tommy F. Henry, Member	2018	2021	Dow Chemical – Operator
Willie Lancon, Member	2019	2022	Pipeline – Operator
Kaley Smith, Member	2019	2022	Executive Director – Chambers Health
Lucas Wilson, Member	2018	2021	Law Student

APPOINTED OFFICIALS

<u>Name</u>	<u>Position</u>	<u>Length of Education Service</u>	<u>Length of Service with the District</u>
Dennis Wagner	Superintendent	24 Years	1 Year
Rosie Womack	Business Manager	29 Years	26 Years

CONSULTANTS AND ADVISORS

Norton Rose Fulbright US LLP, San Antonio, Texas	Bond Counsel
SAMCO Capital Markets, Inc., Plano, Texas	Financial Advisor
Weaver and Tidwell, L.L.P., Conroe, Texas	Certified Public Accountants

For additional information, contact:

Dennis Wagner
Superintendent
Anahuac ISD
804 Mikhael Ricks Drive
Anahuac, Texas 77514
(409) 267-3600

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

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

This Official Statement, which includes the cover page, Schedule I 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 MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM DESCRIBED UNDER "BOOK-ENTRY-ONLY SYSTEM" OR THE AFFAIRS OF THE TEXAS EDUCATION AGENCY DESCRIBED UNDER "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM", AS SUCH INFORMATION WAS PROVIDED BY THE DEPOSITORY TRUST COMPANY AND THE TEXAS EDUCATION AGENCY, RESPECTIVELY.

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

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

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SELECTED DATA FROM THE OFFICIAL STATEMENT

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

The District	The Anahuac Independent School District (the "District") is a political subdivision of the State of Texas located in Chambers County, Texas. The District is governed by a seven-member Board of Trustees (the "Board"). Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors.
The Bonds	The Bonds are being issued in the principal amount of \$9,365,000 (preliminary, subject to change) pursuant to the Constitution and general laws of the State of Texas, including particularly Chapter 1207, Texas Government Code, as amended ("Chapter 1207"), and the order (the "Order") adopted by the Board on September 30, 2019. As permitted by Chapter 1207, the Board, in the Order, delegated the authority to certain District officials to execute a pricing certificate (the "Approval Certificate") establishing the pricing terms for the Bonds. Proceeds from the sale of the Bonds will be used to (i) refund a portion of the District's outstanding bonds for debt service savings and (ii) pay the costs of issuing the Bonds. (See "PLAN OF FINANCING - Purpose", "PLAN OF FINANCING - Refunded Bonds" and "Schedule I – Schedule of Refunded Bonds").
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. (See "BOOK-ENTRY-ONLY SYSTEM").
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").
No Optional Redemption	The Bonds are not subject to optional redemption prior to stated maturity. However, the Purchaser may select consecutive maturities of Bonds to be grouped together as a term bonds (the "Term Bonds"), and only such Term Bonds would be subject to mandatory sinking fund redemption as set forth in the final Official Statement.
Permanent School Fund Guarantee	The District has applied for and received conditional approval from the Texas Education Agency (the "TEA") for the payment of the Bonds to be guaranteed under the Permanent School Fund Guarantee Program (defined herein), which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "THE BONDS – Permanent School Fund Guarantee" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.")
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 TEA. The District's unenhanced, underlying rating, including the Bonds, is "A+" by S&P. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "RATING")
Tax Matters	In the opinion of Bond Counsel for the District, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law subject to the matters described under "TAX MATTERS" herein. (See "TAX MATTERS" and "Appendix C - Form of Legal Opinion of Bond Counsel.")
Qualified Tax-Exempt Obligations	The District will designate the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions. (See "TAX MATTERS – Qualified Tax-Exempt Obligations").
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 November 20, 2019.

INTRODUCTORY STATEMENT

This Official Statement (the "Official Statement"), which includes the cover page, Schedule I and the Appendices attached hereto, has been prepared by the Anahuac Independent School District (the "District"), a political subdivision of the State of Texas (the "State") located in Chambers County, Texas, in connection with the offering by the District of its Unlimited Tax Refunding 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 September 30, 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 Anahuac Independent School District, 804 Mikhael Ricks Drive, Anahuac, Texas 77514 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 system. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the District's undertaking to provide certain information on a continuing basis.

Weather Events

The District is located near the Texas Gulf Coast. Land located in this area is susceptible to high winds, heavy rain and flooding caused by rain events, hurricanes, tropical storms, and other tropical disturbances. If a weather-related event were to significantly damage all or part of the improvements within the District, the assessed value of property within the District could be substantially reduced, which could result in a decrease in tax revenues and/or necessitate an increase the District's tax rate. Further, there can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (or property owners will choose to carry flood insurance), any insurance company will fulfill its obligations to provide insurance proceeds or that insurance proceeds will be used to rebuild or repair damaged improvements within the District. Even if insurance proceeds are available and improvements are rebuilt, there could be a period of time in which assessed values within the District would be adversely affected.

PLAN OF FINANCING

Purpose

Proceeds from the sale of the Bonds will be utilized to (i) refund certain of the District's currently outstanding indebtedness as disclosed in Schedule I hereto (the "Refunded Bonds") for debt service savings and (ii) pay the costs of issuance of the Bonds.

Refunded Bonds

The Order provides that from a portion of the proceeds of the sale of the Bonds to the Purchaser, the District will deposit with BOKF, NA, Dallas, Texas, the escrow agent for the Refunded Bonds (the "Escrow Agent") pursuant to an Escrow and Trust Agreement dated as of September 30, 2019 (the "Escrow Agreement") between the Escrow Agent and the District, an amount, together with other lawfully available funds of the District, which will be sufficient to accomplish the discharge and final payment of the Refunded Bonds on February 15, 2020 (the "Redemption Date"). Such funds will be held by the Escrow Agent in an escrow account (the "Escrow Fund") in cash uninvested or will be invested in securities authorized by Section 1207.062 Texas Government Code and the bond order authorizing the Refunded Bonds (the "Defeasance Securities"). Public Finance Partners LLC, a firm of independent consultants (the "Verification Agent"), will issue its report (the "Report") verifying at the time of delivery of the Bonds to the Purchaser the mathematical accuracy of the schedules that demonstrate the Defeasance Securities will mature and pay interest in such amounts which, together with any uninvested funds in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds on and to the Redemption Date. Such maturing principal of and interest on the Defeasance Securities will not be available to pay the Bonds (see "VERIFICATION OF MATHEMATICAL COMPUTATIONS").

By the deposit of cash and Defeasance Securities with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of the Refunded Bonds pursuant to the terms of Chapter 1207 and the bond order authorizing the issuance of the Refunded Bonds. It is the opinion of Bond Counsel that as a result of such deposit, and in reliance on the Report, the Refunded Bonds will be outstanding only for the purpose of receiving payments from the Defeasance Securities and cash held for such purpose by the Escrow Agent, and the Refunded Bonds will not be deemed as being outstanding obligations of the District, payable from the sources and secured in the manner provided in the order authorizing their issuance or for any other purpose.

Upon defeasance of the Refunded Bonds, the payment of the Refunded Bonds will no longer be guaranteed by the Permanent School Fund of Texas.

THE BONDS

General Description

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

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

Interest on the Bonds is payable by check mailed on or before each interest payment date by the Paying Agent/Registrar, initially, BOKF, NA, Dallas, Texas, to the registered owner at the last known address as it appears on the Paying Agent/Registrar's

registration books on the Record Date (as defined herein) or by such other customary banking arrangement acceptable to the Paying Agent/Registrar and the registered owner to whom interest is to be paid, provided, however, that such person shall bear all risk and expense of such other arrangements. Principal of the Bonds will be payable only upon presentation of such Bonds at the corporate trust office of the Paying Agent/Registrar at stated maturity. So long as the Bonds are registered in the name of Cede & Co. or other nominee for The Depository Trust Company, New York, New York ("DTC"), payments of principal of and interest on the Bonds will be made as described in "BOOK-ENTRY-ONLY SYSTEM" herein.

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

Authority for Issuance

The Bonds are issued pursuant to the Constitution and general laws of the State, including Chapter 1207, Texas Government Code, as amended ("Chapter 1207"), and the Order. As permitted by Chapter 1207, the Board, in the Order, delegated the authority to certain District officials to execute a pricing certificate establishing the pricing terms for the Bonds.

No Optional Redemption

The Bonds are not subject to optional redemption prior to stated maturity. However, the Purchaser may select consecutive maturities of Bonds to be grouped together as a term bonds (the "Term Bonds"), and only such Term Bonds would be subject to mandatory sinking fund redemption as set forth in the Final Official Statement.

Security

The Bonds are direct 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 (the "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 applied for and 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 Program.

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 amend the Order without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding, amend, add to, or rescind any of the provisions of the Order; except that, without the consent of the registered owners of all of the Bonds then outstanding, no such amendment, addition, or rescission may (1) extend the time or times of payment of the principal of 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 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 such Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity 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 or (2) Government Securities 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. The Order provides that "Government Securities" 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 the District's adoption of the Order were 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 that, on the date of the District's adoption of the Order were rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (d) any other then authorized securities or obligations under applicable law that may be used to defease obligations such as the Bonds. District officials may restrict the use of such eligible securities as deemed appropriate. The District has the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Securities for the Government Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District moneys in excess of the amount required for such

defeasance. District officials have reserved the right to restrict the universe of Government Securities in connection with the pricing and sale of the Bonds.

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Order does not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used as Government Securities or that for any other Government Security will be maintained at any particular rating category.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid and will cease to be outstanding obligations secured by the Order or treated as debt of the District for purposes of taxation or applying any limitation on the District's ability to issue debt or for any other purpose.

Furthermore, the Permanent School Fund Guarantee will terminate with respect to any Bonds defeased in the manner provided above.

Sources and Uses of Funds

The proceeds from the sale of the Bonds, together with a cash contribution from the District, will be applied approximately as follows:

Sources	
Par Amount of Bonds	\$
[Net] Reoffering Premium	
Accrued Interest on Bonds	
District Contribution	
Total Sources of Funds	\$ _____ =====
Uses	
Deposit to Escrow Fund	\$
Costs of Issuance	
Purchaser's Discount	
Deposit to Interest and Sinking Fund	
Total Uses of Funds	\$ _____ =====

REGISTERED OWNERS' REMEDIES

If the District defaults in the payment, when due, of principal or interest on the Bonds, 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 is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the District to make such payment or observe and perform such covenants, obligations, or conditions. 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 stated 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 in the absence of District action. 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 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 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 tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. All payments 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, that continues for 30 days or more 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 or on behalf of the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "Special Payment Date" which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each registered owner of a Bond appearing on the books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

Replacement Bonds

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

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

The information below concerning the State Permanent School Fund and the Guarantee Program for school district bonds has been provided by the Texas Education Agency (the "TEA") and is not guaranteed as to accuracy or completeness by, and is not construed as a representation by the District, the Financial Advisor, or the 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 generally authorized to manage the investments of the capital gains, royalties and other investment income relating to the land endowment. The SLB is a three member board, the membership of which consists of the Commissioner of the Texas General Land Office (the "Land Commissioner") and two citizen members, one appointed by the Governor and one by the Texas Attorney General (the "Attorney General"). (But see "2019 Texas Legislative Session" for a description of legislation that is expected to change the composition of the SLB). As of August 31, 2018, the General Land Office (the "GLO") managed approximately 23% of the PSF, as reflected in the fund balance of the PSF at that date.

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

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

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

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

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

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

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

2019 Texas Legislative Session

During the 86th Regular Session of the Texas Legislature, which concluded on May 27, 2019 (the "86th Session"), various bills were enacted that relate to the PSF. Among such enacted legislation are bills that relate to the composition of the SLB and its

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

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

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

The Total Return Constitutional Amendment

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

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

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

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

With respect to the management of the Fund's financial assets portfolio, the single most significant change made to date as a result of the Total Return Constitutional Amendment has been new asset allocation policies adopted from time to time by the SBOE. The SBOE generally reviews the asset allocations during its summer meeting in even numbered years. The first asset allocation policy adopted by the SBOE following the Total Return Constitutional Amendment was in February 2004, and the policy was reviewed and modified or reaffirmed in the summers of each even-numbered year, most recently in 2018. The Fund's investment policy provides for minimum and maximum ranges among the components of each of the asset classifications: equities, fixed income and alternative asset investments. The 2004 asset allocation policy decreased the fixed income target from 45% to 25% of Fund investment assets and increased the allocation for equities from 55% to 75% of investment assets. Subsequent asset allocation policies have continued to diversify Fund assets, and have added an alternative asset allocation to the fixed income and equity allocations. The alternative asset allocation category includes real estate, real return, absolute return and private equity components. Alternative asset classes diversify the SBOE-managed assets and are not as correlated to traditional asset classes, which is intended to increase investment returns over the long run while reducing risk and return volatility of the portfolio. The most

recent asset allocation, from 2016, which was reviewed and reaffirmed in June 2018, is as follows: (i) an equity allocation of 35% (consisting of U.S. large cap equities targeted at 13%, international equities at 14% and emerging international equities at 3%) and U.S. small/mid cap equities at 5%), (ii) a fixed income allocation of 19% (consisting of a 12% allocation for core bonds and a 7% allocation for emerging market debt in local currency) and (iii) an alternative asset allocation of 46% (consisting of a private equity allocation of 13%, a real estate allocation of 10%, an absolute return allocation of 10%, a risk parity allocation of 7% and a real return allocation of 6%). The 2016 asset allocation decreased U.S. large cap equities and international equities by 3% and 2%, respectively, and increased the allocations for private equity and real estate by 3% and 2%, respectively.

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

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

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

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

Management and Administration of the Fund

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

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

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

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

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

Capacity Limits for the Guarantee Program

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

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

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

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

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

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

Based upon historical performance of the Fund, the legal restrictions relating to the amount of bonds that may be guaranteed has generally resulted in a lower ratio of guaranteed bonds to available assets as compared to many other types of credit enhancements that may be available for Texas school district bonds and charter district bonds. However, the ratio of Fund assets to guaranteed bonds and the growth of the Fund in general could be adversely affected by a number of factors, including changes in the value of the Fund due to changes in securities markets, investment objectives of the Fund, an increase in bond issues by

school districts in the State or legal restrictions on the Fund, changes in State laws that implement funding decisions for school districts and charter districts, which could adversely affect the credit quality of those districts, the implementation of the Charter District Bond Guarantee Program, or an increase in the calculation base of the Fund for purposes of making transfers to the ASF. It is anticipated that the issuance of the IRS Notice and the Proposed IRS Regulations will likely result in a substantial increase in the amount of bonds guaranteed under the Guarantee Program. The implementation of the Charter School Bond Guarantee Program is also expected to increase the amount of guaranteed bonds.

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

The School District Bond Guarantee Program

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

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

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

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

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

The Charter District Bond Guarantee Program

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

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

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

In accordance with the Act, the Commissioner may not approve charter district bonds for guarantee if such guarantees will result in lower bond ratings for public school district bonds that are guaranteed under the School District Bond Guarantee Program. To be eligible for a guarantee, the Act provides that a charter district's bonds must be approved by the Attorney General, have an

unenanced investment grade rating from a nationally recognized investment rating firm, and satisfy a limited investigation conducted by the TEA.

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

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

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

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

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

2017 Legislative Changes to the Charter District Bond Guarantee Program

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

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

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

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

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

Charter District Risk Factors

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

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

The maintenance of a State-granted charter is dependent upon on-going compliance with State law and TEA regulations, and TEA monitors compliance with applicable standards. TEA has a broad range of enforcement and remedial actions that it can take as corrective measures, and such actions may include the loss of the State charter, the appointment of a new board of directors to

govern a charter district, the assignment of operations to another charter operator, or, as a last resort, the dissolution of an open-enrollment charter school.

As described above, the Act includes a funding “intercept” function that applies to both the School District Bond Guarantee Program and the Charter District Bond Guarantee Program. However, school districts are viewed as the “educator of last resort” for students residing in the geographical territory of the district, which makes it unlikely that State funding for those school districts would be discontinued, although the TEA can require the dissolution and merger into another school district if necessary to ensure sound education and financial management of a school district. That is not the case with a charter district, however, and open-enrollment charter schools in the State have been dissolved by TEA from time to time. If a charter district that has bonds outstanding that are guaranteed by the Charter District Bond Guarantee Program should be dissolved, debt service on guaranteed bonds of the district would continue to be paid to bondholders in accordance with the Charter District Bond Guarantee Program, but there would be no funding available for reimbursement of the PSF by the Comptroller for such payments. As described under “The Charter District Bond Guarantee Program,” the Act establishes a Charter District Reserve Fund, which could in the future be a significant reimbursement resource for the PSF. At April 30, 2019, the Charter District Reserve Fund contained \$14,743,830.

Potential Impact of Hurricane Harvey on the PSF

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

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

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

Ratings of Bonds Guaranteed Under the Guarantee Program

Moody’s Investors Service, Inc., S&P Global Ratings and Fitch Ratings, Inc. rate bonds guaranteed by the PSF “Aaa,” “AAA” and “AAA,” respectively. Not all districts apply for multiple ratings on their bonds, however. See “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⁾	33,860,358,647	44,074,197,940

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

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

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

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

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

Permanent School Fund Guaranteed Bonds by Category ⁽¹⁾						
Fiscal Year Ended	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⁾	3,249	77,647,966,069	44	1,432,935,000	3,293	79,080,901,069

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

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

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

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

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

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

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

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

The PSF(SLB) portfolio is generally characterized by three broad categories: (1) discretionary real assets investments, (2) sovereign and other lands, and (3) mineral interests. Discretionary real assets investments consist of externally managed real estate, infrastructure, and energy/minerals investment funds; internally managed direct real estate investments, and cash. Sovereign and other lands consist primarily of the lands set aside to the PSF when it was created. Mineral interests consist of all of the minerals that are associated with PSF lands. The investment focus of PSF(SLB) discretionary real assets investments has

shifted from internally managed direct real estate investments to externally managed real assets investment funds. The PSF(SLB) makes investments in certain limited partnerships that legally commit it to possible future capital contributions. At August 31, 2018, the remaining commitments totaled approximately \$2.6 billion.

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

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

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

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

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

2011 Constitutional Amendment

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

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

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

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

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

The constitutional amendments approved on November 8, 2011 also provide authority to the GLO or any other entity other than the SBOE that has responsibility for the management of land or other properties of the Fund to determine whether to transfer an amount each year from Fund assets to the ASF revenue derived from such land or properties, with the amount transferred limited

to \$300 million. Any amount transferred to the ASF by an entity other than the SBOE is excluded from the 6% Distribution Rate limitation applicable to SBOE transfers.

Other Events and Disclosures

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

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

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

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

PSF Continuing Disclosure Undertaking

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

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

Annual Reports

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

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

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

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

Event Notices

The TEA will also provide timely notices of certain events to the MSRB. Such notices will be provided not more than ten business days after the occurrence of the event. The TEA will provide notice of any of the following events with respect to the Guarantee Program: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if such event is material within the meaning of the federal securities laws; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their

failure to perform; (6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax-exempt status of the Guarantee Program, or other material events affecting the tax status of the Guarantee Program; (7) modifications to rights of holders of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (8) bond calls, if such event is material within the meaning of the federal securities laws, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the Guarantee Program (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Guarantee Program in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Guarantee Program, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Guarantee Program); (13) the consummation of a merger, consolidation, or acquisition involving the Guarantee Program or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) the appointment of a successor or additional trustee with respect to the Guarantee Program or the change of name of a trustee, if such event is material within the meaning of the federal securities laws; (15) the incurrence of a financial obligation of the Guarantee Program, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Program, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Guarantee Program, any of which reflect financial difficulties. (Neither the Act nor any other law, regulation or instrument pertaining to the Guarantee Program make any provision with respect to the Guarantee Program for bond calls, debt service reserves, credit enhancement, liquidity enhancement, early redemption or the appointment of a trustee with respect to the Guarantee Program.) In addition, the TEA will provide timely notice of any failure by the TEA to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information

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

Limitations and Amendments

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

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

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

Compliance with Prior Undertakings

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

SEC Exemptive Relief

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

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

On seven occasions in the last thirty years, the Texas Supreme Court (the "Court") has issued decisions assessing the constitutionality of the Texas public school finance system (the "Finance System"). The litigation has primarily focused on whether the Finance System, as amended by the Texas Legislature (the "Legislature") from time to time (i) met the requirements of article VII, section 1 of the Texas Constitution, which requires the Legislature to "establish and make suitable provision for the support and

maintenance of an efficient system of public free schools,” or (ii) imposed a statewide ad valorem tax in violation of article VIII, section 1-e of the Texas Constitution because the statutory limit on property taxes levied by school districts for maintenance and operation purposes had allegedly denied school districts meaningful discretion in setting their tax rates. In response to the Court’s previous decisions, the Legislature enacted multiple laws that made substantive changes in the way the Finance System is funded in efforts to address the prior decisions declaring the Finance System unconstitutional.

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

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

Possible Effects of Changes in Law on District Bonds

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

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

Overview

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

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

Prior to the 2019 Legislative Session, a school district’s maximum M&O tax rate for a given tax year was determined by multiplying that school district’s 2005 M&O tax rate levy by an amount equal a compression percentage set by legislative appropriation or, in the absence of legislative appropriation, by the Commissioner of Education (the “Commissioner”). This compression percentage was historically set at 66.67%, effectively setting the maximum compressed M&O tax rate for most school districts at \$1.00 per \$100 of taxable value, since most school districts in the State had a voted maximum M&O tax rate of \$1.50 per \$100 of taxable value (though certain school districts located in Harris County had special M&O tax rate authorizations allowing a higher M&O tax rate). School districts were permitted, however, to generate additional local funds by raising their M&O tax rate up to \$0.04 above the compressed tax rate or, with voter-approval at a valid election in the local district, up to \$0.17 above the compressed tax rate (for most school districts, this equated to an M&O tax rate between \$1.04 and \$1.17 per \$100 of taxable value). School districts received additional State funds in proportion to such taxing effort.

Local Funding for School Districts

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

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

State Compression Percentage

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

Maximum Compressed Tax Rate

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

Tier One Tax Rate

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

Enrichment Tax Rate

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

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

State Funding for School Districts

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

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

The current public school finance system also provides an Existing Debt Allotment (“EDA”) to subsidize debt service on eligible outstanding school district bonds, an Instructional Facilities Allotment (“IFA”) to subsidize debt service on newly issued bonds, and a New Instructional Facilities Allotment (“NIFA”) to subsidize operational expenses associated with the opening of a new instructional facility. IFA primarily addresses the debt service needs of property-poor school districts. For the 2020-2021 State fiscal biennium, the State Legislature appropriated funds in the amount of \$1,323,444,300 for the EDA, IFA, and NIFA.

Tier One and Tier Two allotments represent the State’s share of the cost of M&O expenses of school districts, with local M&O taxes representing the school district’s local share. EDA and IFA allotments supplement a school district’s local I&S taxes levied for debt service on eligible bonds issued to construct, acquire and improve facilities, provided that a school district qualifies for such funding and that the State Legislature makes sufficient appropriations to fund the allotments for a State fiscal biennium. Tier One and Tier Two allotments and existing EDA and IFA allotments are generally required to be funded each year by the State Legislature.

Tier One

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

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

Tier Two

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

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

The Foundation School Program also includes facilities funding components consisting of the IFA and the EDA, subject to legislative appropriation each State fiscal biennium. To the extent funded for a biennium, these programs assist school districts in funding facilities by, generally, equalizing a school district's I&S tax effort. The IFA guarantees each awarded school district a specified amount per student (the "IFA Yield") in State and local funds for each cent of I&S tax levied to pay the principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. The IFA Yield has been \$35 since this program first began in 1997. New awards of IFA are only available if appropriated funds are allocated for such purpose by the State Legislature. To receive an IFA award, in years where new IFA awards are available, a school district must apply to the Commissioner in accordance with rules adopted by the TEA before issuing the bonds to be paid with IFA State assistance. The total amount of debt service assistance over a biennium for which a school district may be awarded is limited to the lesser of (1) the actual debt service payments made by the school district in the biennium in which the bonds are issued; or (2) the greater of (a) \$100,000 or (b) \$250 multiplied by the number of students in ADA. The IFA is also available for lease-purchase agreements and refunding bonds meeting certain prescribed conditions. Once a school district receives an IFA award for bonds, it is entitled to continue receiving State assistance for such bonds without reapplying to the Commissioner. The guaranteed level of State and local funds per student per cent of local tax effort applicable to the bonds may not be reduced below the level provided for the year in which the bonds were issued. For the 2020-2021 State fiscal biennium, the State Legislature did not appropriate any funds for new IFA awards; however, awards previously granted in years the State Legislature did appropriate funds for new IFA awards will continue to be funded.

State financial assistance is provided for certain existing eligible debt issued by school districts through the EDA program. The EDA guaranteed yield (the "EDA Yield") is the lesser of (i) \$40 per student in ADA or a greater amount for any year provided by appropriation; or (ii) the amount that would result in a total additional EDA of \$60 million more than the EDA to which school districts would have been entitled to if the EDA Yield were \$35. The portion of a school district's local debt service rate that qualifies for EDA assistance is limited to the first \$0.29 of its I&S tax rate (or a greater amount for any year provided by appropriation by the State Legislature). In general, a school district's bonds are eligible for EDA assistance if (i) the school district made payments on the bonds during the final fiscal year of the preceding State fiscal biennium, or (ii) the school district levied taxes to pay the principal of and interest on the bonds for that fiscal year. Each biennium, access to EDA funding is determined by the debt service taxes collected in the final year of the preceding biennium. A school district may not receive EDA funding for the principal and interest on a series of otherwise eligible bonds for which the school district receives IFA funding.

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

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

Tax Rate and Funding Equity

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

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

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

Local Revenue Level in Excess of Entitlement

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

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

Options for Local Revenue Levels in Excess of Entitlement

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

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

POSSIBLE EFFECTS OF WEALTH TRANSFER PROVISIONS ON THE DISTRICT'S FINANCIAL CONDITION

For the 2019-2020 school year, the District was not designated as an "excess local revenue" district by TEA. Accordingly, the District has not been required to exercise one of the wealth equalization options permitted under applicable State law. 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 equalized wealth value, the District must reduce its wealth per student by the exercise of one of the permitted wealth equalization options. Accordingly, if the District's wealth per student should exceed the maximum permitted value in future school years, it will be required to exercise one or more of the permitted wealth equalization options. If the District were to consolidate (or consolidate its tax base for all purposes) with a property-poor district, the outstanding debt of each district could become payable from the consolidated district's combined property tax base, and the District's ration of taxable property to debt could become diluted. If the District were to detach property voluntarily, a portion of its outstanding debt (including the Bonds) could be assumed by the district to which the property is annexed, in which case timely payment of the Bonds could become dependent in part on the financial performance of an annexing district.

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

AD VALOREM TAX PROCEDURES

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

Valuation of Taxable Property

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

State law requires the appraised value of an owner's principal residence ("homestead" or "homesteads") to be based solely on the property's value as a homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a homestead to the lesser of (1) the market value of the property or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property.

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

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

State Mandated Homestead Exemptions

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

Local Option Homestead Exemptions

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

State Mandated Freeze on School District Taxes

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

Personal Property

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

Freeport Exemptions

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

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

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

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

Other Exempt Property

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

Tax Increment Reinvestment Zones

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

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

Tax Limitation Agreements

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

For a discussion of how the various exemptions described above are applied by the District, see "AD VALOREM TAX PROCEDURES – The Property Tax Code as Applied to the District" herein.

District and Taxpayer Remedies

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

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

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

Levy and Collection of Taxes

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

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units. A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax

lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property.

Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, adverse market conditions, taxpayer redemption rights, or bankruptcy proceedings which restrain the collection of a taxpayer's debt.

Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases, post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

TAX RATE LIMITATIONS

M&O Tax Rate Limitations

The District is authorized to levy an M&O tax rate pursuant to the approval of the voters of the District at an election held on July 24, 1965 in accordance with the provisions of Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended.

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

For the 2019 tax year, the maximum M&O tax rate per \$100 of taxable value that may be adopted by a school district is the sum of \$0.17 and the product of the State Compression Percentage multiplied by \$1.00. For the 2019 tax year, the state compression percentage has been set at 93%.

For the 2020 and subsequent tax years, the maximum maintenance tax rate per \$100 of taxable value that may be adopted by an independent school district is the sum of \$0.17 and the school district's MCR. The District's MCR is, generally, inversely proportional to the change in taxable property values both within the District and the State, and is subject to recalculation annually. For any year, highest possible MCR for an independent school district is \$0.93.

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

I&S Tax Rate Limitations

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

Section 45.0031 of the Texas Education Code, as amended, requires a school district to demonstrate to the Texas Attorney General that it has the prospective ability to pay its maximum annual debt service on a proposed issue of bonds and all previously issued bonds, other than bonds approved by voters of a school district at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds, collectively, "exempt bonds"), from a tax levied at a rate of \$0.50 per \$100 of assessed valuation before bonds may be issued (the "50-cent Test"). In demonstrating the ability to pay debt service at a rate of \$0.50, a school district may take into account EDA and IFA allotments to the school district, which effectively reduces the school district's local share of debt service, and may also take into account Tier One funds allotted to the school district. If a school district exercises this option, it may not adopt an I&S tax until it has credited to the school district's I&S fund an amount equal to all State allotments provided solely for payment of debt service and any Tier One funds needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Additionally, a school district may demonstrate its ability to comply with the 50-cent Test by applying the \$0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the school district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five (5) years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a school district uses projected future taxable values to meet the 50-cent Test and subsequently imposes a tax at a rate greater than \$0.50 per \$100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Texas Attorney General must find that the school district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the 50-cent Test from a tax rate of \$0.45 per \$100 of valuation. Once the prospective ability to pay such tax has been shown and the bonds are issued, a school district may levy an unlimited tax to pay debt service. Refunding bonds issued pursuant to Chapter 1207, Texas Government Code, are not subject to the 50-cent 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 50-cent Test when applied to subsequent bond issues that are subject to the 50-cent Test. The Bonds are issued as refunding bonds pursuant to Chapter 1207 and are, therefore, not subject to the 50-cent Test; however, taxes levied to pay debt service on the Bonds are included in the calculation of the 50-cent Test as applied to subsequent issues of "new debt". The District has not used projected property values to satisfy this threshold test.

Public Hearing and Voter-Approval Tax Rate

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

For the 2019 tax year, a school district is required to adopt its annual tax rate before the later of September 30 or the sixtieth (60th) day after the date the certified appraisal roll is received by the taxing unit, and a failure to adopt a tax rate by such required date will result in the tax rate for the taxing unit being the lower of the "effective tax rate" calculated for that tax year or the tax rate adopted by the taxing unit for the preceding tax year. "Effective tax rate" means the rate that will produce the prior year's total tax levy from the current year's total taxable values, adjusted such that lost values are not included in the calculation of the prior year's taxable values and new values are not included in the current year's taxable values.

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

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

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

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

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

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

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

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

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

THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT

The Appraisal District has the responsibility for appraising property in the District as well as other taxing units in Chambers County, Texas (the "County"). The Appraisal District is governed by a board of directors appointed by members of the governing bodies of various political subdivisions within the 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 does not collect an additional 20% penalty to defray attorney costs in the collection of delinquent taxes over and above the penalty automatically assessed under the Tax Code.

The District's taxes are collected by the Chambers 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 not 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 taken action to continue to tax goods-in-transit.

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 4. Other Information – B. Defined Benefit Pension Plan" and "Note 4. Other Information – C. Defined Other Post-Employment Benefit 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 \$240 per month per employee to the Health Care Plan. Employees, at their option, authorize payroll withholdings to pay premiums for dependents. See "Note 4. Other Information – A. Risk Management - Health Care Coverage" of the Financial Statements.

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

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 TEA. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM"). The District's unenhanced, underlying rating, including the Bonds, is "A+" by S&P.

An explanation of the significance of such rating may be obtained from S&P. The rating on 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 the rating agency. 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 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, Bond Counsel to the District ("Bond Counsel"), 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 "PLAN OF FINANCING – Refunded Bonds", "THE BONDS" (except for the information included in 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" (except for the last sentence of the second paragraph thereof), "TAX MATTERS," "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," and "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE," and Bond Counsel is of the opinion that the statements and information contained therein are correct as to matters of law.

The 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 statute, 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 the Report (See "PLAN OF FINANCING – Refunded Bonds" and "VERIFICATION OF MATHEMATICAL COMPUTATIONS") and upon the 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 or refinanced 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.

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 tax-exempt 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.

Except as described above, Bond Counsel expresses 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.

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.

Ancillary Tax Changes

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 (see "Qualified Tax-Exempt Obligations" herein), 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, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a financial asset securitization investment trust (a "FASIT"), 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 of certain Bonds (the "Discount Bonds") may be less than the amount payable on such Bonds at maturity. 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 Bond. A portion of such original issue discount allocable to the holding period of such Discount Bond by the initial purchaser will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Bonds described above under "Tax Exemption." 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 the tax year.

However, such 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 (see "Qualified Tax-Exempt Obligations" herein), life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, 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. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial owner 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 of accrued original issue discount on Discount Bonds for federal income tax purposes 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 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 of certain Bonds (the "Premium Bonds") may be greater than the amount payable on such Bonds at maturity. 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 the amount payable 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. 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.

Qualified Tax-Exempt Obligations

Section 265 of the Code provides, in general, that interest expense to acquire or carry tax-exempt obligations is not deductible from the gross income of the owner of such obligations. In addition, section 265 of the Code generally disallows 100% of any deduction for interest expense which is incurred by "financial institutions" described in such section and is allocable, as computed in such section, to tax-exempt interest on obligations acquired after August 7, 1986. Section 265(b) of the Code provides an exemption to this interest disallowance rule for financial institutions stating that such disallowance does not apply to interest expense allocable to certain tax-exempt obligations (other than private activity bonds that are not qualified 501 (c)(3) bonds) which are properly designated by an issuer as "qualified tax-exempt obligations." An issuer may designate obligations as "qualified tax-exempt obligations" only if the amount of the issue of which they are a part, when added to the amount of certain other tax-exempt obligations (other than private activity bonds that are not qualified 501 (c)(3) obligations other than certain current refunding bonds) issued or reasonably anticipated to be issued by the issuer and certain related entities during the same calendar year, does not exceed \$10,000,000.

The District will designate the Bonds as "qualified tax-exempt obligations" and will certify its expectation that the above described \$10,000,000 ceiling will not be exceeded. Accordingly, it is anticipated that financial institutions which purchase the Bonds will not be subject to the 100% disallowance of interest expense allocable to interest on the Bonds under section 265(b) of the Code. However, the deduction for interest expense incurred by a financial institution which is allocable to the interest on the Bonds will be reduced by 20% pursuant to section 291 of the Code.

INVESTMENT POLICIES

Investments

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

Legal Investments

Under State law and subject to certain limitations, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations issued and secured by a federal agency or instrumentality of the United States; (4) other obligations unconditionally guaranteed or insured by the State of Texas or the United States or their respective agencies and instrumentalities; (5) "A" or better rated obligations of states, agencies, counties, cities, and other political subdivisions of any state; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) federally insured interest-bearing bank deposits, brokered pools of such deposits, and collateralized certificates of deposit and share certificates; (8) fully collateralized United States government securities repurchase agreements; (9) one-year or shorter securities lending agreements secured by obligations described in clauses (1) through (7) above or (11) through (14) below or an irrevocable letter of credit issued by an "A" or better rated state or national bank; (10) 270-day or shorter bankers' acceptances, if the short-term obligations of the accepting bank or its holding company are rated at least "A-1" or "P-1"; (11) commercial paper rated at least "A-1" or "P-1"; (12) SEC-registered no-load money market mutual funds that are subject to SEC Rule 2a-7; (13) SEC-registered no-load mutual funds that have an average weighted maturity of less than two years; (14) "AAA" or "AAAm"-rated investment pools that invest solely in investments described above; and (15) in the case of bond proceeds, guaranteed investment contracts that are secured by obligations described in clauses (1) through (7) above and, except for debt service funds and reserves, have a term of 5 years or less.

The District may not, however, invest in (1) interest only obligations, or non-interest bearing principal obligations, stripped from mortgage-backed securities; (2) collateralized mortgage obligations that have a remaining term that exceeds 10 years; and (3) collateralized mortgage obligations that bear interest at an index rate that adjusts opposite to the changes in a market index. In addition, the District may not invest more than 15% of its monthly average fund balance (excluding bond proceeds and debt service funds and reserves) in mutual funds described in clause (13) above or make an investment in any mutual fund that exceeds 10% of the fund's total assets.

Except as stated above or inconsistent with its investment policy, the District may invest in obligations of any duration without regard to their credit rating, if any. If an obligation ceases to qualify as an eligible investment after it has been purchased, the District is not required to liquidate the investment unless it no longer carries a required rating, in which case the District is required to take prudent measures to liquidate the investment that are consistent with its investment policy.

Investment Policies

Under State law, the District is required to adopt and annually review written investment policies and must invest its funds in accordance with its policies. The policies must identify eligible investments and address investment diversification, yield, maturity, and the quality and capability of investment management. For investments whose eligibility is rating dependent, the policies must adopt procedures to monitor ratings and liquidate investments if and when required. The policies must require that all investment transactions settle on a delivery versus payment basis. The District is required to adopt a written investment strategy for each fund group to achieve investment objectives in the following order of priority: (1) suitability, (2) preservation and safety of principal, (3) liquidity, (4) marketability, (5) diversification, and (6) yield.

State law requires the District's investments 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." The District is required to perform an annual audit of the management controls on investments and compliance with its investment policies and provide regular training for its investment officers.

Current Investments

As of August 31, 2019, the District had approximately \$10,022,73 (unaudited) invested in investment pools that generally have the characteristics of a money-market mutual fund). The market value of such investments (as determined by the District by reference to published quotations, dealer bids, and comparable information) is approximately 100% of the book value. No funds of the District are invested in derivative securities, i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

FINANCIAL ADVISOR

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 MSRB's Electronic Municipal Market Access 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 6 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 6 months after any such fiscal year end, then the District shall file unaudited Financial

Statements within such 6-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 Annual Operating Report 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 notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District, any of which reflect financial difficulties. In addition, the District will provide timely notice of any failure by the District to provide annual financial information in accordance with their agreement described above under "Annual Reports". The District will provide each notice described in this paragraph to the MSRB. In the Order, the District adopted policies and procedures to ensure timely compliance with its continuing disclosure undertakings. Neither the Bonds nor the Bond Order make any provision for a bond trustee, debt service reserves, credit enhancement (except for the Permanent School Fund guarantee), or liquidity enhancement.

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

Availability of Information

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

Limitations and Amendments

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

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if, 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 to the amendment or (b) any qualified person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. If the District amends its agreement, it has agreed to include with the financial information and operating data next provided, in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and operating data so provided.

Compliance with Prior Undertakings

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.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Public Finance Partners LLC, a firm of independent consultants, will deliver to the District, on or before the settlement date of the Bonds, its verification report indicating that it has verified the mathematical accuracy of (a) the mathematical computations of

the adequacy of the cash and the maturing principal of and interest on the Defeasance Securities, to pay, when due or upon early redemption, the principal of, interest on and related call premium requirements, if any, of the Refunded Bonds, and (b) the mathematical computations of yield used by Bond Counsel to support its opinion that interest on the Bonds will be excluded from gross income for federal income tax purposes. Public Finance Partners LLC relied on the accuracy, completeness and reliability of all information provided to it by, and on all decisions and approvals of, the District. In addition, Public Finance Partners LLC has relied on any information provided to it by the District retained advisors, consultants or legal counsel.

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 _____ (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 [net] reoffering premium of \$ _____, 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 of solicitation.

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

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

In the Order, the Board delegated to certain District officials the authority to approve the form and content of this Official Statement and any addenda, supplement or amendment thereto, and the Board authorized its further use in the re-offering of the Bonds by the Purchaser.

/s/

President, Board of Trustees

ATTEST:

/s/

Secretary, Board of Trustees

ANAHUAC INDEPENDENT SCHOOL DISTRICT

Schedule I - Schedule of Refunded Bonds*

Unlimited Tax School Building Bonds, Series 2010

Maturities Being Redeemed	Original CUSIP	Principal Amount Outstanding	Interest Rate	Principal Amount Being Refunded	Call Date	Principal Amount Unrefunded
2/15/2021	032645DA8	\$ 840,000.00	4.000%	\$ 840,000.00	February 15, 2020 @ Par	-
2/15/2022	032645DB6	875,000.00	4.000%	875,000.00	February 15, 2020 @ Par	-
2/15/2023	032645DC4	910,000.00	4.000%	910,000.00	February 15, 2020 @ Par	-
2/15/2024	032645DD2	945,000.00	4.000%	945,000.00	February 15, 2020 @ Par	-
2/15/2025	032645DE0	985,000.00	4.000%	985,000.00	February 15, 2020 @ Par	-
2/15/2026	032645DF7	1,025,000.00	4.000%	1,025,000.00	February 15, 2020 @ Par	-
2/15/2027	032645DG5	1,065,000.00	4.000%	1,065,000.00	February 15, 2020 @ Par	-
2/15/2028	032645DH3	1,110,000.00	4.000%	1,110,000.00	February 15, 2020 @ Par	-
2/15/2029	032645DJ9	1,155,000.00	4.000%	1,155,000.00	February 15, 2020 @ Par	-
2/15/2030	032645DK6	1,205,000.00	4.000%	1,205,000.00	February 15, 2020 @ Par	-
		<u>\$ 10,115,000.00</u>		<u>\$ 10,115,000.00</u>		<u>\$ -</u>

*Preliminary, subject to change.

APPENDIX A

FINANCIAL INFORMATION OF THE DISTRICT

ANAHUAC INDEPENDENT SCHOOL DISTRICT

Financial Information

ASSESSED VALUATION ⁽¹⁾

2019/20 Total Valuation.....		\$ 831,926,553
Less Exemptions & Deductions ⁽²⁾ :		
State Homestead Exemption	\$ 45,608,110	
State/Local Over-65 Exemption	7,597,120	
Disabled Homestead Exemption Loss	581,770	
Local Option Over-65 Exemption	20,686,700	
Local Option Percentage Exemption	46,035,870	
Veterans Exemption Loss	354,610	
Pollution Control Exemption Loss	1,547,900	
Productivity Loss	118,183,740	
Prorations and Other Partial Exemptions	253,980	
Homestead Cap Loss	11,167,350	
	\$ 252,017,150	
2019/20 Net Taxable Valuation		\$ 579,909,403

(1) Source: Certified Values from the Chambers County Appraisal District as of July 2019. The passage of a Texas constitutional amendment that was on the ballot in the November 3, 2015 election 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 \$10,019,973 in 2018/19.

VOTED GENERAL OBLIGATION DEBT

Unlimited Tax Bonds Outstanding		\$ 24,825,000
Less: The Refunded Bonds ⁽¹⁾		(10,115,000)
Plus: The Bonds ⁽¹⁾		9,365,000
Total Unlimited Tax Bonds ⁽¹⁾		\$ 24,075,000
Less: Interest & Sinking Fund Balance (As of August 31, 2019) ⁽²⁾		(1,200,000)
Net General Obligation Debt		\$ 22,875,000
Ratio of Net G.O. Debt to Net Taxable Valuation ⁽³⁾		3.94%
2019 Population Estimate ⁽⁴⁾		6,008
Per Capita Net Taxable Valuation		\$96,523
Per Capita Net G.O. Debt		\$3,807

(1) Preliminary, subject to change.
 (2) Source: Anahuac ISD Estimate.
 (3) 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.
 (4) Source: Municipal Advisory Council of Texas.

PROPERTY TAX RATES AND COLLECTIONS

Fiscal Year	Net Taxable Valuation ⁽¹⁾		Tax Rate	% Collections ⁽⁴⁾	
				Current ⁽⁵⁾	Total ⁽⁵⁾
2006/07	\$ 277,183,420	⁽¹⁾	\$ 1.4825	95.47%	99.41%
2007/08	274,584,050	⁽¹⁾	1.1672 ⁽⁶⁾	92.29%	97.32%
2008/09	311,598,600	⁽¹⁾	1.1519	93.30%	96.80%
2009/10	276,323,370	⁽¹⁾	1.1780	95.04%	106.69%
2010/11	295,326,100	⁽¹⁾	1.3590	95.18%	98.49%
2011/12	297,870,601	⁽¹⁾	1.3390	95.12%	98.39%
2012/13	371,383,725	⁽¹⁾	1.3400	96.89%	101.06%
2013/14	469,781,098	⁽¹⁾	1.3100	97.20%	100.45%
2014/15	677,477,686	⁽¹⁾	1.2300	97.36%	99.63%
2015/16	611,343,536	⁽¹⁾⁽²⁾	1.2700	97.11%	99.77%
2016/17	484,792,182	⁽¹⁾	1.4700	96.62%	99.87%
2017/18	515,908,967	⁽¹⁾	1.4700	96.11%	98.96%
2018/19	530,948,723	⁽¹⁾	1.4700	95.00% ⁽⁸⁾	95.00% ⁽⁸⁾
2019/20	579,909,403	⁽³⁾	1.4000 ⁽⁷⁾		

(1) Source: Comptroller of Public Accounts - Property Tax Division.
 (2) The passage of a Texas constitutional amendment on November 3, 2015 election increased the homestead exemption from \$15,000 to \$25,000.
 (3) Source: Certified Values from the Chambers County Appraisal District as of July 2019.
 (4) Source: Anahuac 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.
 (7) The decline in the District's Maintenance & Operation Tax from the 2018/19 fiscal year to the 2019/20 fiscal year is a function of House Bill 3 adopted by the Texas Legislature in June 2019. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in Official Statement.
 (8) Source: Anahuac ISD Estimate.

TAX RATE DISTRIBUTION

	2015/16 ⁽¹⁾	2016/17	2017/18	2018/19	2019/20 ⁽²⁾
Maintenance & Operations	\$1.0600	\$1.0600	\$1.0600	\$1.0600	\$0.9900
Debt Service	\$0.2100	\$0.4100	\$0.4100	\$0.4100	\$0.4100
Total Tax Rate	\$1.2700	\$1.4700	\$1.4700	\$1.4700	\$1.4000

(1) On November 3, 2015, the District successfully held a tax ratification election. The voters of the District approved a maintenance and operations tax not to exceed \$1.06.

(2) The decline in the District's Maintenance & Operations Tax from the 2018/19 fiscal year to the 2019/20 fiscal year is a function of House Bill 3 adopted by the Texas Legislature in June 2019.

VALUATION AND FUNDED DEBT HISTORY

Fiscal Year	Net Taxable Valuation	Bond Debt Outstanding	Ratio Debt to A.V. ⁽¹⁾
2006/07	\$ 277,183,420	\$ 5,140,000	1.85%
2007/08	274,584,050	4,815,000	1.75%
2008/09	311,598,600	4,450,000	1.43%
2009/10	276,323,370	16,905,000	6.12%
2010/11	295,326,100	16,505,000	5.59%
2011/12	297,870,601	15,875,000	5.33%
2012/13	371,383,725	15,230,000	4.10%
2013/14	469,781,098	14,565,000	3.10%
2014/15	677,477,686	13,885,000	2.05%
2015/16	611,343,536	13,180,000	2.16%
2016/17	484,792,182	21,450,000	4.42%
2017/18	515,908,967	25,775,000	5.00%
2018/19	530,948,723	24,825,000	4.68%
2019/20	579,909,403 ⁽²⁾	22,410,000 ⁽³⁾	3.86%

(1) 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.

(2) Source: Certified Values from the Chambers County Appraisal District as of July 2019.

(3) Includes the Bonds and excludes the Refunded Bonds. Preliminary, subject to change.

ESTIMATED OVERLAPPING DEBT STATEMENT

Taxing Body	Amount	Percent Overlapping	Amount Overlapping
City of Anahuac	\$ 16,454,000	100.00%	\$ 16,454,000
Chambers County	20,465,000	5.31%	1,086,692
Total Overlapping Debt ⁽¹⁾			\$ 17,540,692
Anahuac Independent School District ⁽²⁾			22,875,000
Total Direct & Overlapping Debt ⁽²⁾			\$ 40,415,692
Ratio of Net Direct & Overlapping Debt to Net Taxable Valuation		6.97%	
Per Capita Direct & Overlapping Debt		\$6,727	

(1) Equals gross debt less self-supporting debt.

(2) Includes the Bonds and excludes the Refunded Bonds. Preliminary, subject to change.

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

PRINCIPAL TAXPAYERS

2019/20 Top Ten Taxpayers ⁽¹⁾

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Denbury Onshore LLC	Oil & Gas	\$ 140,666,472	24.26%
WMS Olefins Pipeline K-Line	Oil & Gas Pipeline	16,997,451	2.93%
US Bank National Association	Bank	12,219,155	2.11%
Denbury Green Pipeline TX	Oil & Gas	9,256,937	1.60%
Texas Petroleum Investment	Oil & Gas	7,961,521	1.37%
Jackson Family Trust	Residential	7,876,173	1.36%
Entergy Texas Inc	Utility	6,548,214	1.13%
Kinder Morgan Tejas Pipeline	Oil & Gas	5,467,601	0.94%
McGowan Working Partners	Oil & Gas	4,891,007	0.84%
David Mayes Middleton III	Residential	4,043,702	0.70%
		<u>\$ 215,928,233</u>	<u>37.23%</u> ⁽³⁾

2018/19 Top Ten Taxpayers ⁽²⁾

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Denbury Onshore LLC	Oil & Gas	\$ 113,344,089	21.35%
US Bank National Association	Bank	13,820,707	2.60%
WMS Olefins Pipeline K-Line	Oil & Gas Pipeline	13,321,653	2.51%
Hilcorp Energy Company	Oil & Gas	10,349,498	1.95%
Denbury Green Pipeline TX	Oil & Gas	8,243,957	1.55%
Texas Petroleum Investment	Oil & Gas	6,547,615	1.23%
Entergy Texas Inc	Utility	6,466,413	1.22%
Jackson Family Trust	Residential	6,235,216	1.17%
Kinder Morgan Tejas Pipeline	Oil & Gas	4,438,480	0.84%
McGowan Working Partners	Oil & Gas	4,007,073	0.75%
		<u>\$ 186,774,701</u>	<u>35.18%</u>

2017/18 Top Ten Taxpayers ⁽²⁾

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Denbury Onshore LLC	Oil & Gas	\$ 116,819,604	22.64%
US Bank National Association	Bank	15,538,983	3.01%
Hilcorp Energy Company	Oil & Gas	15,462,508	3.00%
Texas Petroleum Investment	Oil & Gas	8,470,706	1.64%
Denbury Green Pipeline TX	Oil & Gas	8,066,410	1.56%
Entergy Texas Inc	Utility	6,898,083	1.34%
Jackson Family Trust	Residential	6,415,751	1.24%
Kinder Morgan Tejas Pipeline	Oil & Gas	5,930,211	1.15%
Broussard JE Heirs O&G LP	Oil & Gas	3,580,868	0.69%
Clean Combustion	Retail Store	3,315,158	0.64%
		<u>\$ 190,498,282</u>	<u>36.92%</u>

(1) Source: Chambers County Appraisal District.

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

(3) As shown in the table above, the top ten taxpayers in the District account for in excess of 35% of the District's tax base. Adverse developments in economic conditions, especially in the oil and gas industry, could adversely impact these businesses and, consequently, the tax values in the District, resulting in less local tax revenue. If any major taxpayer, or a combination of top taxpayers, were to default in the payment of taxes, the ability of the District to make timely payment of debt service on the Bonds may be dependent on its ability to enforce and liquidate its tax lien, which is a time consuming process that may only occur annually. See "REGISTERED OWNERS' REMEDIES" and "AD VALOREM TAX PROCEDURES - District's Rights in the Event of Tax Delinquencies" in this Official Statement.

CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY

<u>Category</u>	<u>2019/20</u> ⁽¹⁾	<u>% of Total</u>	<u>2018/19</u> ⁽²⁾	<u>% of Total</u>	<u>2017/18</u> ⁽²⁾	<u>% of Total</u>
Real, Residential, Single-Family	\$ 274,107,240	32.95%	\$ 258,051,250	33.30%	\$ 234,180,850	31.02%
Real, Residential, Multi-Family	1,329,450	0.16%	1,262,820	0.16%	1,263,790	0.17%
Real, Vacant Lots/Tracts	12,652,890	1.52%	14,114,640	1.82%	13,430,880	1.78%
Real, Acreage	142,042,673	17.07%	141,233,160	18.23%	142,357,890	18.86%
Real, Farm & Ranch Improvements	63,958,120	7.69%	62,320,150	8.04%	58,925,210	7.81%
Real, Commercial & Industrial	70,662,806	8.49%	76,831,008	9.91%	67,703,987	8.97%
Oil & Gas	166,660,156	20.03%	130,912,062	16.89%	149,161,052	19.76%
Utilities	44,993,641	5.41%	38,678,672	4.99%	40,648,911	5.38%
Tangible Personal, Commercial & Industrial	51,118,757	6.14%	47,016,031	6.07%	42,305,267	5.60%
Tangible Personal, Mobile Homes & Other	4,042,980	0.49%	4,067,660	0.52%	3,857,950	0.51%
Tangible Personal, Residential Inventory	341,890	0.04%	429,150	0.06%	1,040,290	0.14%
Tangible Personal, Special Inventory	<u>15,950</u>	<u>0.00%</u>	<u>15,950</u>	<u>0.00%</u>	<u>18,080</u>	<u>0.00%</u>
Total Appraised Value	\$ 831,926,553	100.00%	\$ 774,932,553	100.00%	\$ 754,894,157	100.00%
Less:						
Homestead Cap Adjustment	\$ 11,167,350		\$ 9,333,290		\$ 4,248,830	
Productivity Loss	118,183,740		117,176,370		121,253,910	
Exemptions	<u>122,666,060</u> ⁽³⁾		<u>117,474,170</u> ⁽³⁾		<u>113,482,450</u> ⁽³⁾	
Total Exemptions/Deductions ⁽⁴⁾	\$ 252,017,150		\$ 243,983,830		\$ 238,985,190	
Net Taxable Assessed Valuation	\$ 579,909,403		\$ 530,948,723		\$ 515,908,967	

<u>Category</u>	<u>2016/17</u> ⁽²⁾	<u>% of Total</u>	<u>2015/16</u> ⁽²⁾	<u>% of Total</u>	<u>2014/15</u> ⁽²⁾	<u>% of Total</u>
Real, Residential, Single-Family	\$ 226,125,700	31.59%	\$ 217,890,630	25.90%	\$ 212,479,350	23.71%
Real, Residential, Multi-Family	895,020	0.13%	765,490	0.09%	767,980	0.09%
Real, Vacant Lots/Tracts	11,343,460	1.58%	11,647,350	1.38%	11,215,780	1.25%
Real, Acreage	134,983,860	18.86%	135,470,320	16.10%	136,409,200	15.22%
Real, Farm & Ranch Improvements	55,646,520	7.78%	54,674,040	6.50%	53,317,800	5.95%
Real, Commercial & Industrial	68,176,771	9.53%	67,753,400	8.05%	63,887,021	7.13%
Oil & Gas	116,048,075	16.21%	260,405,601	30.96%	326,778,882	36.46%
Utilities	40,470,376	5.65%	41,694,970	4.96%	40,299,208	4.50%
Tangible Personal, Commercial & Industrial	57,212,750	7.99%	46,152,870	5.49%	46,335,360	5.17%
Tangible Personal, Mobile Homes & Other	3,606,960	0.50%	3,492,080	0.42%	3,491,190	0.39%
Tangible Personal, Residential Inventory	1,165,200	0.16%	1,225,140	0.15%	1,228,970	0.14%
Tangible Personal, Special Inventory	<u>27,090</u>	<u>0.00%</u>	<u>27,090</u>	<u>0.00%</u>	<u>-</u>	<u>0.00%</u>
Total Appraised Value	\$ 715,701,782	100.00%	\$ 841,198,981	100.00%	\$ 896,210,741	100.00%
Less:						
Homestead Cap Adjustment	\$ 5,090,770		\$ 4,679,270		\$ 5,175,480	
Productivity Loss	116,251,870		119,084,290		122,196,730	
Exemptions	<u>109,566,960</u> ⁽³⁾		<u>106,091,885</u> ⁽³⁾		<u>91,360,845</u>	
Total Exemptions/Deductions ⁽⁴⁾	\$ 230,909,600		\$ 229,855,445		\$ 218,733,055	
Net Taxable Assessed Valuation	\$ 484,792,182		\$ 611,343,536		\$ 677,477,686	

(1) Certified Values from the Chambers County Appraisal District as of July 2019.

(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	Outstanding	Less:	Plus:		Bonds	Percent of
Ending 8/31	Bonds	Refunded	The	Total ⁽¹⁾	Unpaid	Principal
		Bonds ⁽¹⁾	Bonds ⁽¹⁾		At Year End	Retired
2020	\$ 995,000.00	\$ -	\$ 670,000.00	\$ 1,665,000.00	\$ 22,410,000.00	6.92%
2021	1,040,000.00	840,000.00	1,100,000.00	1,300,000.00	21,110,000.00	12.32%
2022	930,000.00	875,000.00	755,000.00	810,000.00	20,300,000.00	15.68%
2023	970,000.00	910,000.00	770,000.00	830,000.00	19,470,000.00	19.13%
2024	1,010,000.00	945,000.00	790,000.00	855,000.00	18,615,000.00	22.68%
2025	1,050,000.00	985,000.00	815,000.00	880,000.00	17,735,000.00	26.33%
2026	1,095,000.00	1,025,000.00	840,000.00	910,000.00	16,825,000.00	30.11%
2027	1,140,000.00	1,065,000.00	865,000.00	940,000.00	15,885,000.00	34.02%
2028	1,185,000.00	1,110,000.00	895,000.00	970,000.00	14,915,000.00	38.05%
2029	1,235,000.00	1,155,000.00	915,000.00	995,000.00	13,920,000.00	42.18%
2030	1,285,000.00	1,205,000.00	950,000.00	1,030,000.00	12,890,000.00	46.46%
2031	1,020,000.00			1,020,000.00	11,870,000.00	50.70%
2032	1,045,000.00			1,045,000.00	10,825,000.00	55.04%
2033	1,075,000.00			1,075,000.00	9,750,000.00	59.50%
2034	1,100,000.00			1,100,000.00	8,650,000.00	64.07%
2035	1,130,000.00			1,130,000.00	7,520,000.00	68.76%
2036	1,160,000.00			1,160,000.00	6,360,000.00	73.58%
2037	1,195,000.00			1,195,000.00	5,165,000.00	78.55%
2038	1,235,000.00			1,235,000.00	3,930,000.00	83.68%
2039	1,270,000.00			1,270,000.00	2,660,000.00	88.95%
2040	1,310,000.00			1,310,000.00	1,350,000.00	94.39%
2041	1,350,000.00			1,350,000.00	-	100.00%
Total	<u>\$ 24,825,000.00</u>	<u>\$ 10,115,000.00</u>	<u>\$ 9,365,000.00</u>	<u>\$ 24,075,000.00</u>		

(1) Preliminary, subject to change.

DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 8/31	Outstanding Debt Service ⁽¹⁾	Less:	Plus:			Combined Total ^{(1) (2)}
		Refunded Bonds ⁽²⁾	Principal	The Bonds ⁽²⁾ Interest	Total	
2020	\$ 1,821,090.00	\$ 404,600.00	\$ 670,000.00	\$ 191,981.67	\$ 861,981.67	\$ 2,278,471.67
2021	1,821,427.50	1,227,800.00	1,100,000.00	227,450.00	1,327,450.00	1,921,077.50
2022	1,670,752.50	1,228,500.00	755,000.00	208,900.00	963,900.00	1,406,152.50
2023	1,672,177.50	1,227,800.00	770,000.00	191,725.00	961,725.00	1,406,102.50
2024	1,671,952.50	1,225,700.00	790,000.00	170,250.00	960,250.00	1,406,502.50
2025	1,670,102.50	1,227,100.00	815,000.00	146,175.00	961,175.00	1,404,177.50
2026	1,671,527.50	1,226,900.00	840,000.00	121,350.00	961,350.00	1,405,977.50
2027	1,671,477.50	1,225,100.00	865,000.00	95,775.00	960,775.00	1,407,152.50
2028	1,669,977.50	1,226,600.00	895,000.00	69,375.00	964,375.00	1,407,752.50
2029	1,671,977.50	1,226,300.00	915,000.00	42,225.00	957,225.00	1,402,902.50
2030	1,672,377.50	1,229,100.00	950,000.00	14,250.00	964,250.00	1,407,527.50
2031	1,370,177.50					1,370,177.50
2032	1,370,730.00					1,370,730.00
2033	1,374,897.50					1,374,897.50
2034	1,371,925.00					1,371,925.00
2035	1,372,150.00					1,372,150.00
2036	1,370,612.50					1,370,612.50
2037	1,371,237.50					1,371,237.50
2038	1,374,521.88					1,374,521.88
2039	1,371,409.38					1,371,409.38
2040	1,371,875.00					1,371,875.00
2041	1,370,831.25					1,370,831.25
	<u>\$ 33,775,207.51</u>	<u>\$ 12,675,500.00</u>	<u>\$ 9,365,000.00</u>	<u>\$ 1,479,456.67</u>	<u>\$ 10,844,456.67</u>	<u>\$ 31,944,164.18</u>

(1) Preliminary, subject to change.

(2) Based on its wealth per student, the District does not expect to receive state financial assistance for the payment of debt service for the fiscal year 2019/20. The amount of state financial assistance for debt service, if any, may differ substantially each year depending on a variety of factors, including the amount, if any, appropriated for that purpose by the state legislature and a school district's wealth per student. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement.

TAX ADEQUACY WITH RESPECT TO THE DISTRICT'S BONDS

Projected Maximum Debt Service Requirement ⁽¹⁾	\$ 2,278,471.67
Projected State Financial Assistance for Hold Harmless of Increased Homestead Exemption ⁽²⁾	30,000.00
Projected Net Debt Service Requirement ^{(1) (2)}	\$ 2,248,471.67
 \$0.39972 Tax Rate @ 97% Collections Produces	\$ 2,248,471.67
 2019/20 Net Taxable Valuation	\$ 579,909,403

(1) Includes the Bonds and excludes the Refunded Bonds. Preliminary, subject to change.

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

AUTHORIZED BUT UNISSUED BONDS

The District does not have any authorized but unissued unlimited ad valorem tax bond authorization. The District may also incur other financial obligations payable from its collection of taxes and other sources of revenue, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes.

COMPARATIVE STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES ⁽¹⁾

	Fiscal Year Ended August 31				
	2014	2015	2016	2017	2018
Beginning Fund Balance	\$ 4,803,376	\$ 5,699,711	\$ 7,376,288	\$ 7,429,244	\$ 7,801,490
Revenues:					
Local and Intermediate Sources	\$ 5,452,028	\$ 7,537,735	\$ 7,104,458	\$ 6,694,945	\$ 6,122,130
State Program Revenues	6,303,402	5,596,819	4,464,248	6,208,802	7,191,730
Federal Sources & Other	32,786	26,363	64,645	169,630	347,379
Total Revenues	\$ 11,788,216	\$ 13,160,917	\$ 11,633,351	\$ 13,073,377	\$ 13,661,239
Expenditures:					
Instruction	\$ 5,698,568	\$ 6,241,827	\$ 6,414,781	\$ 6,613,994	\$ 6,839,111
Instructional Resources & Media Services	83,358	85,092	75,716	68,074	75,059
Curriculum & Instructional Staff Development	28,819	79,890	91,315	102,189	102,061
Instructional Leadership	64,945	98,372	98,462	118,758	139,930
School Leadership	781,865	746,296	767,661	807,136	868,063
Guidance, Counseling & Evaluation Services	226,377	231,080	247,788	245,493	258,726
Health Services	66,524	99,510	138,544	140,227	116,387
Student (Pupil) Transportation	451,204	476,525	415,029	322,659	513,921
Food Services	95	-	2,981	-	2,311
Cocurricular/Extracurricular Activities	717,801	710,188	746,007	758,408	878,902
General Administration	493,298	595,363	535,837	527,121	607,995
Plant Maintenance and Operations	1,696,973	1,603,073	1,590,962	1,620,857	1,840,645
Security and Monitoring Services	2,695	2,400	9,013	10,400	5,513
Data Processing Services	282,519	233,225	219,705	214,450	271,998
Community Services	14,479	19,367	5,236	2,253	1,759
Payments to Shared Service Arrangements	232,511	188,993	146,104	154,263	190,672
Other Intergovernmental Charges	49,850	73,139	75,254	67,786	63,884
Total Expenditures	\$ 10,891,881	\$ 11,484,340	\$ 11,580,395	\$ 11,774,068	\$ 12,776,937
Excess (Deficiency) of Revenues over Expenditures	\$ 896,335	\$ 1,676,577	\$ 52,956	\$ 1,299,309	\$ 884,302
Other Resources and (Uses):					
Operating Transfers In	\$ -	\$ -	\$ -	\$ -	\$ -
Operating Transfers Out	-	-	-	(927,063)	(855,862)
Total Other Resources (Uses)	\$ -	\$ -	\$ -	\$ (927,063)	\$ (855,862)
Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	\$ 896,335	\$ 1,676,577	\$ 52,956	\$ 372,246	\$ 28,440
Ending Fund Balance ⁽²⁾	\$ 5,699,711	\$ 7,376,288	\$ 7,429,244	\$ 7,801,490	\$ 7,829,930 ⁽²⁾

(1) See "MANAGEMENT'S DISCUSSION AND ANALYSIS" in Appendix D hereto for a discussion of the 2016/17 budget and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Possible Effects of Wealth Transfer Provisions on the District's Financial Condition" in the Official Statement.

(2) The District is expecting the 2019 Ending General Fund Balance (unaudited) to be approximately \$8,800,000.

CHANGE IN NET ASSETS ⁽¹⁾

	Fiscal Year Ended August 31				
	2014	2015	2016	2017	2018
Revenues:					
Program Revenues:					
Charges for Services	\$ 312,966	\$ 302,001	\$ 596,507	\$ 720,484	\$ 682,494
Operating Grants and Contributions	1,705,825	1,626,071	1,796,535	1,476,099	(749,667)
General Revenues:					
Property Taxes Levied for General Purposes	4,861,168	6,955,944	6,447,121	5,055,189	5,335,620
Property Taxes Levied for Debt Service	1,274,900	1,288,574	1,290,912	1,980,522	2,118,035
Investment Earnings	19,045	25,697	37,755	156,232	246,626
Grants and Contributions Not Restricted	6,299,890	5,652,782	4,508,758	6,356,059	7,523,200
Miscellaneous	82,582	39,427	112,433	677,977	107,315
	<u>\$ 14,556,376</u>	<u>\$ 15,890,496</u>	<u>\$ 14,790,021</u>	<u>\$ 16,422,562</u>	<u>\$ 15,263,623</u>
Expenses:					
Instruction	\$ 6,521,770	\$ 6,992,552	\$ 7,345,401	\$ 7,397,414	\$ 5,108,291
Instruction Resources & Media Services	87,331	89,045	80,864	68,966	66,978
Curriculum & Staff Development	49,844	94,565	107,652	115,042	89,632
Instructional Leadership	73,936	108,766	111,194	129,513	114,250
School Leadership	824,058	786,025	825,742	846,071	619,375
Guidance, Counseling & Evaluation Services	238,346	243,073	265,823	257,104	187,239
Social Work Services	-	-	-	-	-
Health Services	70,038	104,465	149,868	149,741	80,857
Student Transportation	376,206	350,615	343,200	326,326	292,088
Food Service	724,858	748,372	835,511	867,169	564,701
Cocurricular/Extracurricular Activities	966,365	899,393	1,077,388	1,063,730	1,109,160
General Administration	514,052	616,266	566,950	547,306	535,131
Plant Maintenance & Operations	1,728,694	1,625,341	1,584,148	1,583,202	1,660,126
Security and Monitoring Services	2,695	2,400	9,013	10,400	5,513
Data Processing Services	292,001	240,538	229,610	217,322	251,009
Community Services	17,628	22,619	8,762	5,208	4,679
Debt Service - Interest on Long Term Debt	540,899	522,981	501,916	988,137	866,377
Debt Service - Bond Issuance Cost and Fees	-	-	-	-	142,774
Facilities Repair and Maintenance	-	-	90,356	76,938	2,501
Payments to Fiscal Agent/Member Districts of SSA	232,511	188,993	146,104	154,263	190,672
Other Intergovernmental Charges	49,850	73,139	75,254	67,786	63,884
Total Expenditures	<u>\$ 13,311,082</u>	<u>\$ 13,709,148</u>	<u>\$ 14,354,756</u>	<u>\$ 14,871,638</u>	<u>\$ 11,955,237</u>
Change in Net Assets	\$ 1,245,294	\$ 2,181,348	\$ 435,265	\$ 1,550,924	\$ 3,308,386
Beginning Net Assets	\$ 17,180,117	\$ 10,401,409	\$ 11,265,936	\$ 11,701,201	\$ 13,252,125
Prior Period Adjustment	\$ (8,024,002) ⁽²⁾	\$ (1,316,821) ⁽³⁾	\$ -	\$ -	\$ (6,916,277) ⁽⁴⁾
Ending Net Assets	<u>\$ 10,401,409</u>	<u>\$ 11,265,936</u>	<u>\$ 11,701,201</u>	<u>\$ 13,252,125</u>	<u>\$ 9,644,234</u>

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

(2) For 2014, the District converted to a fixed asset module, which resulted in the identification of assets that were obsolete and did not meet the criteria of capitalization.

(3) For 2015, the District adopted GASB 68 and 71 during 2015, which restated the District's net pension liability.

(4) In 2018, the District adopted GASB Statement No. 75 which required the District to assume their proportionate share of the net OPEB liability of the Texas Public School Retired Employees Group Insurance Program administered by the Teacher Retirement System of Texas.

APPENDIX B

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

ANAHUAC INDEPENDENT SCHOOL DISTRICT

General and Economic Information

Anahuac ISD is a petroleum producing area located on Trinity Bay that includes the City of Anahuac, the county seat of Chambers County. The City is located at the intersection of State Highway 61 and Farm Road 563 approximately 50 miles east of Houston. The District's current estimated population is approximately 6,008.

Chambers County was created in 1858 and is located in southeast Texas on Galveston Bay. The County's economy is diversified by petroleum, chemicals, steel plants, agribusiness, manufacturing, and tourism. The County was ranked as Texas' 3rd largest producer of rice in 2012.

Source: Texas Municipal Reports for Anahuac ISD and Chambers County.

Enrollment Statistics

<u>Year Ending 8/31</u>	<u>Enrollment</u>
2009	1,344
2010	1,289
2011	1,230
2012	1,209
2013	1,209
2014	1,231
2015	1,222
2016	1,303
2017	1,321
2018	1,338
2019	1,325
Current	1,345

District Staff

Teachers	98
Auxiliary Employees	53
Teachers' Aides and Secretaries	16
Administrators	12
Other	<u>9</u>
	188

Facilities

<u>Campus</u>	<u>Grades</u>	<u>Present Enrollment</u>	<u>Capacity</u>	<u>Year Built</u>	<u>Year of Renovation</u>
Elementary School	PK-5	651	900	1975	2010
Middle School	6-8	333	455	1937	2010
High School	9-12	358	590	1957	2010

Principal Employers in the Area

<u>Name of Company</u>	<u>Type of Business</u>	<u>Number of Employees</u>
Chambers County	County	410
Anahuac ISD	School District	188
Chambers Health	Hospital & Clinic	150
Jeri's Seafood	Commercial Fishing	75

Unemployment Rates

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

Source: Texas Workforce Commission.

APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL



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United States

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nortonrosefulbright.com

DRAFT

IN REGARD to the authorization and issuance of the “Anahuac Independent School District Unlimited Tax Refunding Bonds, Series 2019” (the *Bonds*), dated November 1, 2019, in the aggregate principal amount of \$_____, we have reviewed the legality and validity of the issuance thereof by the Board of Trustees of the Anahuac 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 2030, unless 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, the defeasance and discharge of the Issuer’s obligations being refunded by the Bonds, 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 Board of Trustees of the Issuer in connection with the issuance of the Bonds, including the Order, the Escrow and Trust Agreement (the *Escrow Agreement*) between the Issuer and BOKF, NA, Dallas, Texas (the *Escrow Agent*), (2) a special report (the *Report*) of Public Finance Partners LLC, Rockford, Minnesota (the *Verification Agent*) concerning the sufficiency of the cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement; (3) customary certifications and opinions of officials of the Issuer; (4) 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 (5) such other documentation, including an examination of the Bonds 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

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

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.

BASED ON OUR EXAMINATION, IT IS OUR OPINION that the Escrow Agreement has been duly authorized, executed, and delivered by the Issuer and, assuming due authorization, execution, and delivery thereof by the Escrow Agent, is a valid and binding obligation, enforceable in accordance with its terms (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), and that the outstanding obligations refunded, discharged, paid, and retired with certain proceeds of the Bonds have been defeased and are regarded as being outstanding only for the purpose of receiving payment from the funds held in trust with the Escrow Agent, pursuant to the Escrow Agreement and the order authorizing their issuance, and in accordance with the provisions of Chapter 1207, as amended, Texas Government Code. In rendering this opinion, we have relied upon the Report of the Verification Agent concerning the sufficiency of the cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement for the purposes of paying the outstanding obligations refunded and to be retired with the proceeds of the Bonds and the interest thereon.

BASED ON OUR EXAMINATION, IT IS FURTHER 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 Report of the Verification Agent concerning the sufficiency of the cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement and 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

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

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.

Norton Rose Fulbright US LLP

APPENDIX D

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

Anahuac Independent School District

Annual Financial Report

For the Fiscal Year Ended August 31, 2018

Anahuac Independent School District
 Annual Financial Report
 For the Fiscal Year Ended August 31, 2018
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Certificate of the Board

Anahuac Independent School District

Name of School District

Chambers

County

036-901

Co.-Dist Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and ✓ approved _____ disapproved for the fiscal year ended August 31, 2018 at a meeting of the Board of Trustees of such school district on the 22nd day of January, 2019.



Signature of Board Secretary



Signature of Board President

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

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Financial Section

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Independent Auditor's Report

To the Board of Trustees of
Anahuac Independent School District
Anahuac, Texas

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 Anahuac Independent School District (the District), as of and for the fiscal 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 for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1.D. to the basic financial statements, during the year ended August 31, 2018, the District implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Beginning net position has been restated as a result of the implementation of this statement. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

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

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

The Board of Trustees of
Anahuac Independent School District

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2019 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P

Conroe, Texas
January 17, 2019

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Management's Discussion and Analysis

As management of the Anahuac Independent School District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended August 31, 2018.

Financial Highlights

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$9,644,234 (*net position*). Of this amount, \$1,828,160 (*unrestricted net position*) may be used to meet the District's ongoing obligations to students and creditors.
- The District's total net position decreased by \$3,607,891 due to an increase from current operations of \$3,308,386 and a decrease of \$6,916,277 due to the implementation of Governmental Accounting Standards Board Statement No. 75 (Statement No. 75).
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$9,101,305, a decrease of \$3,818,386 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$5,413,561 or 43 percent of total general fund expenditures.
- The District's net bonded debt increased by \$4,430,456 during the current fiscal year, which is due to the issuance of the 2017 unlimited tax school building bonds.

Overview of the Financial Statements

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

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

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

The *Statement of Activities* (Exhibit B-1) presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and incurred but unpaid workers' compensation benefits).

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

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

In fiscal year 2018, the District implemented the Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* – which superseded GASB Statement No. 45.

Statement No. 75 establishes financial reporting standards and/or accounting standards for state and local government defined benefit other postemployment benefit (OPEB) plans and defined contribution OPEB plans. Statement No. 75 requires that, at transition, a government recognizes a beginning OPEB liability and beginning deferred outflow of resources for its OPEB contributions, if any, made subsequent to the measurement date of the beginning net OPEB liability. The implementation of this statement has no impact on the District's governmental fund financial statements. However, implementation has resulted in certain changes to the presentation of the financial statements of the District's government-wide financial statements. More information on the adoption of this statement and the District's OPEB plan is available in Note 1. D. and Note 4.C., respectively.

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

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

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

The District maintains 15 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund and capital projects fund, which are considered to be major funds. Data from the other 12 governmental funds are combined into a single, aggregated presentation titled *Nonmajor Governmental Funds*.

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

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

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of students and student organizations. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the District's own programs and activities. The fiduciary funds are accounted for under the accrual basis of accounting. The funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

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

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

Other Information. In addition to the basic financial statements and accompanying notes, this report presents required supplementary information and supplementary information which includes schedules required by the Texas Education Agency. Such supplementary information can be found as noted in the table of contents of this report.

Government-wide Financial Analysis

As noted earlier, net position may, over time, serve as a useful indicator of a District's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$9,644,234 at the close of the most recent fiscal year.

Anahuac Independent School District's Net Position

	Governmental Activities					
	2018		2017		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Current and other assets	\$ 13,464,678	29	\$ 16,236,978	41	\$ (2,772,300)	(17)
Capital assets, net of depreciation	33,004,103	71	22,908,058	59	10,096,045	44
Total assets	46,468,781	100	39,145,036	100	7,323,745	
Total deferred outflows of resources	318,774	100	299,829	100	18,945	6
Other liabilities	3,294,281	9	2,316,681	9	977,600	42
Long-term liabilities outstanding	31,883,696	91	23,634,415	91	8,249,281	35
Total liabilities	35,177,977	100	25,951,096	100	9,226,881	
Total deferred inflows of resources	1,965,344	100	241,644	100	1,723,700	713
Net position:						
Net investment in capital assets	6,848,991	71	5,035,854	38	1,813,137	36
Restricted	967,083	10	937,659	7	29,424	3
Unrestricted	1,828,160	19	7,278,612	55	(5,450,452)	(75)
Total net position	\$ 9,644,234	100	\$ 13,252,125	100	\$ (3,607,891)	

The net position decreased mainly from the implementation of Statement No. 75 which is discussed on page 9.

Investment in capital assets (e.g., land and improvements, buildings and improvements, furniture and equipment and construction in progress), less any related debt used to acquire those assets that are still outstanding, represent 71 percent of the District's net position. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's unrestricted net position represents 19 percent of total net position. The *unrestricted net position* (\$1,828,160) may be used to meet the District's ongoing obligations to students and creditors.

Restricted net position (\$967,083 or 10 percent of net position) is restricted for debt service and grants and contributions.

At the end of the current fiscal year, the District is able to report positive balances in all three categories of net position.

Governmental Activities. Governmental activities increased the District's net position by \$3,308,386 from current operations. The elements giving rise to this change may be determined from the table below.

Anahuac Independent School District's Changes in Net Position

	Governmental Activities					
	2018		2017		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Revenue:						
Program revenues:						
Charges for services	\$ 682,494	4	\$ 720,484	4	\$ (37,990)	(5)
Operating grants and contributions	(749,667)	(5)	1,476,099	9	(2,225,766)	(151)
General revenues:						
Property taxes, levied for general purposes	5,335,620	35	5,055,189	31	280,431	6
Property taxes, levied for debt service	2,118,035	14	1,980,522	12	137,513	7
Grants and contributions not restricted to specific programs	7,523,200	49	6,356,059	39	1,167,141	18
Investment earnings	246,626	2	156,232	1	90,394	58
Miscellaneous	107,315	1	677,977	4	(570,662)	(84)
Total revenues	15,263,623	100	16,422,562	100	(1,158,939)	
Expenses:						
Instruction	5,108,291	43	7,397,414	51	(2,289,123)	(31)
Instructional resources and media services	66,978	1	68,966	1	(1,988)	(3)
Curriculum and instructional staff development	89,632	1	115,042	1	(25,410)	(22)
Instructional leadership	114,250	1	129,513	1	(15,263)	(12)
School leadership	619,375	4	846,071	6	(226,696)	(27)
Guidance, counseling, and evaluation services	187,239	2	257,104	2	(69,865)	(27)
Health services	80,857	1	149,741	1	(68,884)	(46)
Student transportation	292,088	2	326,326	2	(34,238)	(10)
Food services	564,701	5	867,169	6	(302,468)	(35)
Extracurricular activities	1,109,160	9	1,063,730	8	45,430	4
General administration	535,131	4	547,306	3	(12,175)	(2)
Plant maintenance and operations	1,660,126	14	1,583,202	11	76,924	5
Security and monitoring services	5,513	-	10,400	-	(4,887)	(47)
Data processing services	251,009	2	217,322	2	33,687	16
Community services	4,679	-	5,208	-	(529)	(10)
Interest on long-term debt	866,377	7	988,137	3	(121,760)	(12)
Issuance cost and fees	142,774	1	-	-	142,774	100
Facilities repair and maintenance	2,501	-	76,938	1	(74,437)	(97)
Payments related to shared service arrangements	190,672	2	154,263	1	36,409	24
Other intergovernmental charges	63,884	1	67,786	-	(3,902)	(6)
Total expenses	11,955,237	100	14,871,638	100	(2,916,401)	
Change in net position	3,308,386		1,550,924		1,757,462	
Net position - beginning, as originally reported	13,252,125		11,701,201		1,550,924	
Prior period adjustment - implement GASB 75 for OPEB (a)	(6,916,277)		-		(6,916,277)	
Net position - beginning, as restated	6,335,848		11,701,201		(5,365,353)	
Net position - ending	\$ 9,644,234		\$ 13,252,125		\$ (3,607,891)	

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

Net position decreased in the current year due to the increase in state revenue in the current year surpassing the decrease in on-behalf revenue from OPEB.

Revenues are generated primarily from two sources. Grants and contributions (program and general revenues) totaling \$6,773,533 represent 44 percent of total revenues and property taxes (\$7,453,655) represent 49 percent of total revenues. The remaining 7 percent is generated from investment earnings, charges for services and miscellaneous general revenue.

The primary functional expense of the District is Instruction (\$5,108,291), which represents 43 percent of total expenses. Plant maintenance and operations (\$1,660,126) represents 14 percent of total expenses. The remaining functional categories of expenses are individually 9 percent or less of total expenditures.

Financial Analysis of the Government's Funds

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

Governmental Funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a District's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$9,101,305, a decrease of \$3,818,386. Comments as to each major fund's change in fund balance follows.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance was \$5,413,561 and total fund balance of the general fund was \$7,829,930. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned and total fund balance represent 43 and 61 percent of total general fund expenditures. The fund balance of the District's general fund increased by \$884,302, prior to transfers to other funds, which was more than the prior year increase in fund balance primarily due to state funding revenue increasing as a result of an increase in District average daily attendance.

The debt service fund ended the year with a total fund balance of \$777,967, all of which is restricted for the payment of principal and interest on debt. The debt service fund balance increased by \$72,435 during the year, primarily due to increase in the property values.

The capital projects fund ended the year with a total fund balance of \$318,212, all of which is reserved for capital acquisition program and contractual obligations. The capital projects fund balance decreased by \$3,852,452 primarily due to issuance of the Unlimited Tax School Bonds, Series 2017 offsetting the capital expenditures of \$10,216,818. The District does have contractual obligations in excess of fund balance. The commitment for construction and equipment of school facilities will be financed by a budgeted transfer from the general fund in fiscal year 2018-2019.

General Fund Budgetary Highlights

The District amends the budget as needed throughout the year. There were no significant differences between the original budget and the final amended budget of the general fund.

The most significant variation between final budget and actual results was from the decrease in state foundation.

Capital Assets and Long-term Liabilities

Capital Assets. The District's investment in capital assets for its governmental type activities as of August 31, 2018, amounts to \$33,004,103 (net of accumulated depreciation). This investment in capital assets includes land and improvements, buildings and improvements, furniture and equipment and construction in progress. The most significant change in capital assets resulted in the increase in construction in progress for the projects approved in the 2017 bond issue.

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

	Governmental Activities					
	2018		2017		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Land and improvements	\$ 654,972	2	\$ 654,972	3	\$ -	-
Buildings and improvements	15,720,127	47	16,057,424	70	(337,297)	(2)
Furniture and equipment	548,612	2	329,587	1	219,025	66
Construction in progress	16,080,392	49	5,866,075	26	10,214,317	174
Totals	\$ 33,004,103	100	\$ 22,908,058	100	\$ 10,096,045	

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

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

Anahuac Independent School District's Long-term Liabilities Outstanding

	Governmental Activities					
	2018		2017		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
General obligation bonds (net)	\$ 26,473,324	83	\$ 22,042,868	72	\$ 4,430,456	20
Compensated absences	154,138	-	158,950	-	(4,812)	(3)
Workers' compensation	101,352	-	54,538	-	46,814	86
Net pension liability	1,210,598	4	1,378,059	5	(167,461)	(12)
Net OPEB liability	3,944,284	13	6,963,434	23	(3,019,150)	(43)
Totals	\$ 31,883,696	100	\$ 30,597,849	100	\$ 1,285,847	

The District's bonded debt increased by \$4,430,456 (20 percent) during the current fiscal year, which is due to the unlimited tax school building bond issuance. The District's general obligation debt is backed by the full faith and credit of the District and is further guaranteed by the Texas Permanent School Fund Bond Guarantee Program. State statutes do not limit the tax rate or amount of local tax support for school district's bonded indebtedness. However, approval of the Attorney General of the State of Texas is required prior to the sale of bonds.

Additional information on the District's long-term debt net pension liability, and OPEB liability can be found in the notes to the financial statements as indicated in the table of contents of this report.

Economic Factors and Next Year's Budgets and Rates

- Current enrollment (2018-2019) totals 1,326 students.
- District staff totals 188 employees, which consist of 93 teachers and 35 other teachers' aids and secretaries.
- The unemployment rate for the County is currently 5.4 percent, which is an decrease from a rate of 6.1 percent a year ago. This compares unfavorably to the state's average unemployment rate of 3.9 percent, which is a decrease from a rate of 4.6 a year ago.
- The District maintains 3 campuses for instruction.
- Property values of the District are expected to increase 4.75 percent in the 2018-2019 fiscal year.
- Tax year 2018 Tax Rates are \$1.06 for maintenance and operations and \$0.41 for debt service, a total rate of \$1.47. Preceding year rates were \$1.06, \$0.41 and \$1.47, respectively.

All of these factors were considered in preparing the District's budget for the 2018-2019 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Business Manager, Anahuac Independent School District, P.O. Box 638, Anahuac, Texas, 77514.

Basic Financial Statements

Anahuac Independent School District
Statement of Net Position
August 31, 2018

Exhibit A-1

1

<u>Data Control Codes</u>		<u>Primary Government Governmental Activities</u>
ASSETS		
1110	Cash and cash equivalents	\$ 283,226
1120	Current investments	11,083,282
1220	Property taxes receivables	1,142,298
1230	Allowance for uncollectible taxes	(34,000)
1240	Due from other governments	701,599
1290	Other receivables	55,455
1410	Prepaid items	222,818
1490	Other current assets	10,000
	Capital assets, not being depreciated:	
1510	Land and improvements	654,972
1580	Construction in progress	16,080,392
	Capital assets, net of accumulated depreciation:	
1520	Buildings and improvements	15,720,127
1530	Furniture and equipment	548,612
1000	Total assets	46,468,781
DEFERRED OUTFLOWS OF RESOURCES		
1705	Deferred outflows - pension	251,554
1706	Deferred outflows - OPEB	67,220
1700	Total deferred outflows of resources	318,774
LIABILITIES		
2110	Accounts payable	2,558,376
2140	Interest payable	39,206
2160	Accrued wages payable	615,190
2180	Due to other governments	13,666
2190	Due to student groups	1,357
2300	Unearned revenue	66,486
	Noncurrent liabilities:	
2501	Due within one year	1,066,766
2502	Due in more than one year	25,662,048
2540	Net pension liability	1,210,598
2545	Net OPEB liability	3,944,284
2000	Total liabilities	35,177,977
DEFERRED INFLOWS OF RESOURCES		
2605	Deferred inflows - pension	315,443
2606	Deferred inflows - OPEB	1,649,901
2600	Total deferred inflows of resources	1,965,344
NET POSITION		
3200	Net investment in capital assets	6,848,991
3820	Restricted for grants and contributions	5,018
3850	Restricted for debt service	962,065
3900	Unrestricted	1,828,160
3000	TOTAL NET POSITION	<u>\$ 9,644,234</u>

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

Anahuac Independent School District
Statement of Activities
For the Fiscal Year Ended August 31, 2018

Exhibit B-1

Data Control Codes	Functions/Programs	1	3	4	Net (Expense) Revenue and Changes in Net Position
		Expenses	Program Revenues		Governmental Activities
			Charges for Services	Operating Grants and Contributions	
PRIMARY GOVERNMENT					
Governmental activities:					
0011	Instruction	\$ 5,108,291	\$ 19,036	\$ (766,588)	\$ (5,855,843)
0012	Intructional resources and media services	66,978	-	(3,677)	(70,655)
0013	Curriculum and instructional staff development	89,632	-	(1,920)	(91,552)
0021	Instructional leadership	114,250	-	(10,543)	(124,793)
0023	School leadership	619,375	-	(134,981)	(754,356)
0031	Guidance, counseling, and evaluation services	187,239	-	(38,666)	(225,905)
0033	Health services	80,857	-	(19,635)	(100,492)
0034	Student transportation	292,088	-	(15,100)	(307,188)
0035	Food services	564,701	194,909	379,381	9,589
0036	Extracurricular activities	1,109,160	450,411	(95,338)	(754,087)
0041	General administration	535,131	-	(40,460)	(575,591)
0051	Plant maintenance and operations	1,660,126	18,138	(35,692)	(1,677,680)
0052	Security and monitoring services	5,513	-	(10,311)	(15,824)
0053	Data processing services	251,009	-	2,679	(248,330)
0061	Community services	4,679	-	-	(4,679)
0072	Interest on long-term debt	866,377	-	41,184	(825,193)
0073	Issuance cost and fees	142,774	-	-	(142,774)
0081	Facilities repair and maintenance	2,501	-	-	(2,501)
0093	Payments related to shared services arrangements	190,672	-	-	(190,672)
0099	Other intergovernmental charges	63,884	-	-	(63,884)
TG	Total governmental activities	<u>11,955,237</u>	<u>682,494</u>	<u>(749,667)</u>	<u>(12,022,410)</u>
TP	TOTAL PRIMARY GOVERNMENT	<u>\$11,955,237</u>	<u>\$ 682,494</u>	<u>\$ (749,667)</u>	<u>(12,022,410)</u>
General revenues:					
MT	Property taxes, levied for general purposes				5,335,620
DT	Property taxes, levied for debt service				2,118,035
GC	Grants and contributions not restricted to specific programs				7,523,200
IE	Investment earnings				246,626
MI	Miscellaneous				107,315
TR	Total general revenues				<u>15,330,796</u>
CN	Change in net position				3,308,386
NB	Net position - beginning, as originally reported				13,252,125
PA1	Prior period adjustment - implement GASB 75 for OPEB				<u>(6,916,277)</u>
	Net position - beginning, as restated				<u>6,335,848</u>
NE	NET POSITION - ENDING				<u>\$ 9,644,234</u>

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

Anahuac Independent School District

Balance Sheet - Governmental Funds

August 31, 2018

Data Control Codes		199	599
		General Fund	Debt Service Fund
ASSETS			
1110	Cash and cash equivalents	\$ 1,385	\$ 8,302
1120	Current investments	7,505,470	1,110,727
1220	Property taxes receivable	911,994	230,304
1230	Allowance for uncollectible taxes	(27,000)	(7,000)
1240	Due from other governments	602,725	3,938
1260	Due from other funds	444,424	-
1290	Other receivables	48,455	-
1410	Prepaid items	222,818	-
1490	Other current assets	10,000	-
1000	Total assets	9,720,271	1,346,271
1000a	TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 9,720,271</u>	<u>\$ 1,346,271</u>
LIABILITIES			
2110	Accounts payable	\$ 355,564	\$ -
2160	Accrued wages payable	615,190	-
2170	Due to other funds	-	345,000
2180	Due to other governments	13,666	-
2190	Due to student groups	-	-
2300	Unearned revenue	20,927	-
2000	Total liabilities	1,005,347	345,000
DEFERRED INFLOWS OF RESOURCES			
2600	Unavailable revenue - property taxes	884,994	223,304
	Total deferred inflows of resources	884,994	223,304
FUND BALANCES			
3430	Nonspendable - prepaid items	222,818	-
3450	Restricted - grants and contributions	-	-
3470	Restricted - capital acquisitions and contractual obligations	-	-
3480	Restricted - debt service	-	777,967
3545	Committed - other	2,193,551	-
3600	Unassigned	5,413,561	-
3000	Total fund balances	7,829,930	777,967
4000	TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 9,720,271</u>	<u>\$ 1,346,271</u>

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

699		98
Capital Projects Fund	Total Nonmajor Funds	Total Governmental Funds
\$ -	\$ 273,539	\$ 283,226
2,467,085	-	11,083,282
-	-	1,142,298
-	-	(34,000)
-	94,936	701,599
-	-	444,424
-	7,000	55,455
-	-	222,818
-	-	10,000
<u>2,467,085</u>	<u>375,475</u>	<u>13,909,102</u>
<u>\$ 2,467,085</u>	<u>\$ 375,475</u>	<u>\$ 13,909,102</u>
\$ 2,148,873	\$ 53,939	\$ 2,558,376
-	-	615,190
-	99,424	444,424
-	-	13,666
-	1,357	1,357
-	45,559	66,486
<u>2,148,873</u>	<u>200,279</u>	<u>3,699,499</u>
-	-	1,108,298
-	-	1,108,298
-	-	222,818
-	5,018	5,018
318,212	-	318,212
-	-	777,967
-	170,178	2,363,729
-	-	5,413,561
<u>318,212</u>	<u>175,196</u>	<u>9,101,305</u>
<u>\$ 2,467,085</u>	<u>\$ 375,475</u>	<u>\$ 13,909,102</u>

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Anahuac Independent School District

Exhibit C-1R

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position August 31, 2018

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS (EXHIBIT C-1) \$ 9,101,305

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The governmental capital assets at year-end consist of:

Governmental capital assets costs	\$ 53,645,041	
Accumulated depreciation of governmental capital assets	(20,640,938)	33,004,103

Property taxes receivable, which will be collected subsequent to year-end, but are not available soon enough to pay expenditures and, therefore, are deferred in the funds.		1,108,298
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Long-term liabilities, including bonds payable, compensated absences, workers compensation, and net pension and net OPEB liability, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Liabilities at year-end related to such items consist of:

Bonds payable, at original par	\$ (25,775,000)	
Premium on bonds payable	(698,324)	
Accrued interest on the bonds	(39,206)	
Compensated absences	(154,138)	
Workers' compensation	(101,352)	
Net pension liability	(1,210,598)	
Net OPEB liability	(3,944,284)	(31,922,902)

Deferred outflows of resources for pension represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditures) until then.		251,554
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Deferred inflows of resources for pension represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.		(315,443)
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Deferred outflows of resources for OPEB represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditures) until then.		67,220
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Deferred inflows of resources for OPEB represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.		(1,649,901)

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES (EXHIBIT A-1) \$ 9,644,234

Anahuac Independent School District
Statement of Revenues, Expenditures, and Changes
in Fund Balances - Governmental Funds
For the Fiscal Year Ended August 31, 2018

Data Control Codes		199	599
		General Fund	Debt Service Fund
REVENUES			
5700	Local and intermediate revenue	\$ 6,122,130	\$ 2,103,860
5800	State program revenues	7,191,730	41,184
5900	Federal program revenues	347,379	-
5020	Total revenues	13,661,239	2,145,044
EXPENDITURES			
Current:			
0011	Instruction	6,839,111	-
0012	Instructional resources and media services	75,059	-
0013	Curriculum and instructional staff development	102,061	-
0021	Instructional leadership	139,930	-
0023	School leadership	868,063	-
0031	Guidance, counseling, and evaluation services	258,726	-
0033	Health services	116,387	-
0034	Student transportation	513,921	-
0035	Food services	2,311	-
0036	Extracurricular activities	878,902	-
0041	General administration	607,995	-
0051	Plant maintenance and operations	1,840,645	-
0052	Security and monitoring services	5,513	-
0053	Data processing services	271,998	-
0061	Community services	1,759	-
Debt service:			
0071	Principal on long-term debt	-	1,165,000
0072	Interest on long-term debt	-	910,674
0073	Issuance costs and fees	-	-
Capital outlay:			
0081	Facilities acquisition and construction	-	-
Intergovernmental:			
0093	Payments related to shared services arrangements	190,672	-
0099	Other intergovernmental charges	63,884	-
6030	Total expenditures	12,776,937	2,075,674
1100	Excess (deficiency) of revenues over (under) expenditures	884,302	69,370
OTHER FINANCING SOURCES (USES)			
7911	Issuance of bonds	-	-
7915	Transfers in	-	-
7916	Premium or discount on issuance of bonds	-	3,065
8911	Transfers out	(855,862)	-
7080	Total other financing sources (uses)	(855,862)	3,065
1200	Net change in fund balances	28,440	72,435
0100	Fund balances - beginning	7,801,490	705,532
3000	FUND BALANCES - ENDING	\$ 7,829,930	\$ 777,967

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

699	Total	98
Capital Projects Fund	Nonmajor Funds	Total Governmental Funds
\$ 100,206	\$ 636,524	\$ 8,962,720
-	202,523	7,435,437
-	822,879	1,170,258
100,206	1,661,926	17,568,415
-	451,991	7,291,102
-	-	75,059
-	11,260	113,321
-	7,463	147,393
-	-	868,063
-	-	258,726
-	-	116,387
-	82,707	596,628
-	857,177	859,488
-	407,160	1,286,062
-	-	607,995
-	-	1,840,645
-	-	5,513
-	-	271,998
-	2,679	4,438
-	-	1,165,000
-	-	910,674
142,774	-	142,774
10,216,818	-	10,216,818
-	-	190,672
-	-	63,884
10,359,592	1,820,437	27,032,640
(10,259,386)	(158,511)	(9,464,225)
5,490,000	-	5,490,000
764,160	91,702	855,862
152,774	-	155,839
-	-	(855,862)
6,406,934	91,702	5,645,839
(3,852,452)	(66,809)	(3,818,386)
4,170,664	242,005	12,919,691
\$ 318,212	\$ 175,196	\$ 9,101,305

Anahuac Independent School District

Exhibit C-3

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Fiscal Year Ended August 31, 2018

NET CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS (EXHIBIT C-2) \$ (3,818,386)

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is capitalized and allocated over their estimated useful lives as depreciation expense.

Capital assets <i>increased</i>	\$ 10,604,279	
Depreciation expense	(508,234)	10,096,045

Because some property taxes will not be collected for several months after the District's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues increased (decreased) by this amount this year. 74,572

Issuance of bonds provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.

Par value	\$ (5,490,000)	
(Premium) discount	(155,839)	(5,645,839)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 1,165,000

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due, and includes amortization of related long-term debt accounts. The change reported in the statement of activities consist of the following:

Accrued interest on current interest bonds payable (increased) decreased	\$ (6,086)	
Amortization of bond premiums	50,383	44,297

The (increase) decrease in compensated absences is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. 4,812

The (increase) decrease in workers' compensation is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. (46,814)

The net change in net pension liability, deferred outflows, and deferred inflows is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. The net change consists of the following:

Deferred outflows increased (decreased)	\$ (48,275)	
Deferred inflows (increased) decreased	(73,799)	
Net pension liability (increased) decreased	167,461	45,387

The net change in net OPEB liability, deferred outflows, and deferred inflows is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. The net change consists of the following:

Deferred outflows increased (decreased)	\$ 20,063	
Deferred inflows (increased) decreased	(1,649,901)	
Net OPEB liability (increased) decreased	3,019,150	1,389,312

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES (EXHIBIT B-1) \$ 3,308,386

Anahuac Independent School District
Statement of Assets And Liabilities
Fiduciary Fund
August 31, 2018

Exhibit E-1

Data Control Codes		Agency Fund
		Student Activity
	ASSETS	
1110	Cash and cash equivalents	\$ 12,850
1120	Current investments	4,710
1290	Other receivables	1,357
	TOTAL ASSETS	\$ 18,917
	LIABILITIES	
2190	Due to student groups	18,917
2000	TOTAL LIABILITIES	\$ 18,917

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

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Anahuac Independent School District

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Anahuac Independent School District (the District) is governed by a seven-member board of trustees (the Board), which has governance responsibilities over all activities related to public education, elementary and secondary, within the District. Members of the Board are elected by the public; have authority to make decisions; appoint management and significantly influence operations; and have primary accountability for fiscal matters. The District is not included in any other governmental reporting entity. The accompanying financial statements present the District.

B. Basis of Presentation – Government-wide Financial Statements

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

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

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

C. Basis of Presentation – Fund Financial Statements

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

The District reports the following major governmental funds:

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

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

The *capital projects fund* is used to account for proceeds from sales of bonds and other revenues to be used for acquiring school sites; constructing, renovating and equipping District facilities; purchasing buses; and technology projects and enhancements.

Anahuac Independent School District

Notes to the Financial Statements

Additionally, the District reports the following fund types:

The *nonmajor special revenue funds* are used to account for the proceeds of specific revenue sources (other than those identified as a major fund) that are restricted or committed to expenditures for specific purposes.

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

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

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

D. Change in Accounting Principle

In fiscal year 2018, the District implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* – which supersedes GASB Statement No. 45. (Statement No. 75)

The requirements of Statement No. 75 apply to the financial statements of all state and local government employers whose employees are provided postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense related to the OPEB plan. Note disclosure and required supplementary information requirements about the OPEB plan also are addressed. The implementation of Statement No. 75 has no impact on the District's governmental fund financial statements, which continue to report expenditures in the contribution amount determined legislatively. Refer to Note 4 for more information regarding the District's OPEB plan. The implementation of Statement No. 75 resulted in the retroactive restatement of the District's beginning net position by \$6,916,277. See Note 4.F. for details of the District's prior period adjustment and restatement of beginning net position.

E. Measurement Focus and Basis of Accounting

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

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

Anahuac Independent School District

Notes to the Financial Statements

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

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

The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

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

1. Cash and Cash Equivalents

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

2. Investments

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

3. Prepaid Items

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

Anahuac Independent School District

Notes to the Financial Statements

4. Capital Assets

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

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

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

<u>Capital Asset Classes</u>	<u>Lives</u>
Buildings and improvements	5-50
Furniture and equipment	5-50

5. Deferred Outflows/Inflows of Resources

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

Deferred outflows/inflows of resources are amortized as follows:

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

Anahuac Independent School District

Notes to the Financial Statements

6. *Compensated Absences*

It is the District's policy to permit employees to accumulate earned but unused local leave benefits. Unused local leave days shall be allowed to accumulate to a maximum of twenty (20) days, for the purpose of reimbursement at the employee's current equivalent daily rate of pay upon leaving or retiring from the District. Local leave pay is accrued for employees who are eligible for retirement in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as the result of employee retirement or resignation.

7. *Net Position Flow Assumption*

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

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

8. *Fund Balance Flow Assumptions*

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

9. *Fund Balance Policies*

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

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

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

Anahuac Independent School District

Notes to the Financial Statements

10. Pension

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.

11. Other Postemployment 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 postemployment benefits, OPEB expense, and information about assets, liabilities and additions to/deductions from TRS Care's fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments as this is a pay-as-you-go plan and all cash is held in a cash account.

G. Revenues and Expenditures/Expenses

1. Program Revenues

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

2. Property Taxes

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

H. Use of Estimates

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

I. Data Control Codes

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

Anahuac Independent School District

Notes to the Financial Statements

Note 2. Stewardship, Compliance, and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund, national school breakfast and lunch program special revenue fund, and debt service fund. All annual appropriations lapse at fiscal year end. The following procedures are followed in establishing the budgetary data reflected in the financial statements.

1. Prior to August 20 of the preceding fiscal year, 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 after ten days' public notice of the meeting has been given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board.

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

B. Encumbrances

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

	Encumbrances Included in: Restricted Fund Balance
Capital projects fund	\$ 389,285
Total encumbrances	\$ 389,285

Capital projects fund has encumbrances of \$141,116 and contract commitments of \$248,169. The District will transfer funds from the general fund in the amount of \$71,073 to fund the remaining commitment in fiscal year 2018-2019.

C. Excess of Expenditures Over Appropriations

For the fiscal year ended August 31, 2018, expenditures exceeded appropriations in the functions (the legal level of budgetary control) of the following fund:

Fund	Function	Final Budget	Actual	Variance
National Breakfast and Lunch Program	35	\$ 769,732	\$ 857,177	\$ (87,445)

Anahuac Independent School District

Notes to the Financial Statements

Note 3. Detailed Notes on All Funds

A. Deposits and Investments

Cash Deposits

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

Investments

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

Anahuac Independent School District

Notes to the Financial Statements

The District's investment balances and weighted average maturity of such investments are as follows:

	August 31, 2018		Percent of Total Investments	Weighted Average Maturity (Days)	Credit Risk
	Governmental Funds	Fiduciary Funds			
Investments measured at amortized cost:					
Investment pools:					
Lone Star Government Overnight	\$ 1,113,518	\$ -	10%	20	AAAm ^[1]
Investments measured at fair value, not subject to level reporting:					
Investment pools:					
Lone Star Corporate Overnight Plus	4,662,193	4,710	42%	48	AAAf ^[1]
Texas CLASS	5,307,571	-	48%	70	AAAm ^[1]
Total value	\$ 11,083,282	\$ 4,710			
Portfolio weighted average maturity				36	

^[1] Standard & Poor's Rating

Investment pools are measured at the net asset value with the underlying investments at fair value or amortized cost and are exempt from fair value hierarchy reporting.

The Lone Star investment pool is a member-owned and governed public funds investment pool duly chartered by the State of Texas Interlocal Cooperation Act and is administered by First Public, LLC. The District has investments in the Government Overnight Fund and the Corporate Overnight Plus Fund. The Government Overnight Fund uses amortized cost and operates pursuant to investment strategies, operating procedures, and protocols that meet the criteria of GASB No. 79. The Corporate Overnight Plus Fund does not measure all of its investments using amortized cost and thus GASB No. 79 is not applicable to the fund. The investment pools transact at a net asset value of \$1.00 per share, have weighted average maturity of 60 days or less, investments held are highly rated by nationally recognized statistical rating organizations, have no more than 5% of its portfolio with anyone nongovernmental issuer, and can meet reasonably foreseeable redemptions. Lone Star has a redemption notice period of one day and no maximum transaction amounts. The investment pool's authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities market, general banking moratorium or national or state emergency that affects the pool's liquidity.

The Texas CLASS investment pool is an external investment pool measured at net asset value. Texas CLASS's strategy is to seek preservation of principal, liquidity and current income through investment in a diversified portfolio of short-term marketable securities. The District has no unfunded commitments related to the investment pool. Texas CLASS has a redemption notice period of one day and may redeem daily. The investment pool's authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities market, general banking moratorium or national or state emergency that affects the pool's liquidity.

Anahuac Independent School District

Notes to the Financial Statements

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. For fiscal year 2018, the District invested in Texas CLASS and Lone Star Investment Pool. Texas CLASS is duly chartered and administered by the State Comptroller’s Office. Lone Star Investment Pool is duly chartered by the State of Texas Interlocal Cooperation Act and is administered by First Public, LLC. formerly the Texas Association of School Boards Financial Services. The ratings of such investments are noted in the previous table.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates may adversely affect the value of the investments. The District monitors interest rate risk utilizing weighted average maturity analysis. In accordance with its investment policy, the District reduces its exposure to declines in fair values by limiting the weighted average maturity of any internally created pool to no more than 180 days, and maturity of any individual investment not to exceed one year from the date of purchase, unless approved by the Board of Trustees.

Concentration of Credit Risk

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

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. As of August 31, 2018, District’s deposits at the local bank were insured and collateralized with securities held by the District’s agent and in the District’s name.

Custodial Credit Risk – Investments

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

B. Receivables

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

Change in uncollectibles related to general fund property taxes	\$	(1,000)
Change in uncollectibles related to debt service property taxes		<u>(1,000)</u>
Total change in uncollectibles of the current fiscal year, net	\$	<u><u>(2,000)</u></u>

Approximately 80% of the outstanding balance of property taxes is not anticipated to be collected within the next year.

A concentration of risk exists for local revenue sources since approximately 23% of the District’s taxable property value is attributed to one taxpayer. Similarly, the District’s ten largest taxpayers approximate 37% of the total taxable value of the District.

Anahuac Independent School District

Notes to the Financial Statements

C. Interfund Receivables, Payables and Transfers

1. Receivables/Payables

The composition of interfund balances as of August 31, 2018, is as follows:

Fund	Interfund Receivables	Interfund Payables
General fund	\$ 444,424	\$ -
Debt service fund	-	345,000
Nonmajor governmental funds	-	99,424
Totals	\$ 444,424	\$ 444,424

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

2. Transfers

Interfund transfers are defined as “flows of assets from one fund to another fund without equivalent flow of assets in return and without a requirement for repayment.” Transfers are the use of funds collected in one fund to finance various programs accounted for in other funds. The summary of the District’s transfers for fiscal year ended August 31, 2018, was as follows:

Transfer Out	Transfers In	Amount
General fund	Capital project fund	\$ 764,160
General fund	National school and breakfast fund	91,702
Total		\$ 855,862

Anahuac Independent School District

Notes to the Financial Statements

D. Capital Assets

Capital asset activity for the fiscal year ended August 31, 2018 was as follows:

	Beginning Balance	Additions	Retirements, Transfers, and Adjustments	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land and improvements	\$ 654,972	\$ -	\$ -	\$ 654,972
Construction in progress	5,866,075	10,214,317	-	16,080,392
Total capital assets, not being depreciated	6,521,047	10,214,317	-	16,735,364
Capital assets, being depreciated:				
Buildings and improvements	34,615,422	101,566	-	34,716,988
Furniture and equipment	1,904,293	288,396	-	2,192,689
Total capital assets, being depreciated	36,519,715	389,962	-	36,909,677
Less accumulated depreciation for:				
Buildings and improvements	(18,557,998)	(438,863)	-	(18,996,861)
Furniture and equipment	(1,574,706)	(69,371)	-	(1,644,077)
Total accumulated depreciation	(20,132,704)	(508,234)	-	(20,640,938)
Total capital assets, being depreciated, net	16,387,011	(118,272)	-	16,268,739
Governmental activities capital assets, net	\$ 22,908,058	\$ 10,096,045	\$ -	\$ 33,004,103

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

Governmental activities:	
11 Instruction	\$ 326,118
12 Instructional resources and media services	3,444
13 Curriculum and instructional staff development	3,139
21 Instructional leadership	5,413
23 School leadership	41,196
31 Guidance, counseling, and evaluation services	11,898
33 Health services	5,310
34 Student transportation	12,312
35 Food services	16,904
36 Extracurricular activities	24,313
41 General administration	21,956
51 Plant maintenance and operations	28,985
53 Data processing services	7,003
61 Community services	243
Total depreciation expense-governmental activities	\$ 508,234

Anahuac Independent School District

Notes to the Financial Statements

Construction Commitments

The District has one active construction project as of August 31, 2018. The project includes the construction and equipment of school facilities. At year-end, the District's commitments with contractors are as follows:

Project	Approved Budget	Spent to Date	Remaining Commitment
Anahuac ISD sports fields	\$ 13,065,921	\$ 12,817,752	\$ 248,169
Totals	\$ 13,065,921	\$ 12,817,752	\$ 248,169

E. Long-term Liabilities

The District's long-term liabilities consist of bond indebtedness, compensated absences, workers' compensation, and net pension and OPEB liability. The current requirements for general obligation bonds principal and interest expenditures are accounted for in the debt service fund. Other long-term liabilities are generally liquidated with resources of the general fund.

Changes in Long-term Liabilities

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

	Beginning Balance	Additions (Provisions)	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 21,450,000	\$ 5,490,000	\$ (1,165,000)	\$ 25,775,000	\$ 950,000
Unamortized premiums	592,868	155,839	(50,383)	698,324	-
Total bonds payable, net	22,042,868	5,645,839	(1,215,383)	26,473,324	950,000
Compensated absences	158,950	24,880	(29,692)	154,138	15,414
Workers' compensation	54,538	74,627	(27,813)	101,352	101,352
Net pension liability	1,378,059	185,031	(352,492)	1,210,598	-
Net OPEB liability*	6,963,434	666	(3,019,816)	3,944,284	-
Governmental activities long-term liabilities	\$ 30,597,849	\$ 5,931,043	\$ (4,645,196)	\$ 31,883,696	\$ 1,066,766

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

General Obligation Bonds

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

General obligation bonds are direct obligations and pledge the full faith and credit of the District. These bonds are issued as 10-25 year current interest bonds with various amounts of principal maturing each year.

Anahuac Independent School District

Notes to the Financial Statements

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

Series	Interest Rate	Original Issue	Maturity Date	Beginning Balance	Additions	Reductions	Ending Balance
2009 REF	3.000-3.375%	\$ 4,450,000	2019	\$ 1,000,000	\$ -	\$ (495,000)	\$ 505,000
2010 BLDG	2.000-4.500%	12,840,000	2030	11,455,000	-	(260,000)	11,195,000
2016 BLDG	2.100-5.000%	9,425,000	2041	8,995,000	-	(110,000)	8,885,000
2017 BLDG	3.000-5.000%	5,490,000	2041	-	5,490,000	(300,000)	5,190,000
Totals				<u>\$ 21,450,000</u>	<u>\$ 5,490,000</u>	<u>\$ (1,165,000)</u>	<u>\$ 25,775,000</u>

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

Year Ending August 31,	Principal Value	Interest	Total Requirements
2019	\$ 950,000	\$ 867,912	\$ 1,817,912
2020	995,000	826,090	1,821,090
2021	1,040,000	781,428	1,821,428
2022	930,000	740,753	1,670,753
2023	970,000	702,178	1,672,178
2024	1,010,000	661,952	1,671,952
2025	1,050,000	620,104	1,670,104
2026	1,095,000	576,528	1,671,528
2027	1,140,000	531,477	1,671,477
2028	1,185,000	484,977	1,669,977
2029	1,235,000	436,978	1,671,978
2030	1,285,000	387,378	1,672,378
2031	1,020,000	350,178	1,370,178
2032	1,045,000	325,730	1,370,730
2033	1,075,000	299,897	1,374,897
2034	1,100,000	271,925	1,371,925
2035	1,130,000	242,150	1,372,150
2036	1,160,000	210,612	1,370,612
2037	1,195,000	176,237	1,371,237
2038	1,235,000	139,521	1,374,521
2039	1,270,000	101,409	1,371,409
2040	1,310,000	61,875	1,371,875
2041	1,350,000	20,831	1,370,831
Totals	<u>\$ 25,775,000</u>	<u>\$ 9,818,120</u>	<u>\$ 35,593,120</u>

Anahuac Independent School District

Notes to the Financial Statements

F. Fund Balance

Other committed fund balance includes the following commitments of funds:

Nonmajor governmental funds:	
Campus activity funds	\$ 170,178
Total committed fund balance	\$ 170,178

G. Revenues from Local and Intermediate Sources

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

	General	Debt Service	Capital Projects Fund	Nonmajor Governmental Funds	Totals
Property taxes	\$ 5,305,766	\$ 2,073,317	\$ -	\$ -	\$ 7,379,083
Charges for services	65,877	-	-	616,617	682,494
Investment earnings	119,316	16,657	99,081	11,572	246,626
Other	631,171	13,886	1,125	8,335	654,517
Total	\$ 6,122,130	\$ 2,103,860	\$ 100,206	\$ 636,524	\$ 8,962,720

Note 4. Other Information

A. Risk Management

Property Liability

The District participates in the Texas Association of School Boards Risk Management Fund ("Fund") Property Liability Program. The Fund was created to formulate, develop, and administer a program of modified self-funding for the Fund's membership, obtain competitive costs for coverages and develop a comprehensive loss control program. The District pays an annual premium to the Fund for its coverages and transfers the risk to the Fund. In the event that the District was to discontinue operations, the member districts would be responsible for any eligible claims not funded by the pool. There were no significant reductions in insurance coverage from the prior year or settlements exceeding insurance coverages for each of the past three fiscal years.

Health Care Coverage

During the fiscal year ended August 31, 2018, employees of the District were covered by TRS-Active Care (the Plan) a statewide health coverage program for Texas public education employees, implemented by the Teacher Retirement System of Texas (TRS). The District paid premiums of \$240 per month, per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to the TRS.

Workers' Compensation

The District is a member of the Texas Educational Insurance Association for workers' compensation. The Association was created to formulate, develop and administer a program of modified self-funding for the Association's membership, obtain lower costs for workers' compensation coverage and develop a comprehensive loss control program.

Anahuac Independent School District

Notes to the Financial Statements

Liabilities of the District are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amounts of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. An excess coverage insurance policy limits the District's liability to \$1,000,000 per occurrence with a maximum aggregate exposure of \$5,000,000. Settlements have not exceeded coverages for each of the past three years. Changes in the balances of claims liabilities during the past two years are as follows:

	Year Ended 8/31/2018	Year Ended 8/31/2017
Unpaid claims, beginning of fiscal year	\$ 54,538	\$ 43,199
Incurred claims (including IBNRs and changes in provisions)	74,627	19,874
Claim payments	(27,813)	(8,535)
Unpaid claims, end of fiscal year	\$ 101,352	\$ 54,538

Contingencies

The District participates in a number of federal and state financial assistance programs. Although the District's grant programs have been audited in accordance with the provisions of the Single Audit Act through August 31, 2018, these programs are subject to financial and compliance audits by the grantor agencies. The District is also subject to audit by the TEA of the attendance data upon which payments from the agency are based. These audits could result in questioned costs or refunds to be paid back to the granting agencies.

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

Anahuac Independent School District

Notes to the Financial Statements

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.

Contributions

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 through 2017. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for Plan fiscal years 2016 and 2017, and the 85th Texas Legislature, GAA established the employer contribution rates for Plan fiscal years 2018 and 2019. Rates for such plan fiscal years are as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Member	7.7%	7.7%	7.2%
Non-employer contributing entity (state)	6.8%	6.8%	6.8%
Employers/district	6.8%	6.8%	6.8%

The contribution amounts for the District's fiscal year 2018 are as follows:

District contributions	\$	137,615
Member contributions		636,919
NECE on-behalf contributions (state)		424,859

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

Anahuac Independent School District

Notes to the Financial Statements

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

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

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

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

Actuarial Assumptions

The total pension liability in the August 31, 2017 actuarial valuation 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 rate	8.00%
Municipal bond rate	N/A*
Last year ending August 31 in the 2017 to 2116 projection period (100 years)	2116
Inflation	2.50%
Salary increases	3.50% to 9.50% including inflation
Ad hoc post-employment benefit changes	None

*If a municipal bond rate was to be used, the rate would be 3.42% as of August 2017 (i.e. the rate closest to but not later than the Measurement Date). The source for the rate is the Fixed Income Market Data/Yield Curve/Data Municipal Bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index."

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

Anahuac Independent School District

Notes to the Financial Statements

Discount Rate

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8.0%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the TRS's target asset allocation as of August 31, 2017 are summarized below:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns*
Global equity:			
U.S.	18.0%	4.6%	1.0%
Non-U.S. developed	13.0%	5.1%	0.8%
Emerging markets	9.0%	5.9%	0.7%
Directional hedge funds	4.0%	3.2%	0.1%
Private equity	13.0%	7.0%	1.1%
Stable value:			
U.S. treasuries	11.0%	0.7%	0.1%
Absolute return	0.0%	1.8%	0.0%
Stable value hedge funds	4.0%	3.0%	0.1%
Cash	1.0%	(0.2%)	0.0%
Real return:			
Global inflation linked bonds	3.0%	0.9%	0.0%
Real assets	16.0%	5.1%	1.1%
Energy and natural resources	3.0%	6.6%	0.2%
Commodities	0.0%	1.2%	0.0%
Risk parity:			
Risk parity	5.0%	6.7%	0.3%
Inflation expectation			2.2%
Alpha			1.0%
Totals	100.0%		8.7%

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

Anahuac Independent School District

Notes to the Financial Statements

Discount Rate Sensitivity Analysis

The following table presents the District's proportionate share of net pension liability for TRS calculated using the discount rate of 8.0%, as well as the District's proportionate share of the respective net pension liability if it was calculated using a discount rate that is 1% lower (7%) or 1% higher (9%) than the current rate:

1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
\$ 2,040,829	\$ 1,210,598	\$ 519,296

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 \$1,210,598 for its proportionate share of the TRS's net pension liability. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District are as follows:

District's proportionate share of the net pension liability	\$ 1,210,598
State's proportionate share of the net pension liability associated with the District	<u>4,128,038</u>
Total	<u><u>\$ 5,338,636</u></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 District's proportion of the net pension liability was based on the District's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2016 through August 31, 2017.

At August 31, 2017, the employer's proportion of the collective net pension liability was 0.0037861% which was an increase of 0.0001393% 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 fiscal year ended August 31, 2018, the District recognized pension expense of \$407,098 and on-behalf revenue of \$314,870 for support provided by the State.

Anahuac Independent School District

Notes to the Financial Statements

At August 31, 2018, the District reported deferred outflows of resources for contribution made after the measurement date and its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 17,712	\$ 65,286
Changes of assumptions	55,145	31,569
Net difference between projected and actual earnings on pension plan investments	-	88,226
Changes in proportion and differences between District contributions and proportionate share of contributions (cost-sharing plan)	41,082	130,362
District contribution after measurement date	137,615	-
Totals	\$ 251,554	\$ 315,443

\$137,615 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended August 31, 2019. The net amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending August 31,	
2019	\$ (64,344)
2020	12,931
2021	(70,283)
2022	(86,157)
2023	2,127
Thereafter	4,222
Total	\$ (201,504)

C. Defined Other Post-Employment Benefit Plan

Plan Description

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

Anahuac Independent School District

Notes to the Financial Statements

Benefits Provided

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

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

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

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

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

* or surviving spouse

Contributions

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

Texas Insurance Code, section 1575.202 establishes the state's contribution rate which is 1.0% of the employee's salary. Section 1575.203 establishes the active employee's rate which is 0.65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25% or not more than 0.75% of the salary of each active employee of the 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.

Anahuac Independent School District

Notes to the Financial Statements

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

The contribution amounts for the District's fiscal year 2018 are as follows:

District contributions	\$ 66,604
Member contributions	53,766
NECE on-behalf contributions (state)	118,114

In addition, the State of Texas contributed \$25,119, \$41,349, and \$23,928 in 2018, 2017, and 2016 respectively for on-behalf payments for Medicare Part D.

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

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$15.6 million in fiscal year 2017 and \$212 million in fiscal year 2018.

Anahuac Independent School District

Notes to the Financial Statements

Actuarial Assumptions

The actuarial valuation of TRS-Care is similar to the actuarial valuations performed for the pension plan, except that the OPEB valuation is more complex. All of the demographic assumptions, including mortality, and most of the economic assumptions are identical to those which were adopted by the Board in 2015 and are based on the 2014 actuarial experience study of TRS.

The active mortality rates were based on 90 percent of the RP-2014 Employee Mortality Tables for males and females. The post-retirement mortality rates were based on the 2015 TRS of Texas Healthy Pensioner Mortality Tables.

The following additional actuarial methods and assumptions were employed in the August 31, 2017 actuarial valuation of the total OPEB liability:

Valuation date	August 31, 2017
Actuarial cost method	Individual entry age normal
Inflation	2.50%
Discount rate*	3.42%*
Aging factors	Based on plan specific experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Payroll growth rate	2.50%
Projected salary increases**	3.50% to 9.50%**
Healthcare trend rates***	4.50% to 12.00%***
Election rates	Normal Retirement: 70% participation prior to age 65 and 75% participation after age 65
Ad hoc post-employment benefit changes	None

*Source: Fixed income municipal bonds with 20 years to maturity that include only federal tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of August 31, 2017.

**Includes inflation at 2.50%

***Initial trend rates are 7.00% for non-Medicare retiree; 10.00% for Medicare retirees and 12.00% for prescriptions for all retirees. Initial trend rates decrease to an ultimate trend rate of 4.50% over a period of 10 years.

Anahuac Independent School District

Notes to the Financial Statements

Discount Rate

A single discount rate of 3.42% was used to measure the total OPEB liability. There was a change of 0.44% in the discount rate since the previous year. Because the plan is essentially a “pay-as-you-go” plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to *not be able to* make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability

Discount Rate

The following schedule shows the impact of the net OPEB liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.42%) in measuring the net OPEB liability.

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

1% Decrease (2.42%)	Current Discount Rate (3.42%)	1% Increase (4.42%)
\$ 4,655,234	\$ 3,944,284	\$ 3,372,840

Healthcare Cost Trend Rates

The following presents the net OPEB liability using the assumed healthcare cost trend rate, as well as what the net OPEB liability would be if it were calculated using a trend rate that is 1% point lower or 1% higher than the assumed health-care cost trend rate:

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

1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
\$ 3,284,010	\$ 3,944,284	\$ 4,810,374

Anahuac Independent School District

Notes to the Financial Statements

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

At August 31, 2018, the District reported a liability of \$3,944,284 for its proportionate share of the TRS's net OPEB liability. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the net OPEB liability	\$ 3,944,284
State's proportionate share of the net OPEB liability associated with the District	<u>6,428,841</u>
Total	<u><u>\$10,373,125</u></u>

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

At August 31, 2017 the employer's proportion of the collective net OPEB liability was 0.0090702% which was the same proportion measured as of August 31, 2016.

Changes Since the Prior Actuarial Valuation – The following were changes to the actuarial assumptions or other inputs that affected measurement of the total OPEB liability since the prior measurement period:

1. Significant plan changes were adopted during the fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan option will exist (instead of three), and all retirees will be required to contribute monthly premiums for coverage. The health plan changes triggered changes to several of the assumptions, including participation rates, retirement rates, and spousal participation rates.
2. The August 31, 2016 valuation had assumed that the savings related to the Medicare Part D reimbursements would phase out by 2022. This assumption was removed for the August 31, 2017 valuation. Although there is uncertainty regarding these federal subsidies, the new assumption better reflects the current substantive plan. This change was unrelated to the plan amendment, and its impact was included as an assumption change in the reconciliation of the total OPEB liability. This change significantly lowered the OPEB liability.
3. The discount rate changed from 2.98% as of August 31, 2016 to 3.42% as of August 31, 2017. This change lowered the total OPEB liability.

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

Statement No. 75 requires the District to record OPEB expense for the amount of the State's proportionate share of collective OPEB expense that is associated with the District, and record revenue in the same amount for the support provided by the State. For the measurement period ended August 31, 2017, the State's proportionate share of collective OPEB expense was a negative expense of \$8,504,163,580 and the portion of that amount that is associated with the District is a negative expense of \$2,151,261. This amount is recorded as a negative revenue and negative expense for the year ended August 31, 2018.

Anahuac Independent School District

Notes to the Financial Statements

For the year ended August 31, 2018, the District recognized total negative OPEB expense of \$3,473,969, which includes both the District's proportionate share of collective OPEB expense and the portion of the State's proportionate share of collective OPEB expense that is associated with the District, as described above.

At August 31, 2018, the District reported the District's contribution after the measurement date and 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 economic experience	\$ -	\$ 82,340
Changes of assumptions	-	1,567,561
Net difference between projected and actual earnings on pension plan investments	599	-
Changes in proportion and differences between district contributions and proportionate share of contributions (cost-sharing plan)	17	-
District contributions after measurement date	66,604	-
Totals	\$ 67,220	\$ 1,649,901

\$66,604 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal year ended August 31, 2019. Other amounts reported as deferred outflows of resources (deferred inflows of resources) related to OPEB will be recognized in OPEB expense as follows:

Year Ending August 31,	
2019	\$ (217,624)
2020	(217,624)
2021	(217,624)
2022	(217,624)
2023	(217,774)
Thereafter	(561,015)
Total	\$ (1,649,285)

Anahuac Independent School District

Notes to the Financial Statements

D. Joint Venture-Shared Service Arrangement

The District participates in the following shared service arrangements.

Southeast Texas Cooperative for Special Services

The District participates in a shared service arrangement for special education funded under IDEA-B Formula and Preschool and State Supplemental Special Education Funds with other school districts. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Liberty ISD, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for all financial activities of the shared service arrangement.

E. Nonmonetary Transactions

During the fiscal year ended August 31, 2018, the District received textbooks purchased by the State of Texas for the benefit of the District for a purchase price of \$61,521. The District receives the textbooks as part of state funding for textbook allotment. The textbooks have been recorded in the amount of \$61,521 in a special revenue fund as both state revenues and expenditures, which represents the amount of consideration given by the State of Texas.

F. Prior Period Adjustment and Restatement of Beginning Net Position

Implementation of GASB Statement No. 75

As described in Note 1.D, the District implemented GASB Statement No. 75 during the year ended August 31, 2018, resulting in a reduction of beginning net position by \$6,916,277. The reduction represents the recognition of the August 31, 2017 OPEB liability of \$6,963,434, offset by August 31, 2017 deferred outflows of resources of \$47,157:

	<u>Governmental Activities</u>
Beginning net position, as originally reported	\$ 13,252,125
Implementation of GASB 75 for OPEB	<u>(6,916,277)</u>
Beginning net position, restated	<u><u>\$ 6,335,848</u></u>

Required Supplementary Information

Anahuac Independent School District
 Schedule of Revenues, Expenditures, and Changes
 in Fund Balance - Budget and Actual
 General Fund
 For the Fiscal Year Ended August 31, 2018

Exhibit G-1

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
REVENUES					
5700	Local and intermediate revenue	\$ 5,925,500	\$ 6,151,500	\$ 6,122,130	\$ (29,370)
5800	State program revenues	5,740,000	9,306,855	7,191,730	(2,115,125)
5900	Federal program revenues	190,092	334,092	347,379	13,287
5020	Total revenues	11,855,592	15,792,447	13,661,239	(2,131,208)
EXPENDITURES					
Current:					
0011	Instruction	6,693,714	7,073,637	6,839,111	234,526
0012	Instructional resources and media services	74,881	82,169	75,059	7,110
0013	Curriculum and instructional staff development	102,249	105,762	102,061	3,701
0021	Instructional leadership	129,085	140,303	139,930	373
0023	School leadership	846,897	893,471	868,063	25,408
0031	Guidance, counseling, and evaluation services	240,230	258,937	258,726	211
0033	Health services	113,565	120,788	116,387	4,401
0034	Student transportation	456,280	516,036	513,921	2,115
0035	Food services	50,000	50,000	2,311	47,689
0036	Extracurricular activities	825,375	889,027	878,902	10,125
0041	General administration	511,563	608,355	607,995	360
0051	Plant maintenance and operations	1,586,674	1,841,524	1,840,645	879
0052	Security and monitoring services	11,400	11,400	5,513	5,887
0053	Data processing services	261,339	275,898	271,998	3,900
0061	Community services	3,230	3,230	1,759	1,471
Intergovernmental:					
0093	Payments related to shared services arrangements	190,700	190,700	190,672	28
0099	Other intergovernmental charges	65,000	65,000	63,884	1,116
6030	Total expenditures	12,162,182	13,126,237	12,776,937	349,300
1100	Excess (deficiency) of revenues over (under) expenditures	(306,590)	2,666,210	884,302	(1,781,908)
OTHER FINANCING SOURCES (USES):					
8911	Transfers out	-	(855,862)	(855,862)	-
7080	Total other financing sources (uses)	-	(855,862)	(855,862)	-
1200	Net change in fund balance	(306,590)	1,810,348	28,440	(1,781,908)
0100	Fund balance - beginning	7,801,490	7,801,490	7,801,490	-
3000	FUND BALANCE - ENDING	\$ 7,494,900	\$ 9,611,838	\$ 7,829,930	\$ (1,781,908)

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

Anahuac Independent School District

Exhibit G-2

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	0.0037861%	0.0036468%	0.0036991%	0.0043511%
District's proportionate share of the net pension liability	\$ 1,210,598	\$ 1,378,059	\$ 1,307,583	\$ 1,162,238
State's proportionate share of the net pension liability associated with the District	4,128,038	4,975,832	4,782,318	3,953,463
TOTALS	<u>\$ 5,338,636</u>	<u>\$ 6,353,891</u>	<u>\$ 6,089,901</u>	<u>\$ 5,115,701</u>
District's covered payroll	\$ 8,028,123	\$ 7,769,846	\$ 7,410,047	\$ 7,071,922
District's proportionate share of the net pension liability as a percentage of its covered payroll	15.08%	17.74%	17.65%	16.43%
Plan fiduciary net position as a percentage of the total pension liability	82.17%	78.00%	78.43%	83.25%

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

Anahuac Independent School District

Exhibit G-3

Schedule of the District's Contributions to the
Teacher Retirement System of Texas Pension Plan
For the Last Four Fiscal Years*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
TRS				
Contractually required contributions	\$ 137,615	\$ 119,529	\$ 115,848	\$ 119,990
Contributions in relation to the contractually required contributions	<u>(137,615)</u>	<u>(119,529)</u>	<u>(115,848)</u>	<u>(119,990)</u>
CONTRIBUTION DEFICIENCY (EXCESS)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 8,271,678	\$ 8,028,123	\$ 7,769,846	\$ 7,410,047
Contributions as a percentage of covered payroll	1.66%	1.49%	1.49%	1.62%

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

Anahuac Independent School District**Exhibit G-4**

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

	<u>2018</u>
District's proportion of the net OPEB liability	0.0090702%
District's proportionate share of the net OPEB liability	\$ 3,944,284
State's proportionate share of the net OPEB liability	<u>6,428,841</u>
TOTALS	<u><u>\$ 10,373,125</u></u>
District's covered payroll	\$ 8,028,123
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	49.13%
Plan fiduciary net position as a percentage of the total OPEB liability	0.91%

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

Anahuac Independent School District
 Schedule of the District's Contributions to the
 Teacher Retirement System of Texas OPEB Plan
 Last Fiscal Year*

Exhibit G-5

	<u>2018</u>
TRS	
Contractually required contributions	\$ 66,604
Contributions in relation to the contractually required contributions	<u>(66,604)</u>
CONTRIBUTION DEFICIENCY (EXCESS)	<u>\$ -</u>
District's covered payroll	\$ 8,271,678
Contributions as a percentage of covered payroll	0.81%

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

Anahuac Independent School District

Notes to the Required Supplementary Information

Note 1. Budget

A. Budgetary Information

Each school district in Texas is required by law to prepare annually a budget of anticipated revenues and expenditures for the general fund, debt service fund, and the national school breakfast and lunch program special revenue fund. The Texas Education Code requires the budget to be prepared not later than August 20 and adopted by August 31 of each year. The budgets are prepared on a basis of accounting that is used for reporting in accordance with generally accepted accounting principles.

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

1. Prior to August 20 of the preceding fiscal year, 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 after ten days' public notice of the meeting has been given.
3. Prior to September 1, the budget is formally approved and adopted by the Board.

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

B. Excess of Expenditures Over Appropriations

For the fiscal year ended August 31, 2018, expenditures exceeded appropriations in the functions (the legal level of budgetary control) of the following fund:

<u>Fund</u>	<u>Function</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
National Breakfast and Lunch Program	35	\$ 769,732	\$ 857,177	\$ (87,445)

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Supplementary Information

Anahuac Independent School District
Combining Balance Sheet
Nonmajor Governmental Funds - Special Revenue Funds
August 31, 2018

<u>Data Control Codes</u>	211	224
	ESEA, Title I, Part A - Improving Basic Programs	IDEA- Part B, Formula
ASSETS		
1110 Cash and cash equivalents	\$ -	\$ -
1240 Due from other governments	16,297	20,282
1290 Other receivables	-	-
	<hr/>	<hr/>
1000 TOTAL ASSETS	<u>\$ 16,297</u>	<u>\$ 20,282</u>
LIABILITIES		
2110 Accounts payable	\$ -	\$ -
2170 Due to other funds	16,297	20,282
2190 Due to student groups	-	-
2300 Unearned revenue	-	-
	<hr/>	<hr/>
2000 Total liabilities	16,297	20,282
FUND BALANCES		
3450 Restricted - grants and contributions	-	-
3545 Committed - other	-	-
	<hr/>	<hr/>
3000 Total fund balances	-	-
	<hr/>	<hr/>
4000 TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 16,297</u>	<u>\$ 20,282</u>

240	244	255	263	289
National School Breakfast and Lunch Program	Career and Technical - Basic Grant	ESEA, Title II, Part A - Training and Recruiting	Title III, Part A English Language Acquisition and Enhancement	Various Federal Grants
\$ -	\$ -	\$ -	\$ -	\$ -
56,183	-	1,780	394	-
-	-	-	-	-
<u>\$ 56,183</u>	<u>\$ -</u>	<u>\$ 1,780</u>	<u>\$ 394</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ -	\$ -
56,183	-	1,780	394	-
-	-	-	-	-
-	-	-	-	-
56,183	-	1,780	394	-
-	-	-	-	-
-	-	-	-	-
<u>\$ 56,183</u>	<u>\$ -</u>	<u>\$ 1,780</u>	<u>\$ 394</u>	<u>\$ -</u>

Anahuac Independent School District

Combining Balance Sheet

Nonmajor Governmental Funds - Special Revenue Funds - Continued

August 31, 2018

		410	429
Data Control Codes		State Textbook Fund	State Funded Special Revenue Fund
ASSETS			
1110	Cash and cash equivalents	\$ 99,498	\$ -
1240	Due from other governments	-	-
1290	Other receivables	-	-
		<hr/>	<hr/>
1000	TOTAL ASSETS	<u>\$ 99,498</u>	<u>\$ -</u>
LIABILITIES			
2110	Accounts payable	\$ 53,939	\$ -
2170	Due to other funds	-	-
2190	Due to student groups	-	-
2300	Unearned revenue	45,559	-
		<hr/>	<hr/>
2000	Total liabilities	99,498	-
FUND BALANCES			
3450	Restricted - grants and contributions	-	-
3545	Committed - other	-	-
		<hr/>	<hr/>
3000	Total fund balances	-	-
		<hr/>	<hr/>
4000	TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 99,498</u>	<u>\$ -</u>

461	480	481	
Campus Activity Fund	AISD Education Foundation Grant	Supplemental Environmental Projects	Total Nonmajor Funds (See Exhibit C-1)
\$ 171,535	\$ -	\$ 2,506	\$ 273,539
-	-	-	94,936
-	7,000	-	7,000
<u>\$ 171,535</u>	<u>\$ 7,000</u>	<u>\$ 2,506</u>	<u>\$ 375,475</u>
\$ -	\$ -	\$ -	\$ 53,939
-	4,488	-	99,424
1,357	-	-	1,357
-	-	-	45,559
1,357	4,488	-	200,279
-	2,512	2,506	5,018
170,178	-	-	170,178
170,178	2,512	2,506	175,196
<u>\$ 171,535</u>	<u>\$ 7,000</u>	<u>\$ 2,506</u>	<u>\$ 375,475</u>

Anahuac Independent School District

Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds - Special Revenue Funds
For the Fiscal Year Ended August 31, 2018

Data Control Codes		211	224
		ESEA, Title I, Part A - Improving Basic Programs	IDEA- Part B, Formula
	REVENUES		
5700	Local and intermediate revenue	\$ -	\$ -
5800	State program revenues	-	-
5900	Federal program revenues	179,549	27,260
		<hr/>	<hr/>
5020	Total revenues	179,549	27,260
	EXPENDITURES		
	Current:		
0011	Instruction	174,587	27,260
0013	Curriculum and instructional staff development	-	-
0021	Instructional leadership	4,962	-
0034	Student transportation	-	-
0035	Food services	-	-
0036	Extracurricular activities	-	-
0061	Community services	-	-
		<hr/>	<hr/>
6030	Total expenditures	179,549	27,260
		<hr/>	<hr/>
1100	Excess (deficiency) of revenues over (under) expenditures	-	-
	OTHER FINANCING SOURCES (USES)		
7915	Transfers in	-	-
		<hr/>	<hr/>
7080	Total other financing sources (uses)	-	-
		<hr/>	<hr/>
1200	Net change in fund balances	-	-
0100	Fund balances - beginning	-	-
		<hr/>	<hr/>
3000	FUND BALANCES - ENDING	<u>\$ -</u>	<u>\$ -</u>

240	244	255	263	289
National School Breakfast and Lunch Program	Career and Technical - Basic Grant	ESEA, Title II, Part A - Training and Recruiting	Title III, Part A English Language Acquisition and Enhancement	Various Federal Grants
\$ 206,178	\$ -	\$ -	\$ -	\$ -
15,405	-	-	-	-
543,892	12,328	39,764	8,899	11,187
765,475	12,328	39,764	8,899	11,187
-	12,328	32,510	5,570	5,330
-	-	5,250	650	5,360
-	-	2,004	-	497
-	-	-	-	-
857,177	-	-	-	-
-	-	-	-	-
-	-	-	2,679	-
857,177	12,328	39,764	8,899	11,187
(91,702)	-	-	-	-
91,702	-	-	-	-
91,702	-	-	-	-
-	-	-	-	-
-	-	-	-	-
\$ -	\$ -	\$ -	\$ -	\$ -

Anahuac Independent School District

Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances

Nonmajor Governmental Funds - Special Revenue Funds - Continued
For the Fiscal Year Ended August 31, 2018

Data Control Codes	410	429
	State Textbook Fund	State Funded Special Revenue Fund
REVENUES		
5700 Local and intermediate revenue	\$ -	\$ -
5800 State program revenues	187,118	-
5900 Federal program revenues	-	-
5020 Total revenues	<u>187,118</u>	<u>-</u>
EXPENDITURES		
Current:		
0011 Instruction	187,118	2,800
0013 Curriculum and instructional staff development	-	-
0021 Instructional leadership	-	-
0034 Student transportation	-	-
0035 Food services	-	-
0036 Extracurricular activities	-	-
0061 Community services	-	-
6030 Total expenditures	<u>187,118</u>	<u>2,800</u>
1100 Excess (deficiency) of revenues over (under) expenditures	-	(2,800)
OTHER FINANCING SOURCES (USES)		
7915 Transfers in	-	-
7080 Total other financing sources (uses)	<u>-</u>	<u>-</u>
1200 Net change in fund balances	-	(2,800)
0100 Fund balances - beginning	-	2,800
3000 FUND BALANCES - ENDING	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

461	480	481	
Campus Activity Fund	AISD Education Foundation Grant	Supplemental Environmental Projects	Total Nonmajor Funds (See Exhibits C-2)
\$ 421,994	\$ 7,000	\$ 1,352	\$ 636,524
-	-	-	202,523
-	-	-	822,879
421,994	7,000	1,352	1,661,926
-	4,488	-	451,991
-	-	-	11,260
-	-	-	7,463
-	-	82,707	82,707
-	-	-	857,177
407,160	-	-	407,160
-	-	-	2,679
407,160	4,488	82,707	1,820,437
14,834	2,512	(81,355)	(158,511)
-	-	-	91,702
-	-	-	91,702
14,834	2,512	(81,355)	(66,809)
155,344	-	83,861	242,005
<u>\$ 170,178</u>	<u>\$ 2,512</u>	<u>\$ 2,506</u>	<u>\$ 175,196</u>

Anahuac Independent School District
 Schedule of Delinquent Taxes Receivable
 For the Fiscal Year Ended August 31, 2018

Year 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		1.04		0.1380		269,819,270
2011		1.04		0.3199		294,707,000
2012		1.04		0.2990		291,032,636
2013		1.04		0.3000		364,941,940
2014		1.04		0.2700		463,379,695
2015		1.04		0.1900		668,662,033
2016		1.06		0.2100		606,646,220
2017		1.06		0.4100		475,522,381
2018		1.06		0.4100		506,876,463

1000 TOTALS

9000 - Portion of row 1000 for taxes paid into tax increment zone under chapter 311, tax code

Exhibit J-1

10 Beginning Balance 9/1/17	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/18
\$ 364,505		\$ 3,496	\$ 376	\$ (44,861)	\$ 315,772
42,111	-	328	43	(196)	41,544
53,291	-	847	261	(297)	51,886
46,422	-	1,264	363	(300)	44,495
67,013	-	3,119	900	(209)	62,785
78,692	-	4,351	1,129	(1,634)	71,578
82,126	-	11,013	2,012	233	69,334
97,832	-	16,554	3,280	(3,490)	74,508
233,734	-	74,581	28,847	(8,055)	122,251
-	7,451,084	5,134,048	1,985,812	(43,079)	288,145
<u>\$ 1,065,726</u>	<u>\$ 7,451,084</u>	<u>\$ 5,249,601</u>	<u>\$ 2,023,023</u>	<u>\$ (101,888)</u>	<u>\$ 1,142,298</u>
		\$ -	\$ -		

Anahuac Independent School District
 Schedule of Revenues, Expenditures, and Changes
 in Fund Balance – Budget and Actual
 National School Breakfast and Lunch Program
 For the Fiscal Year Ended August 31, 2018

Exhibit J-2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
REVENUES					
5700	Local and intermediate revenue	\$ 236,000	\$ 236,000	\$ 206,178	\$ (29,822)
5800	State program revenues	3,500	15,482	15,405	(77)
5900	Federal program revenues	475,000	518,250	543,892	25,642
5020	Total revenues	714,500	769,732	765,475	(4,257)
EXPENDITURES					
Current:					
0035	Food services	714,500	769,732	857,177	(87,445)
6030	Total expenditures	714,500	769,732	857,177	(87,445)
1100	Excess (deficiency) of revenues over (under) expenditures	-	-	(91,702)	(91,702)
OTHER FINANCING SOURCES (USES)					
7915	Transfers in	-	91,702	91,702	-
7080	Total other financing sources (uses)	-	91,702	91,702	-
1200	Net change in fund balance	-	91,702	-	(91,702)
0100	Fund balance - beginning	-	-	-	-
3000	FUND BALANCE - ENDING	\$ -	\$ 91,702	\$ -	\$ (91,702)

Anahuac Independent School District
Schedule of Revenues, Expenditures, and Changes
in Fund Balance – Budget and Actual
Debt Service Fund
For the Fiscal Year Ended August 31, 2018

Exhibit J-3

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
REVENUES					
5700	Local and intermediate revenue	\$ 2,022,000	\$ 2,034,000	\$ 2,103,860	\$ 69,860
5800	State program revenues	-	42,000	41,184	(816)
5020	Total revenues	2,022,000	2,076,000	2,145,044	69,044
EXPENDITURES					
Debt service:					
0071	Principal on long-term debt	1,165,000	1,165,000	1,165,000	-
0072	Interest on long-term debt	910,674	910,674	910,674	-
6030	Total expenditures	2,075,674	2,075,674	2,075,674	-
1100	Excess (deficiency) of revenues over (under) expenditures	(53,674)	326	69,370	69,044
OTHER FINANCING SOURCES (USES)					
7916	Premium or discount on issuance of bonds	-	-	3,065	3,065
7080	Total other financing sources (uses)	-	-	3,065	3,065
1200	Net change in fund balance	(53,674)	326	72,435	72,109
0100	Fund balance - beginning	705,532	705,532	705,532	-
3000	FUND BALANCE - ENDING	\$ 651,858	\$ 705,858	\$ 777,967	\$ 72,109

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Overall Compliance, Internal Control Section and Federal Awards

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

To the Board of Trustees of
Anahuac Independent School District
Anahuac, Texas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Anahuac Independent School District (the District) as of and for the fiscal 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 January 17, 2019.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs, that we consider to be a material weakness as item 2018-001.

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*.

The Board of Trustees of
Anahuac Independent School District

The District's Response to Findings

The District's response to the finding identified in our audit was described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas
January 17, 2019

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

To the Board of Trustees of
Anahuac Independent School District
Anahuac, Texas

Report on Compliance for Each Major Federal Program

We have audited Anahuac Independent School District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the fiscal 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* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal 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 were not identified.

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

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas
January 17, 2019

Anahuac Independent School District
 Schedule of Findings and Questioned Costs
 For the Fiscal Year Ended August 31, 2018

Section 1. Summary of Auditor's Results

Financial Statements

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

Federal Awards

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

Anahuac Independent School District
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended August 31, 2018

Section 2. Financial Statement Findings

2018-001 Account Reconciliation (Recurring)

Material Weakness in Internal Controls

Criteria

Management is responsible for establishing and maintaining effective internal control over financial reporting and proper accounting practices to maintain accurate and concise accounting records.

Condition

During our audit we noted cash accounts were not properly reconciled due to the District printing and holding checks for goods or services that had not been received. Likewise, accounts payable and accrued liability accounts were not properly reconciled due to the District holding invoices that the District was obligated to pay for since the goods or services had been received.

Cause

The District's management established procedures for account reconciliation does not include all balance sheet accounts.

Effect or Potential Effect

The activity in the accounts noted above were either understated or overstated, resulting in correcting and/or adjusting entries after fiscal year end.

Recommendation

We recommend accounting policies and procedures be modified and implemented to ensure checks are written when the goods or service are received and invoices are not held for goods or services that have been received.

Views of Responsible Officials and Planned Corrective Actions

See corrective action plan

Section 3. Federal Award Findings And Questioned Costs

None reported

Anahuac Independent School District
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended August 31, 2018

Prior Year Findings

2017-001 Account Reconciliation

Significant Deficiency in Internal Controls

Criteria

Proper accounting practices to maintain accurate and concise accounting records.

Current Status

The District did not resolve finding 2017-001 for the fiscal year ended August 31, 2018, and has been identified as a repeat finding.



Anahuac Independent School District

ANAHUAC, TEXAS 77514

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Corrective Action Plan

2018-001 Account Reconciliation

Our policy will be modified to ensure that all open invoices received prior to August 31 of each year for all accounts will be reviewed and verified. All open invoices regardless if they have a purchase order number attached will be confirmed that the good or service has been received which will result in an accounts payable being recorded in the District's general ledger. Any goods or services received prior to the District's year end will be set up as an accounts payable including but not limited to cafeteria expenses, property insurance, utility bills, and bond related invoices. In addition, invoices received after the District's year-end (August 31st) will be reviewed and verified as date of service and date received to insure they are booked correctly.

Additionally, our cash management policy will be modified to ensure that the issuing and/or holding of checks will no longer be allowed.

Anticipated Completion Date

The District anticipates the correction plan will be implemented by January 1, 2019.

Contact Person

Rosie Womack, Business Manager will be the contact person regarding this corrective action plan.

Website: www.anahuacid.net

Anahuac Independent School District
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended August 31, 2018

Exhibit K-1

(1) Federal Grantor/ Pass-Through Grantor/ Program Title	(2) Federal CFDA Number	(2A) Pass-Through Entity Identifying Number	(3) Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Child Nutrition Cluster:			
Passed Through State Department of Agriculture - Non-Cash Assistance:			
National School Lunch Program	10.555	00173	\$ 46,146
Passed Through State Department of Education - Cash Assistance:			
School Breakfast Program	10.553	71401801	148,328
National School Lunch Program	10.555	71301801	349,418
Total Child Nutrition Cluster			543,892
TOTAL U.S. DEPARTMENT OF AGRICULTURE			543,892
U.S. DEPARTMENT OF DEFENSE			
Passed Through State Comptroller of Public Accounts:			
Payments in Lieu of Real Estate Taxes	12.112	N/A	507
TOTAL U.S. DEPARTMENT OF DEFENSE			507
U.S. DEPARTMENT OF THE INTERIOR			
Passed Through Chambers County:			
Refuge Revenue Sharing	15.659	N/A	12,511
TOTAL U.S. DEPARTMENT OF THE INTERIOR			12,511
U.S. DEPARTMENT OF EDUCATION			
Passed Through State Department of Education:			
ESEA Title I, Part A - Improving Basic Programs	84.010A	18610101036901	179,549
ESEA Title II, Part A - Teacher and Principal Training and Recruiting	84.367A	18694501036901	39,764
Summer School LEP	84.369A	69551702	1,187
Title IV, Part A - Subpart 1	84.424A	18680101036901	10,000
Passed Through Education Service Center Region IV:			
Title III, Part A - English Language Acquisition and Language Enhancement	84.365A	18671001101950	8,899
Passed Through Liberty ISD:			
Special Education Cluster:			
IDEA - Part B, Formula	84.027A	186600011469066600	27,260
Passed Through East Chambers ISD:			
Career and Technology - Basic Grant	84.048A	0020620285330001	12,328
TOTAL U.S. DEPARTMENT OF EDUCATION			278,987
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through Texas Department of Health and Human Services Commision:			
Medicaid Cluster:			
Medicaid Adminstrative Claiming Program (MAC)	93.778	529-07-0157-0016	3,460
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			3,460
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed Through Texas Department of Public Safety:			
FEMA Hurricane Harvey Reimbursements	97.036	4332-DR-TX	68,362
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			68,362
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 907,719

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

Anahuac Independent School District

Notes to the Schedule of Expenditures of Federal Awards

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Anahuac Independent School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Single Audit Act Amendments of 1996 and Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. National School Lunch Program non-cash commodities are recorded at their estimated market value at the time of donation. The District has elected not to use the 10% de minimis indirect cost rate as allowed under Uniform Guidance. Presented below is a reconciliation of federal revenues.

Total expenditures of federal awards per Exhibit K-1	\$	907,719
Additional federal revenues reported in governmental funds:		
SHARS		257,035
E-Rate		5,504
		<hr/>
Total federal revenues per Exhibit C-2	\$	1,170,258
		<hr/> <hr/>

Anahuac Independent School District
 Schedule of Required Responses to Selected
 School FIRST Indicators (Unaudited)
 For the Fiscal Year Ended August 31, 2018

Exhibit L-1

<u>Data Control Codes</u>	<u>Responses</u>
SF2 Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4 Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF5 Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6 Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7 Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8 Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10 Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end?	\$ -
SF11 Net pension assets (1920) at fiscal year-end.	\$ -
SF12 Net pension liabilities (2540) at fiscal year-end.	\$ 1,210,598

Financial Advisory Services
Provided By:

