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

PRELIMINARY OFFICIAL STATEMENT
Dated November 26, 2019

NEW ISSUE - BOOK-ENTRY-ONLY

ENHANCED/UNENHANCED RATINGS: Moody's - "Aa2"
PSF Guarantee - "Aaa"
(See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "OTHER PERTINENT INFORMATION - Municipal Bond Rating" herein)

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.

$12,050,000*
JUDSON INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Bexar County, Texas)
UNLIMITED TAX REFUNDING BONDS, SERIES 2020

Dated Date: December 1, 2019 **Due: February 1, as shown on page -ii- herein**

The Judson Independent School District Unlimited Tax Refunding Bonds, Series 2020 (the "Bonds"), as shown on page -ii- of this Official Statement, are direct obligations of the Judson Independent School District (the "District") and are payable from an annual ad valorem tax levied, without legal limit as to rate or amount, on all taxable property within the District. The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Chapter 1207, Texas Government Code, as amended ("Chapter 1207"), Chapter 1371, Texas Government Code, as amended ("Chapter 1371") and an order authorizing the issuance of the Bonds (the "Order") adopted by the Board of Trustees (the "Board") of the District on October 10, 2019. See "THE BONDS - Authority for Issuance" herein. As permitted by the provisions of Chapter 1207 and Chapter 1371, the Board, in the Order, delegated the authority to certain District officials (each an "Authorized Official") to execute an approval certificate (the "Approval Certificate") establishing the final pricing terms for the Bonds.

Interest on the Bonds will accrue from the Dated Date as shown above, will be payable until stated maturity or prior redemption on February 1 and August 1 of each year, commencing February 1, 2020, and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds will be issued as fully registered obligations in principal denominations of $5,000, or integral multiples thereof within a stated maturity. The Bonds will be issued in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("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, principal and interest on the Bonds will be payable by the Paying Agent/Registrar, initially Zions Bancorporation, National Association, Houston, Texas, to the Securities Depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Proceeds from the sale of the Bonds will be used to (i) refund a portion of the District's currently outstanding ad valorem unlimited tax-supported obligations, as identified in Schedule I attached hereto (the "Refunded Obligations"), for debt service savings and (ii) pay for professional services related to the costs of issuance of the Bonds. See "PLAN OF FINANCING - Purpose" herein.

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" herein.

For Maturity Schedule, Principal Amounts, Interest Rates, Initial Yields, CUSIP Numbers, and Redemption Provisions for the Bonds, see page -ii- herein

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The Bonds are offered for delivery when, as and if issued and received by the initial purchasers thereof named below (the "Underwriters") and are subject to the approving opinion of 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" herein for a discussion of Bond Counsel's opinion. Certain legal matters will be passed upon for the Underwriters by their legal counsel Orrick, Herrington & Sutcliffe LLP, Austin, Texas. It is expected that the Bonds will be available for delivery through the services of DTC, New York, New York, on or about January 14, 2020.

RAYMOND JAMES **ESTRADA HINOJOSA & COMPANY, INC.**

* *Preliminary, subject to change.*

**STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES,
INITIAL YIELDS, CUSIP NUMBERS, AND REDEMPTION PROVISIONS**

$12,050,000*
JUDSON INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Bexar County, Texas)
UNLIMITED TAX REFUNDING BONDS, SERIES 2020

CUSIP No. Prefix 481305[(1)]

Stated Maturity February 1	Principal Amount ($)	Interest Rate (%)	Initial Yield (%)	CUSIP No. Suffix[(1)]
2021	$ 2,695,000.00			
2022	3,310,000.00			
2023	1,715,000.00			
2024	1,325,000.00			
2025	945,000.00			
2026	555,000.00			
2027	545,000.00			
2028	960,000.00			

(Interest to accrue from the Dated Date)

Redemption

The District reserves the right to redeem the Bonds maturing on and after February 1, 2027, in whole or in part, in the principal amount of $5,000 or any integral multiple thereof, on February 1, 2026 or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. If two or more serial bonds of consecutive maturity are combined into one or more “term” Bonds (the “Term Bonds”) by the Underwriters, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order. See "THE BONDS - Redemption Provisions of the Bonds" herein.

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* *Preliminary, subject to change.*

(1) *CUSIP numbers are included solely for the convenience of the 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 Underwriters, the District, or the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.*

JUDSON INDEPENDENT SCHOOL DISTRICT
8012 Shin Oak Drive
Live Oak, Texas 78233

BOARD OF TRUSTEES

Name	Position	Total Years Served	Term Expires May	Occupation
Renée A. Paschall	President	4	2023	Retired Educator
Suzanne Kenoyer	Vice President	2	2023	Retired Educator
Lynette Perez	Secretary	6 months	2023	Attorney
Debra Eaton	Trustee	2	2021	Retired Military
Jennifer Rodriguez	Trustee	2	2021	Education
Rafael Diaz, Jr.	Trustee	1 month	2021	Software Account Manager
Shatonya King	Trustee	1 month	2021	Education

ADMINISTRATION - FINANCE CONNECTED

Name	Title	Total Years Experience	Total Years With District
Dr. Jeanette Ball	Superintendent of Schools	24	1
William Atkins	Chief Financial Officer	24	1
Nicole Dean	Director of Accounting	12	8

CONSULTANTS AND ADVISORS

ABIP, P.C.
San Antonio, Texas — Certified Public Accountants

Norton Rose Fulbright US LLP
San Antonio, Texas — Bond Counsel

SAMCO Capital Markets, Inc.
San Antonio, Texas — Financial Advisor

For Additional Information Contact:

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Allen R. Westerman, Managing Director
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San Antonio, Texas 78209
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William Atkins, Chief Financial Officer
Judson Independent School District
8012 Shin Oak Drive
Live Oak, Texas 78233
Phone (210) 945-5506
Fax (210) 945-6905
Email: watkins@judsonisd.org

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.

No dealer, broker, salesman, or other person has been authorized by the District to give any information or to make any representation with respect to the Bonds, other than as 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 either of the foregoing.

This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale. The information set forth herein has been obtained from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriters.

The information and expressions of opinion 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 information or opinions set forth herein after the date of this Official Statement.

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

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

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

None of the District, the Financial Advisor, or the Underwriters make any representation or warranty with respect to the information contained in this Official Statement regarding (i) The Depository Trust Company (“DTC”) or its book-entry-only system described under the caption “BOOK-ENTRY-ONLY SYSTEM” as such information has been provided by DTC, and (ii) the Texas Permanent School Fund Guarantee Program described in the caption “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” as such information has been provided by the Texas Education Agency.

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 THE SCHEDULE AND ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION WITH RESPECT TO THE BONDS.

(The remainder of this page has been left blank intentionally.)

TABLE OF CONTENTS

The cover page hereof, the appendices and schedule hereto, and any addenda, supplement or amendment hereto are part of this Official Statement.

OFFICIAL STATEMENT SUMMARY INFORMATION

The following information is qualified in its entirety by more detailed information and financial statements appearing elsewhere in this Official Statement:

THE DISTRICT	The Judson Independent School District (the "District"), a political subdivision of the State of Texas, is located in the northeast portion of Bexar County, Texas. The District is approximately 55.87 square miles in area and serves a population of approximately 132,114. Included within the District are the Texas cities of Kirby, Converse, and portions of San Antonio, Universal City, Selma and Live Oak. The District was created under State statute and 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 mature on February 1 in each of the years 2021 through 2028, inclusive. Interest on the Bonds shall accrue from the Dated Date (identified below) and is payable initially on February 1, 2020 and semiannually on August 1 and February 1 thereafter until stated maturity or prior redemption.
DATED DATE	December 1, 2019.
REDEMPTION	The District reserves the right to redeem the Bonds maturing on and after February 1, 2027, in whole or in part, in the principal amount of $5,000 or any integral multiple thereof, on February 1, 2026 or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. If two or more serial bonds of consecutive maturity are combined into one or more "term" Bonds (the "Term Bonds") by the Underwriters, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order. See "THE BONDS - Redemption Provisions of the Bonds" herein.
SECURITY FOR THE BONDS	The Bonds constitute direct obligations of the District payable from an annual ad valorem tax levied on all taxable property located therein, without legal limitation as to rate or amount.
TAX MATTERS	In the opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein. See "TAX MATTERS" and "APPENDIX D - Form of Opinion of Bond Counsel."
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" herein.
PAYING AGENT/REGISTRAR	The initial Paying Agent/Registrar is Zions Bancorporation, National Association, Houston, Texas.
MUNICIPAL BOND RATINGS	Moody's Investors Service, Inc. ("Moody's") has assigned its municipal bond rating of "Aaa" to the Bonds based on the guarantee thereof by the Texas Permanent School Fund. In addition, Moody's has assigned its underlying unenhanced rating of "Aa2" to the District's ad valorem tax-supported indebtedness, including the Bonds. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "OTHER PERTINENT INFORMATION - Municipal Bond Ratings" herein.
FUTURE BOND ISSUES	The District currently has no voter authorized but unissued unlimited ad valorem tax-supported bonds. The District may incur other financial obligations payable from its collection of taxes and other sources of revenue, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes.
PAYMENT RECORD	The District has never defaulted on the payment of its bonded indebtedness.
DELIVERY	When issued, anticipated to occur on or about January 14, 2020.
LEGALITY	The Bonds are 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 "APPENDIX D - Form of Opinion of Bond Counsel" herein.

* *Preliminary, subject to change.*

PRELIMINARY OFFICIAL STATEMENT

relating to

$12,050,000*
JUDSON INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Bexar County, Texas)
UNLIMITED TAX REFUNDING BONDS, SERIES 2020

INTRODUCTION

This Official Statement of Judson Independent School District (the "District") is provided to furnish certain information in connection with the sale of the District's $12,050,000* Unlimited Tax Refunding Bonds, Series 2020 (the "Bonds").

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 such financial and other information, will necessarily continue or be repeated in the future.

This Official Statement, which includes the cover page, the schedule, and the appendices hereto, provides certain 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 from the District and, during the offering period, from the District's Financial Advisor, SAMCO Capital Markets, Inc., 1020 N.E. Loop 410, Suite 640, San Antonio, Texas 78209, by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the Official Statement pertaining to the Bonds will be filed by the Underwriters with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access ("EMMA") system. See "CONTINUING DISCLOSURE" herein for a description of the District's undertaking to provide certain information on a continuing basis. Capitalized terms used, but not defined herein, shall have the meanings ascribed thereto in the Order (defined below).

PLAN OF FINANCING

Purpose

The Bonds are being issued to: (i) refund a portion of the District's currently outstanding debt, identified in Schedule I attached hereto (the "Refunded Obligations"), and (ii) pay professional services related to the costs of issuance of the Bonds. See Schedule I for a detailed listing of the Refunded Obligations and their call date at par. The refunding is being undertaken to produce debt service savings for the District.

Refunded Obligations

The Refunded Obligations, and interest due thereon, are to be paid on their scheduled redemption date from cash and investments to be deposited with Zions Bancorporation, National Association, Houston, Texas, a national banking association (the "Escrow Agent") pursuant to an Escrow Deposit Letter dated as of October 10, 2019 (the "Escrow Agreement") between the District and the Escrow Agent.

The Order provides that the District will deposit certain proceeds of the sale of the Bonds, along with other lawfully available funds of the District (if any), with the Escrow Agent in the amount necessary and sufficient to accomplish the discharge and final payment of the Refunded Obligations at their scheduled redemption date (the "Redemption Date"). Such funds shall be held by the Escrow Agent in an escrow fund (the "Escrow Fund") irrevocably pledged to the payment of principal of and interest on the Refunded Obligations. SAMCO Capital Markets, Inc., in its capacity as Financial Advisor to the District, will certify as to the sufficiency of the amount initially deposited to the Escrow Fund, without regard to investment (if any), to pay the principal of and interest on the Refunded Obligations, when due, on the Redemption Date (the "Sufficiency Certificate"). Amounts on deposit in the Escrow Fund shall, until such time as needed for their intended purpose, be (i) held uninvested in cash and/or (ii) invested in certain direct, noncallable obligations of the United States of America (including obligations unconditionally guaranteed by the United States of America) that were, on the date the Order was adopted, rated as to investment quality by a nationally recognized rating firm of not less than "AAA" (the "Escrowed Securities"). Cash and investments (if any) held in the Escrow Fund shall not be available to pay debt service requirements on the Bonds.

* *Preliminary, subject to change.*

Prior to, or simultaneously with, the issuance of the Bonds, the District will give irrevocable instructions to provide notice to the owners of the Refunded Obligations that the Refunded Obligations will be redeemed prior to stated maturity on which date money will be made available to redeem the Refunded Obligations from money held under the Escrow Agreement.

By the deposit of the cash and Escrowed Securities, if any, with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of all of the Refunded Obligations in accordance with the law. It is the opinion of Bond Counsel, in reliance upon the Sufficiency Certificate of SAMCO Capital Markets, Inc. that as a result of such defeasance the Refunded Obligations will be outstanding only for the purpose of receiving payments from the Escrow Fund held for such purpose by the Escrow Agent and such Refunded Obligations will not be deemed as being outstanding obligations of the District payable from taxes nor for the purpose of applying any limitation on the issuance of debt.

The District has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund, from lawfully available funds, of any additional amounts required to pay the principal of and interest on the Refunded Obligations, if for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund be insufficient to make such payment. Defeasance of the Refunded Obligations will cancel the Permanent School Fund Guarantee relating thereto.

SOURCES AND USES OF FUNDS

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

Sources of Funds	
Par Amount of the Bonds	$____________
[Net] Reoffering Premium on the Bonds	
Accrued Interest on the Bonds	
Transfers/District Contribution	
Total Sources	$____________
Uses of Funds	
Deposit to Escrow Fund	$____________
Deposit to Bond Fund	
Underwriters' Discount	
Costs of Issuance and Contingency	
Total Uses	$____________

THE BONDS

General Description

The Bonds will be dated December 1, 2019 (the "Dated Date") and will accrue interest from the Dated Date, and such interest shall be payable on February 1 and August 1 in each year, commencing February 1, 2020, until stated maturity or upon redemption prior to maturity. The Bonds will mature on the dates and in the principal amounts and will bear interest at the rates set forth on page -ii- of this Official Statement.

Interest on the Bonds is payable to the registered owners appearing on the bond registration books kept by the Paying Agent/Registrar relating to the Bonds (the "Bond Register") on the Record Date (identified below) and such interest shall be paid by the Paying Agent/Registrar (i) by check sent by United States mail, first class, postage prepaid, to the address of the registered owner recorded in the Bond Register or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. The principal of the Bonds is payable at maturity, or upon redemption prior to maturity, or upon their presentation and surrender to the Paying Agent/Registrar. The Bonds will be issued only in fully registered form in any integral multiple of $5,000 principal for any one maturity.

Initially the Bonds will be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Notwithstanding the foregoing, as long as the Bonds are held in the Book-Entry-Only System, principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners (defined herein) of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Authority for Issuance

The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Chapters 1207 and 1371, Texas Government Code, as amended (together, the "Act"), and an order authorizing the issuance of the Bonds (the "Order") adopted by the Board of Trustees (the "Board") of the District on October 10, 2019. As permitted by the provisions of the Act, the Board, in the Order, delegated the authority to certain District officials (each an "Authorized Official") to execute an approval certificate (the "Approval Certificate") establishing the final pricing terms for the Bonds.

Security for Payment

The Bonds constitute direct obligations of the District payable from an annual ad valorem tax levied against all taxable property located therein, without any legal limitation as to rate or amount.

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" herein.

Payment Record

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

Legality

The Bonds are 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, as Bond Counsel. The legal opinion of Bond Counsel will accompany the certificates deposited with DTC or be printed on the Bonds. The form of the legal opinion of Bond Counsel appears in APPENDIX D attached hereto.

Delivery

When issued; anticipated to occur on or about January 14, 2020.

Future Bond Issues

The District currently has no voter authorized but unissued unlimited ad valorem tax-supported bonds. The District may incur other financial obligations payable from its collection of taxes and other sources of revenue, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes.

Redemption Provisions of the Bonds

The District reserves the right to redeem the Bonds maturing on and after February 1, 2027, at the option of the District, in whole or in part, in the principal amount of $5,000 or an integral multiple thereof, on February 1, 2026 or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. Additionally, if two or more serial bonds of consecutive maturities are combined into one or more "term" Bonds (the "Term Bonds") by the Underwriters, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order.

Selection of Bonds for Redemption

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

Notice of Redemption

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

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

Defeasance

Any Bond will be deemed paid and shall no longer be considered to be outstanding within the meaning of the Order when payment of the principal of and interest on such Bond to its stated maturity or redemption date will have been made or will have been provided by depositing with the Paying Agent/Registrar or an authorized escrow agent: (1) cash in an amount sufficient to make such payment, (2) Government Obligations (defined below) of such maturities and interest payment dates and bearing such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to make such payment, or (3) a combination of cash and Government Obligations. The foregoing deposits shall be certified as to sufficiency by an independent accounting firm, the District's Financial Advisor, the Paying Agent/Registrar, or such other qualified financial institution (as provided in the Order).

The Order provides that "Government Obligations" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District authorizes the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that on the date the governing body of the District adopts or approves the proceedings authorizing the financial arrangements have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, or (d) any additional securities and obligations hereafter authorized by Texas law as eligible for use to accomplish the discharge of obligations such as the Bonds. Authorized Officials may restrict such eligible securities as deemed necessary in connection with the sale of the Bonds. There is no assurance that the ratings for U.S. Treasury securities acquired to defease any Bonds, or those for any other Government Obligations, will be maintained at any particular rating category. Further, there is no assurance that current Texas law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of those securities identified in clauses (a) through (c) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Bonds ("Defeasance Proceeds"), though the District has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Order does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the District to use lawfully available Defeasance Proceeds to defease all or any portion of the Bonds, registered owners of Bonds are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under Texas law as permissible defeasance securities.

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

Defeasance will automatically cancel the Permanent School Fund Guarantee with respect to those defeased Bonds.

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 all of the registered owners of the Bonds then outstanding, no such amendment, addition, or rescission may (1) change the date specified as the date on which the principal of or any installment of interest on any Bond is due and payable, reduce the principal amount, the redemption price therefor, 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 percentage of the aggregate principal amount of Bonds required to be held for consent to any amendment, addition, or waiver, or rescission.

Default and Remedies

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, and the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or the Order and the District's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the registered owners upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and, accordingly, all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Chapter 1371, as amended, Texas Government Code ("Chapter 1371"), which pertains to the issuance of public securities by issues such as the District, permits the District to waive sovereign immunity in the proceedings authorizing the issuance of the Bonds. Notwithstanding its reliance upon the provisions of Chapter 1371 in connection with the issuance of the Bonds (as further described under the caption "THE BONDS - Authority for Issuance"), the District has not waived the defense of sovereign immunity with respect thereto. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, registered owners may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the United States 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 general principles of equity which permit the exercise of judicial discretion.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is Zions Bancorporation, National Association, Houston, Texas. The Bonds will be issued in fully registered form in multiples of $5,000 or integral multiple thereof for any one stated maturity, and principal and interest will be paid by the Paying Agent/Registrar.

Successor Paying Agent/Registrar

The District covenants that until the Bonds are paid it will at all times maintain and provide a paying agent/registrar. In the Order, the District retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new Paying Agent/Registrar must accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District must be a bank, trust company, financial institution or other entity duly qualified and legally authorized to serve and perform the duties of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District will promptly cause a notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall give the address of the new Paying Agent/Registrar.

Record Date

The record date ("Record Date") for determining the registered owner entitled to receive a payment of interest on a Bond is the fifteenth day of the month next preceding each interest payment date. If the date for the payment of the principal or interest on the Bonds is a Saturday, Sunday, legal holiday, or a day on which banking institutions in the city where the corporate trust office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment is the next succeeding day which is not such a day and payment on such date will have the same force and effect as if made on the original date payment was due.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be 15 days after the Special Record Date) shall be sent at least five (5) 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 Bond Register at the close of business on the last business day next preceding the date of mailing of such notice.

Registration, Transferability and Exchange

In the event the Book-Entry-Only System shall be discontinued, printed certificates will be issued to the registered owners of the Bonds and thereafter the Bonds may be transferred, registered, and assigned on the Bond Register only upon presentation and surrender of such printed certificates to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Bond may be assigned by the execution of an assignment form on the Bond 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 Bonds being transferred or exchanged at the designated office of the Paying Agent/Registrar or sent by United States registered mail to the new registered owner at the registered owner's request, risk and expense. New Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in authorized denominations and for a like kind and aggregate principal amount and having the same maturity or maturities as the Bond or Bonds surrendered for exchange or transfer. See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

Limitation on Transfer of Bonds

Neither the District nor the Paying Agent/Registrar shall be required to make any such transfer, conversion or exchange (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date or (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date; provided, however, that such limitation shall not apply to uncalled portions of a Bond redeemed in part.

Replacement Bonds

In the event the Book-Entry-Only System has been discontinued, and any Bond is mutilated, destroyed, stolen or lost, a new Bond of like kind and in the same maturity and amount as the Bond so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Bond, such new Bond will be delivered only upon surrender and cancellation of such mutilated Bond. In the case of any Bond issued in lieu of and in substitution for a Bond which has been destroyed, stolen, or lost, such new Bond will be delivered only (a) upon filing with the District and the Paying Agent/Registrar evidence satisfactory to establish to the District and the Paying Agent/Registrar 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 bond or indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond must comply with such other reasonable regulations as the Paying Agent/Registrar may prescribe and pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

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

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

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

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

2017 Legislative Changes to the Charter District Bond Guarantee Program

The CDBGP Capacity is established by the Act. During the 85th Texas Legislature, which concluded on May 29, 2017, Senate Bill 1480 (“SB 1480”) was enacted. The complete text of SB 1480 can be found at http://www.capitol.state.tx.us/tlodocs/85R/billtext/pdf/SB01480F.pdf#navpanes=0. SB 1480 modified how the CDBGP Capacity will be established under the Act effective as of September 1, 2017, and made other substantive changes to the Act that affects the Charter District Bond Guarantee Program. Prior to the enactment of SB 1480, the CDBGP Capacity was calculated as the State Capacity Limit less the amount of outstanding bond guarantees under the Guarantee

Program multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population. As of April 30, 2019, the amount of outstanding bond guarantees represented 69.90% of the IRS Limit (which is currently the applicable capacity limit) for the Guarantee Program (based on unaudited data). SB 1480 amended the CDBGP Capacity calculation so that the State Capacity Limit is multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population prior to the subtraction of the outstanding bond guarantees, thereby potentially substantially increasing the CDBGP Capacity. However, certain provisions of SB 1480, described below, and other additional factors described herein, could result in less than the maximum amount of the potential increase provided by SB 1480 being implemented by the SBOE or otherwise used by charter districts. Still other factors used in determining the CDBGP Capacity, such as the percentage of the charter district scholastic population to the overall public school scholastic population, could, in and of itself, increase the CDBGP Capacity, as that percentage has grown from 3.53% in September 2012 to 5.85% in February 2019. TEA is unable to predict how the ratio of charter district students to the total State scholastic population will change over time.

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

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

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

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

Charter District Risk Factors

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

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

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

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

Potential Impact of Hurricane Harvey on the PSF

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

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

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

Ratings of Bonds Guaranteed Under the Guarantee Program

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

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations

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

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

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

Permanent School Fund Guaranteed Bonds

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)

	School District Bonds		Charter District Bonds		Totals	
Fiscal Year Ended 8/31	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

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(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_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.

BOOK-ENTRY-ONLY SYSTEM

The following 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 (defined below) while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District, the Financial Advisor and the Underwriters believe the source of such information to be reliable but take no responsibility for the accuracy or completeness thereof.

The District cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption, or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption, or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company ("DTC"), New York, New York, 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 security 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 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 an S&P Global Ratings rating of AA+. The DTC Rules applicable to its Participants are on file with the United States Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

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 the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the

Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. 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, physical bond certificates are required to be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but none of the District, the Financial Advisor, or the Underwriters takes 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 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.

Effect of Termination of Book-Entry-Only System

In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the District, printed physical Bond certificates will be issued to the respective holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Order and summarized under the caption "REGISTRATION, TRANSFER AND EXCHANGE" above.

AD VALOREM PROPERTY TAXATION

The following is a summary of certain provisions of State law as it relates to ad valorem taxation and is not intended to be complete. Prospective investors are encouraged to review 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 each county in which the District is located is the responsibility of the respective Appraisal District for that county (collectively, 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 PROPERTY TAXATION - 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.

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.

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.

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 and Goods-In-Transit 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.

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 PROPERTY TAXATION - District Application of Tax Code” 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.

District Application of Tax Code

The District grants an exemption to the market value of residence homesteads of $25,000; the District has not granted an additional exemption of 20% of the market value of residence homesteads.

The District grants an exemption to the market value of the residence homestead to persons 65 years of age or older of $10,000. Disabled persons are granted an exemption of $10,000 until age 65, after which time only the over-65 exemption applies.

Disabled veterans are granted an exemption according to their percent (%) of disability.

100 percent and unemployable disabled veterans and surviving spouses homestead properties are fully exempt from ad valorem taxation.

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

The District does not tax non-business personal property, and the County's Tax Assessor-Collector collects the District's taxes.

The District does not permit split payments or discounts.

The District does not participate in a Tax Increment Financing Zone. The District has not entered into any Chapter 313 agreements.

The District has exempted freeport property and, therefore, does not tax freeport property. On December 15, 2011, the District's Board of Trustees adopted a resolution authorizing the continued taxation of goods-in-transit for the 2012 tax year and beyond.

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 "State Legislature") from time to time, (i) met the requirements of article VII, section 1 of the Texas Constitution, which requires the State 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 State 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 State 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 State Legislature could enact future changes to the Finance System. Any such changes could benefit or be a detriment to the District. If the State 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 State Legislature to cure the system's unconstitutionality in a way that is consistent with the Contract Clauses of the U.S. and Texas Constitutions" (collectively, the "Contract Clauses"), which prohibit the enactment of laws that impair prior obligations of contracts.

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

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 (as defined herein) 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 school 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 (96^{th}) 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.

THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

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

For a detailed discussion of State funding for school districts, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - State Funding for School Districts" herein.

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 April 20, 1974, in accordance with the provisions of Chapter 20, Texas Education Code (now codified as Section 45.003, Texas Education Code, as amended).

The 2019 Legislation established the following maximum M&O tax rate per $100 of taxable value that may be adopted by 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 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 school district's MCR. A school district's MCR is, generally, inversely proportional to the change in taxable property values both within the school district and the State, and is subject to recalculation annually. For any year, the highest possible MCR for a school district is $0.93 (see "TAX RATE LIMITATIONS - Public Hearing and Voter-Approval Tax Rate" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Local Funding for School Districts" herein).

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 for Payment").

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 or State assistance (other than EDA or IFA allotment funding) 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.

EMPLOYEE BENEFITS, RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFITS

The District's employees participate in a retirement plan with the State of Texas. The Plan is administered by the Teacher Retirement System of Texas ("TRS"). Aside from the District's contribution to the TRS, the District has no pension fund expenditures or liabilities, except for portions of salaries that exceed salary limits of TRS. The District 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. See "Note 11: Pension Plan" in the audited financial statements of the District for the fiscal year ended June 30, 2018 as set forth in APPENDIX C hereto.

The District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. See "Notes to Basic Financial Statements - Note 12: Retiree Health Plan" in the audited financial statements for the District for the fiscal year ended June 30, 2018 as set forth in APPENDIX C hereto.

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.

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. 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.

As a school district that qualifies as an “issuer” under Chapter 1371, Texas Government Code, as amended, the District may also invest up to 15% of its monthly average fund balance (excluding bond proceeds and debt service funds and reserves) in “AA-” or better rated corporate bonds with a remaining term of three years or less. Not more than 25% of its funds invested in corporate bonds may be invested in any single issuer and its affiliates. Corporate bonds must be sold if downgraded below the required rating or placed on negative credit watch.

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 October 1, 2019, the following percentages of the District's investable funds were invested as indicated below:

Category of Investment	Amount	Percentage	Term of Investment
Investment Pools	$270,043,296	100.00%	Daily liquidity

____
* *Unaudited.*

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

LEGAL MATTERS

Legal Opinions and No-Litigation Certificate

The District will furnish the Underwriters a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel, to the effect that the Bonds are valid and legally binding obligations of the District and, subject to the qualifications set forth herein under “TAX MATTERS,” the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the captions “PLAN OF FINANCING - Refunded Obligations,” “THE BONDS” (exclusive of the subcaptions “Permanent School Fund Guarantee,” “Payment Record,” “Future Issues,” and “Default and Remedies,” as to which no opinion is expressed), “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS,” “CURRENT PUBLIC SCHOOL FINANCE SYSTEM,” “TAX RATE LIMITATIONS” (first paragraph only), “LEGAL MATTERS - Legal Opinions and No-Litigation Certificate” (excluding the last sentence of this paragraph and the information under the subcaption “Litigation” as to which no opinion is expressed), “TAX MATTERS,” "CONTINUING DISCLOSURE" (excluding the information under the subcaption "Compliance with Prior Agreements," as to which no opinion is expressed), “LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS,” and “OTHER PERTINENT INFORMATION - Registration and Qualification of Bonds for Sale” in the Official Statement, and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. Bond Counsel's legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas, whose compensation is contingent on the sale and delivery of the Bonds.

Though it represents the Financial Advisor and the Underwriters from time to time in matters unrelated to the Bonds, Bond Counsel has been engaged by and only represents the District with respect to the issuance of the Bonds. The legal opinion to be delivered concurrently with the delivery of the Bonds expresses the professional judgment of the attorneys rendering the opinion as to the legal issues expressly 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 from the transaction.

Litigation

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

At the time of initial delivery of the Bonds, the District will provide the Underwriters 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.

TAX MATTERS

Opinion

The delivery of the Bonds is subject to the opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, 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 opinion appears in APPENDIX D hereto.

In rendering the foregoing opinion, Bond Counsel will rely upon the Sufficiency Certificate and the representations and certifications of the District made in a certificate of even date with the initial delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance with the provisions of the Order by the District 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 and equipment 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, if required, the calculation and payment to the United States Treasury of any arbitrage “profits” and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

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

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. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

Ancillary Tax Consequences

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

Tax Accounting Treatment of Discount Bonds

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

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

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

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Bonds and with respect to the state and local tax consequences of owning Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on the Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

Tax Accounting Treatment of Premium Bonds

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

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201, as amended), the Bonds (i) are negotiable instruments, (ii) are investment securities to which Chapter 8 of the Texas Uniform Commercial Code applies, and (iii) are legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. The Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256, as amended), the Bonds may have to be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. See "OTHER PERTINENT INFORMATION - Municipal Bond Ratings" 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 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

The District in the Order 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"). This information will be available to the public free of charge from the MSRB via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org, as further described below under "Availability of Information from MSRB".

Annual Reports

The District will file certain updated financial information and operating data with the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement in APPENDIX A, attached hereto, exclusive of the tables reflecting "Direct and Estimated Gross Overlapping Funded Debt Payable from Ad Valorem Taxes," "Estimated Interest & Sinking Fund Management Index 2019/20" and "2020/2021 Pro Forma Interest & Sinking Fund Management Index," respectively, and in APPENDIX C attached hereto. Additionally, the tables which provide neither quantitative financial information nor operating data for the District, including, but not limited to, the "Non-Funded Debt", "Authorized But Unissued General Obligation Bonds", and "Anticipated Issuance Of Additional Bonds" have not been and will not be included in the District's annual filings. The District will update and provide this information to the MSRB within 6 months after the end of each fiscal year ending in or after 2019.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the United States Securities and Exchange Commission (the "SEC") Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial statements by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX C or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

The District's current fiscal year end is June 30. Accordingly, it must provide updated information by the last day of December in each year, unless it changes its fiscal year. If the District changes its fiscal year, it will file notice of such change with the MSRB.

Notice of Certain Events

The District will file with the MSRB notice of any of the following events with respect to the Bonds in a timely manner (not more than 10 business days after 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 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 Paying Agent/Registrar or the change of name of a Paying Agent/Registrar, if material; (15) incurrence of a Financial Obligation of the District, if material, or 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. Neither the

Bonds nor the Order make any provision for debt service reserves, credit enhancement (with the exception of the Texas Permanent School Fund guarantee), or liquidity enhancement. In the Order, the District has adopted policies and procedures to ensure timely compliance of its continuing disclosure undertakings. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The District will provide each notice described in this paragraph to the MSRB.

For these purposes, (a) any event described in clause (12) 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, and (b) the District intends the words used in the immediately preceding clauses (15) and (16) and in the definition of Financial Obligation above to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018.

Availability of Information from MSRB

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

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

Limitations and Amendments

The District has agreed to update information and to provide notices of specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders or beneficial owners 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 (1) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent or (b) any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The District may also repeal or amend these provisions if the SEC amends or repeals the applicable provisions of the Rule or any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but in either case only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of the Rule. If the District amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

Compliance with Prior Agreements

During the last five (5) years, the District has complied in all material respects with all previous continuing disclosure agreements made by it in accordance with the Rule.

EXAMINATIONS OF OUTSTANDING BONDS BY INTERNAL REVENUE SERVICE

On November 28, 2016, the District received notice, dated October 27, 2016, from the Internal Revenue Service that it would be conducting an examination of the District's Unlimited Tax School Building and Refunding Bonds, Series 2007. The District's receipt of this notice, along with a copy thereof, was filed with EMMA on November 29, 2016. The Internal Revenue Service's notice of examination states that the Internal Revenue Service has no reason to believe that the identified District obligations fail to comply with applicable federal tax requirements. This examination is ongoing. To date, the District has submitted, or intends to submit, information to the Internal Revenue Service in compliance with the notice. The District anticipates continuing to fully comply with the requests of the Internal Revenue Service made during the course of this examination.

OTHER PERTINENT INFORMATION

Authenticity of Financial Information

The financial data and other information contained herein have been obtained from the District's records, audited financial statements and other sources, which are believed to be reliable. All of the summaries of the statutes, documents and orders contained in this Official Statement are made subject to all of the provisions of such statutes, documents and orders. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

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 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 act of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

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

Municipal Bond Ratings

Moody's Investors Service, Inc. ("Moody's") has assigned its municipal bond rating of "Aaa" to the Bonds based on the guarantee thereof by the Texas Permanent School Fund. In addition, Moody's has assigned its underlying unenhanced rating of "Aa2" to the District's ad valorem tax-supported indebtedness, including the Bonds.

The rating reflects only the view of such organization at the time such rating was given, and the District makes no representation as to the appropriateness of the rating. 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 the rating company, if, in the judgment of such rating company, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

Financial Advisor

SAMCO Capital Markets, Inc. (the "Financial Advisor") is employed as the Financial Advisor to the District in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. SAMCO Capital Markets, Inc., in its capacity as Financial Advisor, has relied on the opinions of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants, and representations contained in any of the bond documentation with respect to the federal income tax status of the Bonds. In the normal course of business, the Financial Advisor may also 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 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.

Underwriting

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the District at a price equal to the initial offering prices to the public, as shown on page -ii- hereof, less an underwriting discount of $____________, plus accrued interest from their Dated Date to their date of initial delivery. The Underwriters' obligations are subject to certain conditions precedent. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering price, and such public prices may be changed from time to time, by the Underwriters.

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

Certification of the Official Statement

At the time of payment for and delivery of the Initial Bond, the Underwriters 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 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 the Bonds, and on the date of the initial delivery of the Bonds, 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 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 June 30, 2018, the date of the last financial statements of the District appearing in the Official Statement.

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.

Information from External Sources

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

Authorization of the Official 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 has been approved by the Board of the District for distribution in accordance with provisions of the SEC's Rule codified at 17 C.F.R. Section 240.15c2-12, as amended.

The Order approved the form and content of this Official Statement and any addenda, supplement or amendment thereto and authorized its further use in the reoffering of the Bonds by the Underwriters.

JUDSON INDEPENDENT SCHOOL DISTRICT

/s/ ____

President, Board of Trustees

ATTEST:

/s/ ____

Secretary, Board of Trustees

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SCHEDULE I

REFUNDED OBLIGATIONS*

Series	Principal Amount ($)	Maturities	Interest Rates (%)	Redemption Date and Price
Judson Independent School District Unlimited Tax Refunding Bonds, Series 2010	2,095,000	2-1-2021	4.000	02/01/2020 @ 100%
	1,890,000	2-1-2022	4.000	02/01/2020 @ 100%
	1,610,000	2-1-2023	4.000	02/01/2020 @ 100%
	1,375,000	2-1-2024	4.000	02/01/2020 @ 100%
	1,150,000	2-1-2025	4.000	02/01/2020 @ 100%
	1,265,000	2-1-2026	4.000	02/01/2020 @ 100%
	1,390,000	2-1-2027	4.000	02/01/2020 @ 100%
Judson Independent School District Unlimited Tax Refunding Bonds, Series 2012	145,000	2-1-2021(1)	3.000	02/01/2020 @ 100%
	150,000	2-1-2022(2)	3.000	02/01/2020 @ 100%
	155,000	2-1-2023(2)	3.000	02/01/2020 @ 100%
	160,000	2-1-2024(3)	3.000	02/01/2020 @ 100%
	165,000	2-1-2025(3)	3.000	02/01/2020 @ 100%
	170,000	2-1-2026(4)	3.500	02/01/2020 @ 100%
	180,000	2-1-2027(4)	3.500	02/01/2020 @ 100%
	1,995,000	2-1-2028	3.000	02/01/2020 @ 100%
	150,000	2-1-2029	3.000	02/01/2020 @ 100%

* *Preliminary, subject to change.*
(1) *Term Bond maturing on February 1, 2021.*
(2) *Term Bond maturing on February 1, 2023.*
(3) *Term Bond maturing on February 1, 2025.*
(4) *Term Bond maturing on February 1, 2027.*

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APPENDIX A

Selected Financial Information of the District

VALUATION AND DEBT DATA

Valuation Information

Total 2019 Appraised Valuation of District	$12,032,285,371
Less: Exemptions/Exclusions	1,768,687,092
Total 2019 Taxable Assessed Valuation	$10,263,598,279

Source: Bexar Appraisal District

* *Includes valuations against which freeze of tax levy was granted for disabled persons and persons 65 years or older in 2015.*

Direct Debt Information

Total Indebtedness Payable from Ad Valorem Taxes: (at 11-1-2019)	
Limited Tax	$ 3,695,000 (1)
Unlimited Tax	606,489,223 (2)
Total All Bonded Indebtedness Payable from Taxes	610,184,223 (2)
Less: Interest & Sinking Fund Consolidated Cash Balance (unaudited at 11-01-2019)	13,274,500
NET BONDED INDEBTEDNESS PAYABLE FROM AD VALOREM TAXES	$596,909,723 (2)

(1) *Payable from District's maintenance and operations taxing authority.*

(2) *Preliminary, subject to change. Includes the Bonds; excludes the Refunded Obligations.*

Direct Debt Ratios

Ratio of Total Bonded Debt ($610,184,223*) to 2019 Taxable Assessed Valuation ($10,263,598,279)	5.95%
Ratio of Total Bonded Debt ($610,184,223*) to 2019 Total Appraised Valuation ($12,032,285,371)	5.07%
Ratio of Net Bonded Debt ($596,909,723*) to 2019 Taxable Assessed Valuation ($10,263,598,279)	5.82%
Ratio of Net Bonded Debt ($596,909,723*) to 2019 Total Appraised Valuation ($12,032,285,371)	4.96%

* *Preliminary, subject to change. Includes the Bonds and excludes the Refunded Obligations.*

Authorized But Unissued General Obligation Bonds

The District currently has no voter authorized but unissued unlimited ad valorem tax-supported bonds. The District may incur other financial obligations payable from its collection of taxes and other sources of revenue, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes.

Non-Funded Debt

There are no significant commitments under operating (noncapitalized) lease agreements for facilities and equipment. Rental expense for the fiscal year ended June 30, 2018 was $774,629.

Source: District's 2018 Annual Financial Report.

Population and Per Capita Indebtedness

2018 District Population Estimate	132,114
2019 Per Capita Taxable Assessed Valuation ($10,263,598,279)	$77,687.44
Per Capita Direct Bonded Debt ($610,184,223*)	$ 4,618.62

* *Preliminary, subject to change. Includes the Bonds and excludes the Refunded Obligations.*

Enrollment and Average Daily Attendance Data

2019/2020 Enrollment (at 11-1-2019)	23,783
2019/2020 Estimated Average Daily Attendance (at 11-1-2019)	21,800
2019 Taxable Assessed Valuation ($10,263,598,279) Per Enrollment	$431,551.88

Area, Valuation and Bonded Debt Data

Area of District in Square Miles	55.87
Area of District in Acres	35,758
Total Direct Bonded Debt ($610,184,223*) Per Acre	$17,064.27
2018 Taxable Assessed Valuation ($10,263,598,279) Per Acre	$287,029.43

* *Preliminary, subject to change. Includes the Bonds and excludes the Refunded Obligations.*

Outstanding Debt By Issues

	Original Amount	Amount Outstanding at 11-2019[(1)]
Limited Tax:		
Maintenance Tax Notes, Series 2016	$ 1,700,000	$ 695,000
Maintenance Tax Notes, Series 2019	3,000,000	3,000,000
Unlimited Tax:		
School Building and Refunding Bonds, Series 2007	240,779,223	5,689,223
Refunding Bonds, Series 2010	24,404,982	2,300,000 [(2)(3)]
Refunding Bonds, Series 2012	9,370,000	140,000 [(2)(3)]
Refunding Bonds, Series 2013	17,700,000	16,415,000
Refunding Bonds, Series 2013A	11,760,000	9,750,000
School Building Bonds, Series 2013	78,245,000	75,930,000
Refunding Bonds, Series 2014	5,595,000	3,100,000
Refunding Bonds, Series 2015	61,270,000	58,890,000
School Building and Refunding Bonds, Series 2016	310,915,000	303,370,000
Refunding Bonds, Series 2016A	63,985,000	58,530,000
School Building Bonds, Series 2016B	4,945,000	4,795,000
School Building Bonds, Series 2017	55,730,000	55,530,000
Refunding Bonds, Series 2019 (the “Bonds”)	12,050,000	12,050,000 [(3)]

Total Debt	610,184,223 [(2)(3)]
Less State Assistance from EDA and IFA (6.54% estimated)[(4)]	(39,664,395)
Total Debt Net of State Assistance	$570,519,828 [(2)(3)]

(1) *Unaudited.*
(2) *Excludes the Refunded Obligations.*
(3) *Preliminary, subject to change.*
(4) *This amount represents the amount of State assistance expected to be received by the District as a percentage of the total annual debt service requirement.*

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Consolidated Schedule of Bonded Issue Principal Requirements
(Year Ending August 31 In Each Of The Years 2020 - 2046 Inclusive)*

2020	$ 13,030,000	
2021	14,215,000	
2022	15,915,000	
2023	16,610,000	
2024	17,375,000	12.72%
2025	18,180,000	
2026	8,775,048	
2027	8,889,175	
2028	19,590,000	
2029	21,255,000	25.36%
2030	22,200,000	
2031	23,025,000	
2032	23,910,000	
2033	24,890,000	
2034	25,955,000	45.15%
2035	27,045,000	
2036	27,555,000	
2037	27,995,000	
2038	28,770,000	
2039	29,790,000	68.42%
2040	31,025,000	
2041	30,915,000	
2042	30,465,000	
2043	31,385,000	
2044	31,305,000	93.99%
2045	27,175,000	
2046	9,250,000	100.00%
	$606,489,223	

____

* *Preliminary, subject to change. Includes the Bonds, excludes the Refunded Obligations, and excludes the maintenance tax debt.*

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Direct and Estimated Gross Overlapping Funded Debt Payable from Ad Valorem Taxes

Expenditures of the various taxing bodies overlapping the territory of the District are paid out of ad valorem taxes levied by these taxing bodies on properties overlapping the District. These political taxing bodies are independent of the District and may incur borrowings to finance their expenditures. The following statements of direct and estimated overlapping ad valorem tax bonds were developed from information contained in the "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed below may have authorized or issued additional bonds since the date stated below, and such entities may have programs requiring the authorization and/or issuance of substantial amounts of additional bonds, the amount of which cannot be determined. The following table reflects the estimated share of direct and overlapping extended debt of these various taxing bodies:

Political Subdivision	Gross Debt Amount	Gross Debt As Of	Percent Overlapping	Amount Overlapping
Alamo Community College District	$ 437,330,000	9-01-2019	6.30%	$ 27,551,790
Bexar County	1,846,190,000	9-01-2019	6.30%	116,309,970
Bexar County Hospital District	856,240,000	9-01-2019	6.30%	53,943,120
Cibolo Creek Municipal Authority	-0- **	9-01-2019	**	-0- **
Cibolo Canyons Special Improvement District	36,415,000	9-01-2019	67.35%	24,525,503
Converse, City of	23,605,000	9-01-2019	93.19%	21,997,500
Kirby, City of	6,715,000	9-01-2019	100.00%	6,715,000
Live Oak, City of	14,925,000	9-01-2019	70.38%	10,504,215
San Antonio River Authority	17,020,000	9-01-2019	5.88%	1,000,776
San Antonio, City of	2,041,830,000	9-01-2019	2.34%	47,778,822
Selma, City of	22,615,000	9-01-2019	60.33%	13,643,630
Universal City, City of	24,939,000	9-01-2019	81.61%	20,352,718
Estimated Overlapping Funded Debt				344,323,042
Judson ISD	610,184,223 *	11-01-2019	100.00%	610,184,223 *
Total Direct and Estimated Overlapping Funded Debt				$954,507,265
Ratio to 2019 Taxable Assessed Valuation ($10,263,598,279)				9.30%
Ratio to 2019 Taxable Assessed Value Net of State Assistance				8.91%
Per Capita (132,114) Direct and Estimated Overlapping Debt				$7,224.88

* *Includes the Bonds and excludes the Refunded Obligations.*

(1) *Cibolo Creek Municipal Authority does not levy an ad valorem tax; therefore, the percentage overlapping cannot be computed as general obligation debt.*

TAXATION DATA

Historical Valuations, Tax Rates, and Collection Data

Tax Year	Assessed Valuation*	Tax Rate	% Collections Current	% Collections Total	Year Ending
2008	$5,406,886,452	1.465	97.49%	100.51%	6-30-09
2009	5,915,790,255	1.465	97.55%	100.05%	6-30-10
2010	5,949,171,839	1.463	98.12%	99.88%	6-30-11
2011	5,874,251,128	1.430	98.25%	99.48%	6-30-12
2012	6,021,977,133	1.425	98.51%	100.47%	6-30-13
2013	6,156,414,807	1.425	98.42%	98.58%	6-30-14
2014	6,398,463,860	1.425	98.51%	100.69%	6-30-15
2015	6,833,285,053	1.420	98.44%	100.44%	6-30-16
2016	7,496,258,662	1.470	98.64%	100.14%	6-30-17
2017	8,192,510,476	1.425	98.18%	99.43%	6-30-18
2018	8,929,763,228	1.440	n/a%	n/a%	6-30-19
2019	9,437,048,461	1.358	(In process of collection)		6-30-20

* *2008 through 2018 taken from the District's 2018 Annual Financial Report; 2019 taken from Bexar Appraisal District information.*

Tax Rate Distribution

Tax Year	2019	2018	2017	2016	2015
Local Maintenance	$0.970 [(1)]	$1.040	$1.040	$1.040	$1.040
Interest & Sinking Fund	0.388	0.400	0.385	0.430	0.380
Total	$1.358	$1.440	$1.425	$1.470	$1.420

Source: The District

[(1)] *The decline in the District's Maintenance and Operations Tax from 2018/19 fiscal year to the 2019/2020 fiscal year is a function of House Bill 3 adopted by the Texas Legislature in June 2019. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Funding for School Districts."*

2019 Tax Exemptions/Deductions Allowed

The District has granted exemptions to property owners and for persons over 65 years of age and has granted those exemptions under the law for disabled property owners and veterans, and agricultural exclusions as provided. The exemptions in each of the categories listed are shown below:

State-mandated $25,000 General Homestead	$ 623,092,948
$10,000 Over-65 Homestead Exemptions and Disabled Homestead Exemptions	80,687,361
100% Disabled or Unemployable Veterans Homestead Exemptions	384,472,264
Veterans Exemptions	43,736,310
Freeport Exemptions	66,516,936
Pollution Control Exemptions Loss	2,100,593
Productivity Loss	108,859,300
10% Per Year Cap on Residential Homestead	95,054,848
Other	7,308,981
Freeze Value Loss	356,857,551
Total Exemptions and Exclusions	$1,768,687,092

Source: Bexar Appraisal District.

Schedule of Delinquent Taxes Receivable Fiscal Year Ended June 30, 2018

Last Ten Years	Ending Balance
2009 and prior years	$ 523,655
2010	138,093
2011	105,436
2012	123,424
2013	116,834
2014	143,803
2015	189,299
2016	222,433
2017	386,782
2018	2,279,201
Total	$4,228,960

Source: District's 2018 Annual Report

Ten Largest Taxpayers

Name	Type of Property	2019 Net Taxable Assessed Valuation	% of Total 2019 Assessed Valuation
HEB Grocery Company LP	Retail Grocery Store	$ 545,856,297	5.32%
SA Real Estate LLP	Commercial Real Estate	290,420,670	2.83%
Wal-Mart Stores Inc. #2404	Retail	99,017,160	0.96%
SA Development Company LP	Commercial Real Estate	90,746,160	0.88%
Randolph Brooks Federal	Financial/Banking	80,144,550	0.78%
United Parcel Service	Shipping/Freight	74,900,690	0.73%
Pure TTPC Apts LLC	Apartments	66,000,000	0.64%
Labatt Institutional Supply	Wholesale Food Distributors	55,669,290	0.54%
GPIF Mira Loma LLC	Real Estate	51,700,000	0.50%
IKEA Property Inc.	Retail	50,097,230	0.49%
Total		$1,404,552,047	13.68%*

Source: Bexar Appraisal District information.

* *As shown in the table above, the top ten taxpayers in the District account for nearly 15% of the District's tax base. Adverse developments in economic conditions, especially in a particular industry in which any one of these large taxpayers participates, 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 "THE BONDS - Default and Remedies" and "AD VALOREM TAX PROCEDURES - The District's Rights in the Event of Tax Delinquencies" in this Official Statement.*

Taxpayers by Classification

Classification	2019 Assessed Valuation	Percent Of Total	2018 Assessed Valuation	Percent Of Total	2017 Assessed Valuation	Percent Of Total
Real Estate:						
Single Family Residential	$ 6,825,088,850	56.72%	$ 6,154,414,449	55.77%	$ 5,700,328,357	54.66%
Multi-Family Residential	796,986,480	6.62%	730,235,423	6.62%	680,725,918	6.53%
Vacant - Platted Lots/Tracts	145,531,317	1.21%	134,889,215	1.22%	144,887,351	1.40%
Acreage (Land Only)	109,738,660	0.91%	112,139,130	1.02%	254,768,448	2.44%
Farm & Ranch Improvements	165,947,539	1.38%	157,553,327	1.43%	496,419	0.00%
Commercial	2,328,850,120	19.36%	2,198,784,064	19.93%	2,118,792,437	20.32%
Industrial	115,471,926	0.96%	112,825,183	1.02%	118,702,086	1.14%
Personal:						
Utilities	49,507,838	0.41%	49,858,418	0.45%	46,650,967	0.45%
Business	1,311,220,406	10.90%	1,221,845,966	11.07%	1,194,491,636	11.46%
Mobile Homes	44,975,561	0.37%	45,216,483	0.41%	44,540,700	0.43%
Residential Inventory	105,242,454	0.87%	79,980,747	0.72%	94,504,363	0.90%
Special Inventory	33,724,220	0.28%	37,272,490	0.34%	28,371,450	0.27%
Total Valuation	$12,032,285,371	100.00%	$11,035,014,895	100.00%	$10,427,260.132	100.00%
Less Exemptions & Exclusions	1,768,687,092		1,597,966,434		1,463,565,252	
Net Taxable Assessed Valuation	$10,263,598,279		$ 9,437,048,461		$ 8,963,694,880	

Source: Bexar Appraisal District.

ESTIMATED INTEREST & SINKING FUND MANAGEMENT INDEX 2019/20

Interest & Sinking Fund Balance at 8-31-2019	$25,123,941
Estimated Income from $0.388 I&S Tax Rate @ 95% Collected Using 2019 Taxable Assessed Valuation of $10,263,598,279	37,909,627
Estimated Other Income	1,500,000
Estimated Total Funds Available	64,533,568
2019/20 Debt Service Requirement	38,124,568
Estimated Interest & Sinking Fund Balance at 8-31-2020	$26,409,000

CONSOLIDATED DEBT SERVICE REQUIREMENTS INCLUDING THE BONDS AT ASSUMED RATES*

FISCAL YEAR Aug 31	CURRENTLY OUTSTANDING DEBT SERVICE[(1)]	LESS REFUNDED DEBT SERVICE	PLUS: THE BONDS PRINCIPAL DUE 2/1	INTEREST DUE 8/1	INTEREST DUE 2/1	TOTAL	GRAND TOTAL ALL DEBT SERVICE
2020	$ 38,328,512.50	$ 265,425.00			$ 61,588.89	$ 61,588.89	$ 38,124,676.39
2021	38,571,062.50	2,770,850.00	$ 2,695,000.00	$241,000.00	241,000.00	3,177,000.00	38,977,212.50
2022	38,828,412.50	2,482,700.00	3,310,000.00	187,100.00	187,100.00	3,684,200.00	40,029,912.50
2023	40,186,362.50	2,127,600.00	1,715,000.00	120,900.00	120,900.00	1,956,800.00	40,015,562.50
2024	40,353,662.50	1,828,550.00	1,325,000.00	86,600.00	86,600.00	1,498,200.00	40,023,312.50
2025	40,515,162.50	1,548,750.00	945,000.00	60,100.00	60,100.00	1,065,200.00	40,031,612.50
2026	41,013,812.50	1,617,800.00	555,000.00	41,200.00	41,200.00	637,400.00	40,033,412.50
2027	41,117,262.50	1,696,250.00	545,000.00	30,100.00	30,100.00	605,200.00	40,026,212.50
2028	41,085,250.00	2,059,350.00	960,000.00	19,200.00	19,200.00	998,400.00	40,024,300.00
2029	41,121,575.00	154,500.00					40,967,075.00
2030	41,104,350.00						41,104,350.00
2031	41,124,087.50						41,124,087.50
2032	41,164,362.50						41,164,362.50
2033	41,218,662.50						41,218,662.50
2034	41,250,912.50						41,250,912.50
2035	41,197,762.50						41,197,762.50
2036	40,610,200.00						40,610,200.00
2037	39,686,300.00						39,686,300.00
2038	39,076,700.00						39,076,700.00
2039	38,797,800.00						38,797,800.00
2040	38,685,800.00						38,685,800.00
2041	37,334,800.00						37,334,800.00
2042	35,648,200.00						35,648,200.00
2043	35,349,600.00						35,349,600.00
2044	34,014,200.00						34,014,200.00
2045	28,632,000.00						28,632,000.00
2046	9,620,000.00						9,620,000.00
	$1,025,636,812.50	$16,551,775.00	$12,050,000.00	$786,200.00	$847,788.89	$13,683,988.89	$1,022,769,026.39

* *Preliminary, subject to change.*

2020/2021 PRO FORMA INTEREST & SINKING FUND MANAGEMENT INDEX

Estimated Interest & Sinking Fund Balance at 8-31-2020	$26,409,000
Estimated Income from $0.388 I&S Tax Rate @ 95% Collected Using 2020 Estimated Taxable Assessed Valuation of $10,571,506,227	39,046,915
Estimated Other Income	500,000
Total Estimated Funds Available	65,955,915
2020/21 Debt Service Requirement	38,977,213
Estimated Interest & Sinking Fund Balance at 8-31-2021	$26,978,702

FIVE-YEAR RECORD OF FINANCIAL OPERATIONS

The following summary of the District's results of operation reflects the District's historical performance under prior systems of school finance in Texas. For a description of the prior systems, the revised current system, and how the District's future financial performance may be affected by the revised system and ongoing litigation see "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement.

	Year Ended 6/30				
REVENUE	**2018**	**2017**	**2016**	**2015**	**2014**
Local and Intermediate Sources [1]	$135,167,074	$126,211,047	$112,243,191	$103,404,008	$ 95,051,917
State Program Revenues	97,550,896	98,272,981	114,552,708	110,956,312	103,449,798
Federal Program Revenues	24,682,933	24,003,508	23,281,141	24,472,067	24,723,084
Total all Revenue	257,400,903	248,487,536	250,077,040	238,832,387	223,224,799
EXPENDITURES					
Instruction & Instruction Related	132,843,060	129,031,881	130,435,720	122,965,801	108,673,498
Instructional and School Leadership	14,675,439	14,419,821	13,665,958	13,894,243	19,955,373
Support Services - Student (Pupil)	37,159,797	36,478,542	33,468,030	32,728,623	28,895,024
Administrative Support Services	5,241,988	4,742,455	4,663,316	4,701,693	3,701,886
Support Services - Non-student Based	28,437,851	27,460,885	25,187,213	24,454,843	22,793,239
Ancillary Services	1,319,908	1,199,106	1,149,011	1,227,733	1,224,234
Debt Service	36,130,651	34,390,214	32,943,855	32,139,316	31,093,957
Capital Outlay	71,121,094	7,663,484	20,687,383	41,688,009	29,368,960
Intergovernmental Charges	949,347	784,122	742,373	733,049	658,195
Total all Expenditures	327,879,135	256,170,510	262,942,859	274,533,310	246,364,366
Total Other Resources and (Uses)	90,311,116	213,604,731 [3]	346,475	72,143	89,608,245 [2]
Excess (Deficiency) of Revenues and Other Resources Over Expenditures and Other Uses	19,832,884	205,921,757	(12,519,344)	(35,628,780)	66,468,678
Fund Balance Beginning of Year	291,821,270	86,056,915	98,576,259	134,205,040	67,736,367
Increase (Decrease) in Fund Balance	---	(157,402)	---	---	---
Fund Balance End of Year	$311,654,154	$291,821,270	$ 86,056,915	$ 98,576,260	$134,205,040
Fund Balance - General Fund Only [4]	$ 76,191,002	$ 59,097,991	$ 58,462,089	$ 51,968,373	$ 52,476,838

	Year Ended 6/30				
	2018	**2017**	**2016**	**2015**	**2014**
Assessed Valuation	$9,163,460,173	$8,192,510,476	$7,496,258,662	$6,833,285,053	$6,398,463,860
Total Tax Rate	$1.425	$1.470	$1.420	$1.425	$1.425
Percent of Debt Service to Total Expenditures	11.02%	13.42%	12.53%	11.71%	12.62%

Source: The District's audited financial statements.

[1] *Ad valorem taxes and other local services.*

[2] *During the fiscal year ended June 30, 2014, the District issued new money bonds and received proceeds of $83,000,000 into their project fund.*

[3] *During the fiscal year ended June 30, 2017, the District issued new money bonds and received proceeds of $208,980,000 into their project fund.*

[4] *The unaudited General Fund balance as of June 30, 2019 is expected to be $81,490,000.*

APPENDIX B

General Information Regarding the District
And Its Economy

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THE DISTRICT

This Appendix contains a brief discussion of certain economic and demographic characteristics of the District. It does not constitute a part of this Official Statement. Information in this Appendix has been obtained from the sources noted. They are believed to be reliable, although no investigation has been made to verify the accuracy of such information. Much of the information was obtained from Judson Independent School District, Texas Almanac, Judson Independent School District's Texas Municipal Report, and Texas Workforce Commission, Labor Market Information Department.

Location and Economy

The District is located in south central Texas immediately northeast of San Antonio, Texas and contains 56.69 square miles. Created in 1958 pursuant to an election for the consolidation of the Kirby, Converse and Selma Common School Districts, the District is located entirely within Bexar County in the east and northeast portion.

Incorporated cities within the District include all of Kirby and Converse, and portions of Live Oak, Selma, Universal City and San Antonio, but such cities are not obligated for any payments on the Bonds. A brief description of each follows.

Kirby

Incorporated in 1955 - 2018 population estimate - 8,747. Kirby is a home rule city (council-manager) whose governing body consists of a mayor, a six-member council, a city secretary and a city manager. This progressive, growing residential city has one bank and numerous retail trade establishments. Residents are engaged in business occupations or are employed in San Antonio commerce or at nearby military bases in civil service.

The City owns its waterworks and sewer collection systems. Outstanding indebtedness consists of $6,715,000 general obligation debt.

Located east of San Antonio, the City is served by State Highway 78, IH 35 and IH 10, and paved streets throughout.

Judson Independent School District facilities located in Kirby include Kirby Middle School and Joseph H. Hopkins Elementary School.

Converse

Incorporated in 1961 - 2018 population estimate - 27,742. Converse is a home rule city (council-manager) whose governing body consists of a mayor, six councilmembers and a city manager. This progressive, growing residential city has one bank and numerous retail establishments. The City annexed several commercial properties including the Converse Business Park. In addition, there are two new residential developments, Miramar and Hanover Cove, being developed on Loop 1604.

Located northeast of San Antonio, Converse is served by State Highway 78, with connecting roads to nearby IH 35 and Farm Road 1604, an outer loop in Bexar County. Downtown San Antonio is only minutes away by route of Highway 78, IH 10, or IH 35. Employment is by San Antonio commerce, business or Randolph Air Force Base.

Converse owns its waterworks and sewer distribution systems, with general obligation debt outstanding in the amount of $23,605,000.

Judson Independent School District facilities located in Converse include Judson High School, Judson Middle School, JSTEM, Judson Performing Arts Center, Converse Elementary School, Copperfield Elementary School, Thompson Learning Center, and the Judson Secondary Alternative School. Also located in Converse is St. Monica's Catholic School, teaching grades pre-school through 6th.

Selma

Incorporated in 1964; 2018 population estimate - 11,075. Selma is a general law city whose governing body consists of a mayor, five aldermen and a city clerk/manager. The city has general obligation debt outstanding in the amount of $22,165,000.

Selma is located north of San Antonio on IH 35. Businesses in the city include: Spaw Glass Contracting, building contractor; Gillman Honda, an automobile dealership; Fischer Nuts' Company, a nut processing plant; Retama Park racetrack, live horse racing; and the Forum Shopping Center, which includes Old Navy, Toys R Us, TJ Maxx, Pier One Imports, Hobby Lobby, Beal's, Academy, Costco, Furniture Row and Rush Business Center. New residential developments include Retama Ridge and Retama Spring.

Educational facilities located in Selma include Our Lady of Perpetual Help Parochial School, teaching grades Pre-School through 8th, which opened in 1901.

Universal City

Incorporated in 1960 - 2018 estimated population - 20,773. Because of its location adjacent to the Main Gate to Randolph Air Force Base, Universal City has achieved a more developed stage than other areas of the District. An estimated 50% of the City lies in the Judson Independent School District with the remainder lying in an adjoining school district.

State Highway 78, Farm Road 1604 and IH 35 serve the needs of the City. The City is located between Converse, Selma and Live Oak.

One telemarketing company is the largest employer, employing 1,200. The Olympia Hills Golf & Conference Center, consisting of an 18-hole municipal golf course and club house, was recently named one of the top affordable courses in America and number one in Texas by *Golf Digest.*

Universal City owns its waterworks but sewer distribution is under contract, with an estimated 6,086 and 5,875 connections respectively at fiscal year end 2018. The City has outstanding general obligation indebtedness in the amount of $24,939,000.

The City has outstanding general obligation indebtedness in the amount of $24,939,000.

Judson Independent School District facilities located in Universal City include Kitty Hawk Middle School, Coronado Village Elementary School, Salinas Elementary, and Olympia Elementary School.

Live Oak

Incorporated in 1960 - 2018 population - 15,908. Live Oak is a home rule city, the governing body consisting of a mayor, five councilmembers and a city manager.

Establishments include: a Federal Credit Union headquarters office; two automobile dealerships; one hospital; one-half of The Forum Shopping Center, including Target, Best Buy, Home Depot, Kohl’s and an 18-screen movie theater.

The Texas Municipal Report on the city reports the outstanding general obligation indebtedness of the city at $14,925,000.

Judson Independent School District facilities located in Live Oak include Ed Franz Elementary School, Crestview Elementary School and the Judson Administrative Offices.

San Antonio

A major metropolitan city of the United States, 2019 estimated population 1,507,192, San Antonio operates as a Council-Manager form of government. The city is divided into 10 council districts designed to ensure equal population distribution between all districts. Each district elects one person to sit on the City Council with the mayor elected on a city-wide basis. The council hires the City Manager to handle day to day operations.

San Antonio is located west of the Judson Independent School District. San Antonio extends into the Judson District in several areas. Business, industry and commerce of San Antonio provide most of the jobs for the residents within the District. Located in the "Sunbelt," San Antonio is experiencing considerable growth. The economy of San Antonio has been stable in the past due to the military influence. Military bases and installations located in the San Antonio area include Fort Sam Houston Army Base and Brooke Army Medical Center, Randolph Air Force Base, Army South Command, and Brooks City Base. The former Kelly Air Force Base has been converted to the Kelly USA Business Park operated by the Greater Kelly Development Authority.

Because of the military installations, many retired military personnel make their homes in San Antonio due to the availability of commissary and medical facilities.

San Antonio has a complete and modern expressway system with easy access to the major interstate highways. The San Antonio International Airport has flights originating to and from Mexico and other Central and South American countries. San Antonio is a financial center for South Texas and Northern Mexico, serving an economy that includes agriculture, both farming and ranching, and the oil and gas industry.

Tourism is a vital part of the San Antonio economy. Sea World of Texas and Fiesta Texas Theme Park continue to be leading tourist attractions in Texas. The Alamodome, a dome stadium with a seating capacity of 65,000, is available for a variety of events. The five-time world-champion San Antonio Spurs NBA basketball team has a new home in the new A&&T Center. The AT&T Center has a seating capacity of 18,232 and is also the home of the San Antonio Livestock Show and Rodeo, as well as many other events.

Judson Independent School District facilities in San Antonio include Park Village Elementary School, Woodlake Hills Middle School, William Paschall Elementary School, Mary Lou Hartman Elementary School, and the Judson Learning Academy, located within Rolling Oak Mall.

Unincorporated Areas

There are numerous developments throughout the District which are not located in an incorporated city. Major residential developments include Woodlake, Fields of Dover and Highland Farms, located on State Highway FM 78 between Kirby and Converse. In addition, numerous developments along Binz-Englemann Road include Escondido Creek and Valley View, as well as Windfield and Miller Ranch along Foster Road. The new JW Marriott Resort along with the two Tournament Players Golf Courses ("TPC") are located in Judson ISD as well as Cibolo Canyons, which surrounds the TPC. The JW Marriott Resort jumped to a top ten taxpayer in its first year on the tax rolls.

Judson Independent School District facilities located in unincorporated areas include Candlewood Elementary, Galen R. Elolf Elementary, Masters Elementary, Miller's Point Elementary, Spring Meadows Elementary, Woodlake Elementary, Metzger Middle School, and Wagner High School.

Largest Employers in the District - 2018

Organization	Nature of Business	Number of Employees
H. E. Butt Grocery Company	Food Manufacturing	10,006
Judson Independent School District	Public Education	3,031
Alorica Telemarketing	Telemarketing	1,200+
United Parcel Service	Consolidated Mail Service	1,200
JW Marriott San Antonio	Hotel	903
Wal-Mart Discount City (3)	Retail Store	700
DPT Laboratories Ltd-Mylan	Contract Pharmaceutical	825
Labatt Institutional Supply	Food Products Distribution	551
Randolph Brooks Federal Credit Union	Financial	500
Flowers Bakery	Bakery	250
		(Contracted) 250
Frito-Lay, Inc.	Food Manufacturing	388
Ben E. Keith	Wholesale Food Distributor	350
Halmark	Computer Sales IBM	300
Sears Roebuck & Company	Retail Store	300
Big Red Bottling Company	Bottling Plant	295
Pepsi-Cola Bottling Group	Bottling Plant	253
Jordan Ford	Automobile Dealer	219
KLN Steel	Steel Institutional Furniture	99

Commercial and Industrial

Located in the District on major highway interchanges including IH 35, Farm Road 1604, Loop 410 and State Highway 78 are eight of the top ten taxpayers. Among the firms located in this area are: H.E. Butt Grocery Company, a chain grocery firm with offices, warehouses, cold storage, bakery and dock facilities having combined space in excess of 1,991,300 square feet; Wal-Mart Stores, Inc. two stores located on Loop 1604 and FM 78; Ben E. Keith & Company, a food service distributor; Frito-Lay, Inc., a division of Pepsico, in operation in a plant containing approximately 104,200 square feet; and Sysco Corporation, hotel and restaurant food suppliers on a 24-acre site containing 155,700 square feet of floor space. Kimco Forum @ Olympia LP is the largest retail mega-center in Texas. Tenants include Target, Home Depot, Best Buy, PetsMart, Bealls, Haverty's, Compass Bank, Linens 'N Things, Old Navy, Office Max, Ross Dress For Less, Pier One, Barnes and Noble, Outback Steakhouse, IHOP, Macaroni Grill, TGI Fridays, Kohl's and Hobby Lobby.

Other commercial and industrial firms include the Flowers Bakery, a bakery; Texaco Inc., land storage facilities; Featherlite Corporation, a brick and cinderblock manufacturing plant; Burke Custom Forms Group, a steel products company; two bottling plants; three automobile dealerships; and numerous motels and retail trade establishments. Also in the District is the recent Cibolo Canyons development. This includes an 1,002 room JW Marriott Resort with its two TPC golf courses. The Valero Texas Open Golf Tournament is played on the AT&T Oaks TPC course here. The AT&T Canyons Course is the site of the San Antonio Championship.

A major highway interchange has been completed at the intersection of IH 35 and Farm Road 1604 in the District near Universal City, Live Oak and Selma. A shopping mall having combined space in excess of 1,000,000 square feet is also located in the District at the intersection of Farm Road 1604 and Nacogdoches Road.

Eagle Ford Shale… A major contributor to the area's more recent economic success has been the Eagle Ford Shale boom. The oil and gas fields have attracted strategic players from the industry including Baker Hughes, Weatherford, and Halliburton. These companies have established large work sites in southeast Bexar County. During March of 2013, a report from the University of Texas at San Antonio estimates 20,000 jobs have been created as a result of the oil and natural gas exploration. An additional report from the UTSA Institute for Economic Development established the $28 billion invested during 2012 places the Eagle Ford Shale as the most invested oilfield in the world.

Higher Education Facilities

In addition to public schools afforded within the District, higher educational facilities are available in San Antonio. These include the University of Texas at San Antonio, University of Texas Health Science Center, St. Mary's University, Trinity University, University of the Incarnate Word, Our Lady of the Lake University, Texas A & M University, San Antonio, Wayland Baptist University, Alamo Community College District, and the nearby facilities of Texas State University - San Marcos and Texas Lutheran University in Seguin. Northeast Lakeview College, a part of Alamo Community College District, opened its campus off Kitty Hawk Road and Loop 1604 in the Fall of 2008.

Community Services

Hotel and motel facilities are located within the District and in adjacent San Antonio. Bexar County Hospital District and private hospitals provide the finest medical facilities in the Southwest. A San Antonio daily newspaper is available, as are radio and television stations and San Antonio and Bexar County library facilities. The recreational facilities of San Antonio and Bexar County are available to residents of the District. These include the public swimming pools, parks, golf courses, the famous Brackenridge Park and Zoo, the Convention Center, the Alamodome, and the SeaWorld and Fiesta Texas amusement parks.

EDUCATION SYSTEM

Administration

Policy making and supervisory functions are the responsibility of and are vested in a seven-member Board of Trustees (the "Board"). Members of the Board serve three-year staggered terms with elections being held each year on the first Saturday in May. The Board delegates administrative responsibilities to the Superintendent of Schools.

Accreditation

The District is fully accredited by the Texas Education Agency.

Budget and Personnel

The maintenance and operating and debt service budget for the 2019-20 school year is $204,800,000. The District employs approximately 3,100 people, including professional and other, and will have a payroll of $150,000,000.

Average Daily Attendance and Percentage Increase

School Year	Refined Average Daily Attendance	% ADA Change
2008-09	19,877	2.41%
2009-10	20,252	1.89%
2010-11	20,566	1.55%
2011-12	20,782	1.05%
2012-13	20,988	0.99%
2013-14	21,390	1.92%
2014-15	21,716	1.52%
2015-16	21,521	-0.01%
2016-17	21,315	-0.09%
2017-18	21,390	0.03%
2018-19*	21,251	-0.06%

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* As of October 2019

Present Facilities

School Facility	Year Occupied	Grade Span	Enrollment at 10-01-19
Elementary Schools:			
Candlewood Elementary	1989-90	Age 3 - Grade 5	653
Converse Elementary	1955-56	Age 3 - Grade 5	546
Copperfield Elementary	2014-15	PreK-Grade 5	780
Coronado Village Elementary	1972-73	Age 3 - Grade 5	375
Crestview Elementary	1975-76	Pre K -Grade 5	604
Galen R. Elolf Elementary	1994-95	Pre K - Grade 5	520
Hopkins Elementary	1970-71	Pre K -Grade 5	774
Franz Elementary	1968-69	Age 3 - Grade 5	352
Masters Elementary	2009-10	Age 3 - Grade 5	461
Miller's Point Elementary	1987-88	Pre K - Grade 5	571
Olympia Elementary	1980-81	Age 3 - Grade 5	432
Park Village Elementary	1972*-00**	Age 3 - Grade 5	460
Spring Meadows Elementary	1986-87	Age 3 - Grade 5	650
Woodlake Elementary	1979-80	K - Grade 5	597
William J. Paschall Elementary	2001-02	Pre K - Grade 5	626
Mary Lou Hartman	2003-04	Age 3 - Grade 5	815
Ricardo Salinas Elementary	2006-07	Pre K - Grade 5	696
Rolling Meadows Elementary	2009-10	Pre K - Grade 5	757
Escondido Elementary	2018-19	Pre K - Grade 5	492
Wortham Oaks Elementary	2018-19	Pre K - Grade 5	401
Middle Schools:			
Kirby Middle School	1961*-83**	Grades 6-8	760
Kitty Hawk Middle School	1975-76	Grades 6-8	1,314
Woodlake Hills Middle School	1996-97	Grades 6-8	886
Metzger Middle School	2004-05	Grades 6-8	1,040
Judson Middle School (includes STEM)	2010-11	Grades 6-8	1,268
High School:			
Judson High School	1959*-10***	Grades 9-12	2,525
Judson Early College	2009-10	Grades 9-12	453
Veterans Memorial High School	2016-17	Grades 9-12	1,545
Karen Wagner High School	2005-06	Grades 9-12	2,301
Other Facilities:			
Judson Learning Academy			71
JACE (Boot Camp)			58
Total			23,783

* *Year originally occupied.*
** *Year of most recent additions.*
*** *Campus remodeled.*

Curriculum

The District strives to offer its patrons a diverse, comprehensive curriculum that both recognizes and builds on its multi-cultural clientele. The District offers programs for learners from age three in the pre-kinder program up to the adults who participate in the Adult and Community Education program.

In grades pre-kindergarten through fifth, the program consists of the basic subjects, i.e., English, language arts, mathematics, science, health, physical education, music, art, social studies, special education, and gifted and talented education. Each of the 18 elementary campuses has at least one computer learning lab which is utilized to support and supplement the regular educational program. Tutorial classes are offered during the day for those students who require additional time and instruction in a core curriculum area. Additionally, the District offers accelerated after-school and summer programs to students who need extra help in the core areas.

The sixth, seventh and eighth grade students are offered a basic program in the core curriculum areas as well as a wide variety of elective areas that include foreign language, computers, band, chorus, art, career and technology education, and reading. All middle schools have technology labs, which include lab units that utilize lasers and robotics. Pre Advanced Placement courses are offered for those students who are capable of achieving in a more challenging and complex environment in English, science, social studies, mathematics, and foreign language. Many students enter high school with credits earned in Algebra I, Spanish I and Integrated Physics/Chemistry (IPC). These honors classes, as well as the Gifted and Talented Humanities, mathematics and science classes, ensure quality education for most able studies. The Gifted and Talented elective also serves the Gifted and Talented population at this level. Science

Technology Electronics and Mathematics' Academy (STEM) is a magnet school located at Judson Middle School with a current enrollment of 396 students.

In the high school, in addition to the state mandated subjects, students are offered a wide variety of courses to meet their career/life goals. Course offerings range from Advanced Placement courses in the academic areas for the college bound students to technical and career studies for those students who may seek employment immediately after graduation. Integral to the TechPrep program are 2 + 2 and 2 + 4 programs that pair the high school with a post-secondary institution to allow students to transition easily into college level classes in various fields of technology. The advanced curriculum is further enhanced by the International Baccalaureate program that is offered at Judson High School. Students may also take dual credit classes with the Alamo Community College District. Judson Early College Academy offers a high school diploma, liberal arts and associates degree during the 4-year program. The campus was built on Northeast Lakeview Campus being part of the Alamo Area Community College District.

Recognizing that the District needs to promote life-long learning, the District offers many courses through its Adult and Community Education program. Courses are offered at sixteen campuses throughout the district and the adult learners can choose from courses that range from computer key boarding and programming to English as a Second Language. The enrollment in these night courses has more than doubled since the program's inception.

During the 1995-1996 school year, the District implemented a competency based high school program that is located in the area mall. This community program serves students who have dropped out of school or are in danger of dropping out. Since the program began, 2,013 students have earned their high school diploma in an individualized, self-paced program that has flexible hours.

Student Performance

The District is extremely proud of the performance of its students on the various assessments used by the State of Texas to measure student performance. The scores on the State of Texas Assessments of Academic Readiness (STAAR®) indicate that the District's schools perform above the regional average in all areas and at all grade levels. Statistics on the ACT and SAT scores also indicate achievement above the state average and equal to the national average. The performance of the students on standardized testing indicates both the quality of the District's programs and the excellent staff that has been recruited and retained. Judson ISD campuses earned 34 academic distinctions from the State of Texas for 2018-2019, up from 2 academic distinctions in 2017-2018.

Food Service

The secondary campuses have their own full-service cafeteria facilities. A central kitchen, operated by the District, serves the fourteen elementary campuses. The food service department is self-sustaining, receiving no supplemental funding from the District. The four new elementary campuses have full-service kitchens.

Junior ROTC

A very active Air Force Junior ROTC has been in operation since 1975 and has won many awards. Numerous students have received appointments to military academies. In 2006, our school district added Army Junior ROTC to our student offerings.

APPENDIX C

Audited Financial Statements

The information contained in this appendix consists of the Judson Independent School District Audited Financial Statements (the "Report") for the fiscal year ended June 30, 2018.

The information presented represents only a part of the Report and does not purport to be a complete statement of the District's financial condition. Reference is made to the complete Annual Audit Report for additional information.

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JUDSON INDEPENDENT
SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2018

INTRODUCTORY SECTION

CERTIFICATE OF BOARD

Judson Independent School District	Bexar	015-916
Name of School District	County	Co.-Dist. Number

We, the undersigned, certify that the attached annual financial report of the above named School District were reviewed and approved for the year ended June 30, 2018, at a meeting of the Board of Trustees of such School District on the 15th day of November, 2018.

José Macias	Dr. Melinda Salinas
Signature of Board Secretary	Signature of Board President

FINANCIAL SECTION

Independent Auditor's Report

Board of Trustees
Judson Independent School District
Live Oak, Texas

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

Management's Responsibility for the Financial Statements

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

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 misstatements 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.

7330 San Pedro Ave | Suite 901 | San Antonio, TX 78216 | (210) 341-2581 | Fax: (210) 341-2588 | abipcpa.com

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 Judson Independent School District as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, in 2018, the District adopted new accounting guidance, GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. Our opinion is not modified with respect to this matter.

<u>Other Matters</u>

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, Schedule of the District's Proportionate Share of the Net Pension and OPEB Liability – Teacher Retirement System of Texas; Schedule of District Contributions Teacher Retirement System of Texas, and notes to 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.

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 other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates 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 other supplementary information and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The other schedules presented by the District, as listed in the table of contents, have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2018, on our consideration of Judson Independent School 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.

ABIP, PC

San Antonio, Texas
November 15, 2018

Judson Independent School District

Management's Discussion and Analysis

Year Ended June 30, 2018

This section of the annual financial report presents our discussion and analysis of the District's financial performance during the year ended June 30, 2018. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

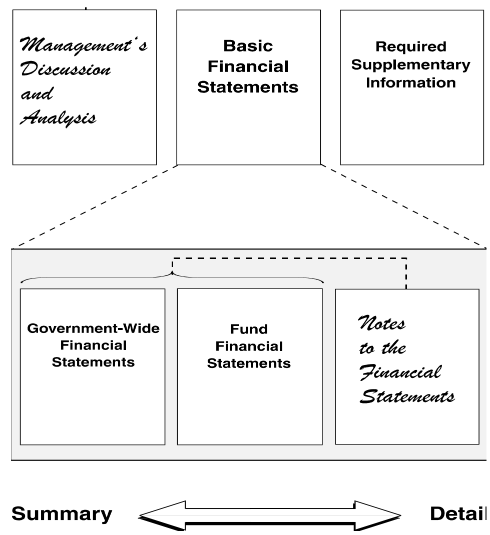
- The liabilities of the District exceeded its assets by $36,117,082 at the close of the fiscal year ending June 30, 2018. Of this amount, $(86,466,939) is a deficit unrestricted net position. The deficit net position is a result of implementing GASB 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, which recognized additional liabilities, deferred inflows and outflows for postemployment benefits other than pensions of $103,412,443 as of June 30, 2018.

- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of $311,654,154. Approximately 18 percent of this total amount $55,474,598 is available for spending at the District's discretion (unassigned fund balance). Fund balance of $164,838,981, about 53 percent, is restricted for current and future capital projects. The administration has also assigned fund balance in the amount of $13,638,097 for unused insurance proceeds that will be used for the repair and/or replacement of roofs and HVAC equipment that were damaged and another $45,057,137 for outstanding encumbrances. These amounts represent approximately 4 percent, and 14 percent, respectively.

- The general fund reported a total fund balance this year of $76,191,002 at June 30, 2018. Of this fund balance, $55,474,598 is unassigned and available for spending at the District's discretion.

OVERVIEW OF THE FINANCIAL STATEMENTS

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



This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, *and required supplementary information*. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's overall financial status.

- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in more detail than the government-wide statements.

- *The governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.

- *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and relate to one another.

Government-wide Statements

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

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

- Over time, increases or decreases in the District's net position is an indicator of whether its financial health is improving or deteriorating, respectively.

- To assess the overall health of the District, one needs to consider additional nonfinancial factors such as changes in the District's tax base.

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

Fund Financial Statements

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

- Some funds are required by State law and by bond covenants.

- The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has the following kinds of funds:

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

- *Fiduciary funds*—The District is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that—because of a trust arrangement—can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Both current period and prior year data are represented with discussion of significant changes in the accounts. Our analysis focuses on the net position (Table A-1) and changes in net position (Table A-2) of the District's government-wide activities. This period-over-period comparison provides an indication of the District's financial well-being. Increases and decreases in net position may serve over time as a useful indicator of a government's financial position. As of June 30, 2018, the District's liabilities and deferred inflows of resources exceeded combined assets and deferred outflows of resources by $36,117,082, which is a decrease of $81,066,143 compared to the prior year net position.

Table A-1

Judson Independent School District's Net Position

(In millions)

	GOVERNMENTAL ACTIVITES 2018	GOVERNMENTAL ACTIVITES 2017	TOTAL PERCENTAGE CHANGE 2018-2017
Current assets:			
Cash and Cash Equivalents	$ 332.1	$ 302.2	9.9%
Property Tax Receivable (Net)	3.9	3.8	2.6%
Due from other governments	21.8	23.0	(5.2%)
Inventories – Supplies and Materials	0.5	0.7	(28.6%)
Deferred Expenditures	0.4	0.6	(33.3%)
Total Current Assets:	358.7	330.3	8.6%
Noncurrent assets:			
Capital Assets	739.4	666.9	10.9%
Less Accumulated Depreciation	(254.3)	(235.1)	8.2%
Total Noncurrent Assets	485.1	431.8	12.3%
Total Assets	843.8	762.1	10.7%
Deferred Outflows of Resources:			
Unamortized Loss on Refunded Bonds	8.5	9.0	(5.6%)
Deferred Outflow Related to TRS and OPEB	14.9	19.7	(24.4%)
Total Deferred Outflows of Resources	23.4	28.7	(18.5%)
Current liabilities:			
Accounts Payable and Interest Payable	22.3	12.8	74.2%
Payroll Deductions/Withholdings	10.8	10	8.0%
Accrued Wages	21.8	21.8	0.0%
Deferred Revenue	0.1	0.7	(85.7%)
Bond Premium – Deferred	61.6	59.6	3.4%
Total Current Liabilities	116.6	104.9	11.2%
Long-term liabilities:			
Bonds and Lease payable	631.9	586.3	7.8%
Net Pension and Net OPEB Liabilities (District's Share)	116.8	51.6	126.4%
Total Long-Term Liabilities	748.7	637.9	17.4%
Total Liabilities	865.3	742.8	16.5%
Deferred Inflows of Resources:			
Deferred Inflow Related to TRS and OPEB	37.9	3.0	1163.3%
Total Deferred Inflows of Resources	37.9	3.0	1163.3%
Net Position:			
Net Invested in capital assets	18.6	3.8	389.5%
Restricted for:			
State and Federal	6.6	7.6	(13.2%)
Debt	25.1	24.0	4.6%
Unrestricted	-86.5	9.6	(1001.0%)
Total Net Position	$ -36.2	$ 45.0	(180.4%)

Net investment in capital assets (e.g., land, construction in progress, buildings, furniture, equipment, and vehicles) less any related debt used to acquire those assets that is still outstanding is $18,579,025. 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, generally property taxes, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the District's net position of $6,646,891 represents resources provided by state, federal or local agencies or organizations. These funds are subject to restrictions on how they may be used which are established by the granting agency or organization. Another portion of the District's restricted net position of $25,123,941 represents revenue from local taxes. These revenues are restricted for expenditures related to debt service payments. The remaining deficit unrestricted net position of $86,466,939 is a result of recent adoptions of GASB 68 and 75 which combined accounts for $139,828,432 in liabilities and net deferred outflows/inflows as of June 30, 2018.

Changes in net position: The implementation of GASB 75, at the government-wide statement level, during this fiscal year is reflected in the following amounts and percentages. The District's total revenues were $245.8 million. A significant portion, 51 percent, of the District's revenue comes from taxes. (See Figure A-2), 37 percent comes from state aid and other non-restricted contributions, 2 percent relates to charges for services, 12 percent from a Special Item (property insurance claim), 1 percent was from investment earnings and the remaining (3) percent comes from restricted operating grants and contributions. The total cost of all programs and services was $196.8 million; 71 percent of these costs are for instructional, instructional leadership and student services. (See Figure A-3).

Figure A-2 District
Sources of Revenue for Fiscal Year 2018

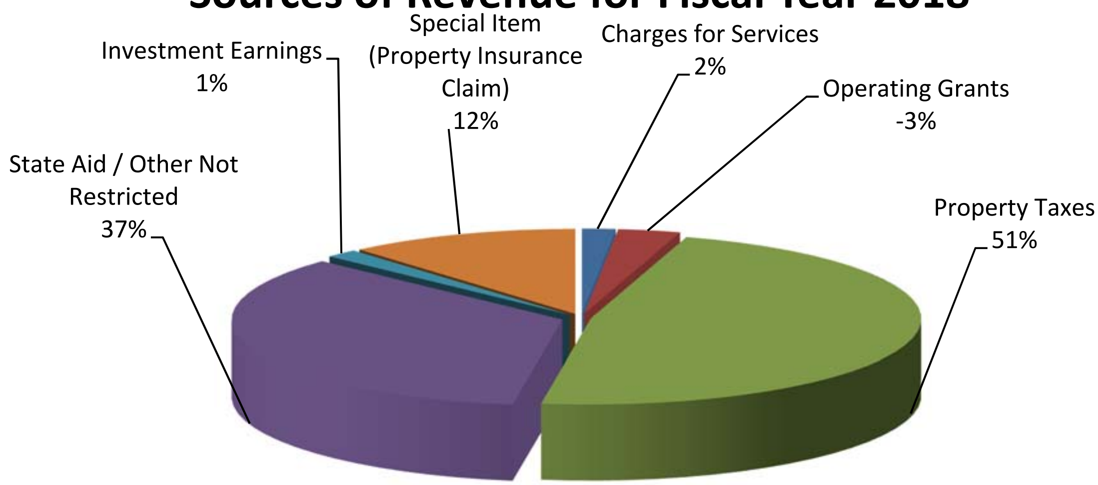
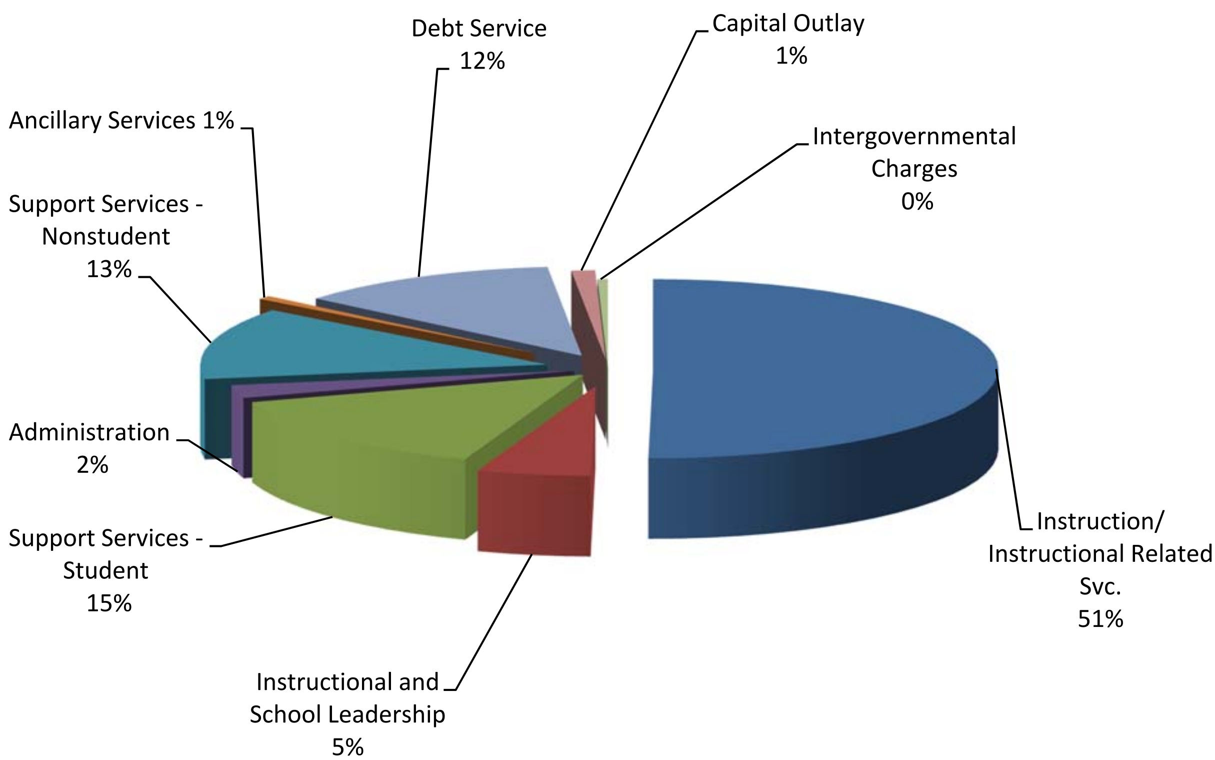


Figure A-3 District
Expenses for Fiscal Year 2018



Governmental Activities

- Changes in Governmental Activities Net Position are presented in Table A-2. The District's Governmental Activities revenues were $245.8 million. The District's two main sources of revenue are from local property taxes and State funding.

- Property tax rates decreased from the previous year. The tax rate was $1.425 per $100 of taxable assessed valuation in the current fiscal year and $1.47 per $100 of taxable assessed valuation in the prior fiscal year. The taxable assessed values were $9.2 billion during the current fiscal year and $8.9 billion in the previous fiscal year. The change in taxable assessed values resulted in the combined tax levy increasing to $127.3 million from $120.4 million in the previous fiscal year.

- On May 7, 2016, the voters of the District approved an election to sell bonds in the amount of $214.18 million. The bonds were approved as three separate propositions. The first proposition was for $135.9 million with the proceeds being used to renovate numerous of the existing school facilities. The second proposition was for $73.08 million with the proceeds being used for the construction of two new elementary schools. The third proposition was for $5.2 million with the proceeds being used to refund the bonds that were issued by the Judson Independent School District Public Facility Corporation.

- During FY18 design work had begun on several of the renovation projects authorized in the first proposition. The estimated completion date for all renovation projects is June 2020. The first elementary school has been completed and opened in time for the FY19 school year. The second elementary school is scheduled to open in January 2019. The bonds to refund the Judson Independent School District Public Facility Corporation bonds were sold and the Board of Directors has authorized the voluntary termination of the PFC.

- On May 6, 2017, the voters of the District approved an election to sell bonds in the amount of $60 million. The bonds were approved as a single proposition, with the proceeds being used for the purpose of completing the final phase of Veterans Memorial High school. During the first construction phase of Veterans Memorial High School, the Board authorized transferring $4.4 million from the General Operating Fund to the Capital Projects fund to complete specific items that were not initially included in that phase of construction. At that time, the Board also approved a reimbursing resolution which would authorize the reimbursement of these funds from a future bonds election to the General Operating Fund. Once these bonds are sold, the $4.4 million will be transferred from the Capital Projects Fund to the General Operating Fund. These bonds were sold during FY18 and construction has begun on the athletic fields that were included in the second phase. The design work has been completed for the classroom addition of the second phase and construction is scheduled to begin during FY19. The $4.4 million has been transferred from the Capital Projects Fund to the General Operating Fund. The debt service tax rate is estimated to increase by 2 cents per $100 valuation once these bonds are sold.

TABLE A-2

Changes in Judson Independent School District's Net Position

(In millions)

	Governmental Activities 2018	Governmental Activities 2017	Total Percentage Change 2018-2017
Program Revenues:			
Charges for Services	$ 4.3	$ 4.3	0.0%
Operating Grants and Contributions	-8.0	55.3	(114.5%)
General Revenues:			
Property Taxes	124.8	119.2	4.7%
State Aid / Other Contributions Not Restricted	90.1	66.9	34.7%
Investment Earnings	4.2	1.5	180.0%
Special Item (Propery Insurance Claims)	29.7	0	0.0%
Other	0.6	1.2	(50.0%)
Total Revenues	245.7	248.4	(1.1%)
Expenses			
Instruction	93	133.5	(30.3%)
Instructional Resources and Media Services	1.8	2.5	(28.0%)
Curriculum Dev. and Instructional Staff Dev.	4	7.6	(47.4%)
Instructional Leadership	2.3	4	(42.5%)
School Leadership	8.1	12	(32.5%)
Guidance, Counseling and Evaluation Services	5.5	8.1	(32.1%)
Social Work Services	0.9	1.0	(10.0%)
Health Services	1.7	2.4	(29.2%)
Student (Pupil) Transportation	6.8	8.3	(18.1%)
Food Services	10.3	13.8	(25.4%)
Curricular/Extracurricular Activities	3.4	4.5	(24.4%)
General Administration	4.6	5.2	(11.5%)
Plant Maintenance & Oper.	20.2	21.4	(5.6%)
Security & Monitoring Svcs.	2.2	2.4	(8.3%)
Data Processing Services	3.3	4.1	(19.5%)
Community Services	1.3	1.3	0.0%
Interst on Long-Term Debt	23.7	19.7	20.3%
Bond Issuance Costs Fees	0.6	2.9	(79.3%)
Facilities Acquistion and Construction	2.2	3.4	(35.3%)
Payments Related to Shared Services Arrangements	0.3	0.2	50.0%
Other Intergovernmental Charges	0.6	0.5	20.0%
Total Expenses	196.8	258.8	(24.0%)
Increase (Decrease) in Net Position	$ 48.9	$ (10.4)	(570.2%)

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, bond covenants, and segregation for particular purposes.

The financial performance of the district as a whole is reflected in its 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 the District's net resources available for spending at the end of a fiscal year. As the District completed this year, its governmental funds reported a combined ending balance of $311,654,154, of which $55,474,598, or 18% is considered unassigned and is available for spending at the District's discretion. The remainder of the fund balance is nonspendable due to form or restricted, committed or assigned to indicate that it is not available for new spending because it has already been designated for other obligations of the District.

The General Fund is the primary operating fund of the District. The General Fund unassigned fund balance is $55.5 million for the year ended June 30, 2018.

General Fund Budgetary Highlights

Over the course of the year, the District revised its budget to provide for changes in operations.

- Actual revenues for the general fund exceeded the final budget by approximately $1.1 million. Of this positive variance, approximately, $0.5 million was primarily the result of an increase in state funding for adjustments made to taxable values assigned to properties within the school district boundaries in a previous fiscal year. Another factor was an increase in students participating in specific educational settings and other state funded programs. Property tax revenue contributed approximately, $0.4 million.

- Actual expenditures for the general fund were $19 million below final budget amounts. The most significant difference, $13.3 million, occurred in Capital Outlay. This was the result of budgeting for the repair and/or replacement of various roofs that were damaged by a hail storm which were not completed by the end of the fiscal year. Another significant difference, 2.4 million occurred in Instruction and Instructional Related Services. This positive variance was the result of budgeting for full employment of staff throughout the full year, not adjusting for vacant positions, and reclassifying the cost for eligible staff to other funding sources that became available throughout the fiscal year.

- Total fund balance for the general fund increased by $17 million from the preceding fiscal year. Total fund balance for the general fund was $76.2 million at June 30, 2018 and it was $59.1 million at June 30, 2017. The most significant reason for the increase was payments from the insurance company for roofs and

- HVAC equipment that were damaged by hail. The funds are included in the assigned fund balance category because these funds will be used to repair and/or replace damaged roofs and HVAC equipment. The amount assigned for this purpose is $13.6 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the District had invested $739.4 million in a broad range of capital assets, including land, equipment, buildings, and vehicles. (See Table A-4). This amount represents a net increase (including additions and deductions) of $72.5 million or an increase of 10.9%, in net additions and deductions, as compared to the previous year.

TABLE A-4
District's Capital Assets
(In Millions)

	GOVERNMENTAL ACTIVITES 2018	GOVERNMENTAL ACTIVITES 2017	TOTAL PERCENTAGE CHANGE 2018-2017
Land	$ 23.7	$ 23.6	0.4%
Construction in Progress	68.4	2.6	2530.8%
Building and Improvements	597.2	594.3	0.5%
Furniture/Equipment/Vehicles	47.4	43.7	8.5%
Capital Lease - Equipment	2.7	2.7	0.0%
Totals	739.4	666.9	10.9%
Total Accumulated Depreciation	254.3	235.1	8.2%
NET CAPITAL ASSETS	$ 485.1	$ 431.8	12.3%

Bond Ratings

The District's bonds presently carry "AAA" ratings with underlying ratings as follows: Moody's Investor Services"Aa2" and Fitch "AA-".

The District's fiscal year 2019 capital budget projects spending, approximately, another $230 million for capital assets. These expenditures will be principally to begin the design work and construction on several projects that were planned as part of a bond election that was approved by the voters on May 7, 2016. The total amount authorized by the voters is $208,980,000. This includes funding the construction of two new elementary schools and numerous renovation projects. On May 6, 2017, the voters approved a bond election for $60 million. These proceeds are to be used for the construction of the final phase of Veterans Memorial High School. The design phase was completed in FY18 and the athletic fields that are included in the second phase are being constructed. The classroom addition of the second phase is slated to begin during FY19. Several other smaller renovation projects are also planned. The District will primarily fund these projects with general fund and property insurance claim monies. Other items that are included in the capital projects budget are equipment and vehicles. More detailed information about the District's capital assets is presented in the notes to the financial statements.

Long Term Debt

At year-end, the District had $631.8 million in bonds, tax notes, and accrued compensated absences outstanding as shown in Table A-5. This represents an increase of $45.5 million from the $586.3 million outstanding in the prior year. More detailed information about the District's debt is presented in the notes to the financial statements.

TABLE A-5
District's Long-Term Debt
(In millions)

	GOVERNMENTAL ACTIVITES		TOTAL PERCENTAGE CHANGE
	2018	2017	2018-2017
Tax Notes	$ 1	$ 1.4	(28.6%)
Accrued Compensated Absences	2.1	1.9	10.5%
Bonds Payable	628.7	583.0	7.8%
TOTALS	$ 631.8	$ 586.3	7.8%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Appraised taxable value used for the FY19 budget preparation increased to $9.4 billion from $8.9 billion in the previous fiscal year. This represents an increase of $0.5 billion or 6%. The tax rate increased to $1.44 from $1.425 per $100 dollar of taxable property value in the previous fiscal year. The increase in the tax rate only affected the debt service portion of the rate. The increase in the tax rate was the net result of a significant increase in the taxable property value within the District boundary, and issuing new debt to construct new schools and renovate existing facilities.

- As compared to the original expenditure budget adopted for FY18, the budget for FY19 increased by $10.5 million from $239.7 million to $250.2 million. This increase is primarily the result of an increase in debt service payments of $3.2 million and a salary increase that was approved for FY18 as a budget amendment of $5 million. The original budget adopted for FY18 did not include salary increases; however, in August 2017, the Board amended the budget to provide a 2 percent general pay increase as well as other equity adjustments that were proposed.

- The final amended budget for the 2018 fiscal year was $279.6 million. The significant amendments to the FY18 expenditure budget include funds to replace or repair roofs that were damaged by hail. The funds to replace or repair roofs that were damaged by hail will be provided through property insurance claims.

- The District's FY19 projected refined average daily attendance for budget purposes was 21,388, which was also the actual final refined average daily attendance for the FY18.

These indicators were taken into account when adopting the budget for FY19. Total projected revenue available for appropriation in the budget was $238.3 million, which was virtually unchanged from the original FY18 budget of $238.8 million. Total Revenue from property taxes increased by 6.5 percent from $125.2 million in FY18 to $133.4 million in FY19. State revenue estimates indicate a decrease of $6.1 million in the general operating fund, which is the result of an increase in taxable property value, anticipated increased participation in specific programs, increased local tax collections and other changes in the funding formulas authorized by the legislature.

If these estimates are realized, the District's budgetary unassigned general fund balance is expected to decrease by $9.5 million. This will result in an estimated unassigned fund balance of $46 million, based on the ending fund balance at June 30, 2018. The district believes that this remains a safe level of fund balance for the general operating fund.

On May 7, 2016, the voters of the District authorized $214,180,000 in bonds to be sold for the purpose of building two new elementary schools, and complete renovations to numerous existing facilities. These bonds were sold during FY17.

Several of these projects were started during FY18. All of the projects included in this bond package are scheduled to be completed within the next three fiscal years.

On May 6, 2017, the voters of the district authorized $60,000,000 in bonds to be sold for the purpose of constructing the final phase of Veterans Memorial High School. These bonds were sold during FY18. Completion of this project is expected within the next fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, address requests to the Office of the Chief Financial Officer, Judson Independent School District, 8012 Shin Oak, Live Oak, Texas 78233.

BASIC FINANCIAL STATEMENTS

JUDSON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2018

EXHIBIT A-1

DATA CONTROL CODES			GOVERNMENTAL ACTIVITIES
	ASSETS		
1110	Cash and Cash Equivalents		$ 10,768,712
1120	Current Investments		321,315,856
1225	Property Taxes Receivable (Net)		3,890,642
1240	Due from Other Governments		21,793,339
1290	Other Receivables (Net)		46,799
1300	Inventories		515,124
1410	Deferred Expenses		429,921
	Capital Assets		
1510	Land	$ 23,667,903	
1520	Buildings and Improvements (Net)	383,575,169	
1530	Furniture and Equipment (Net)	9,388,444	
1580	Construction in Progress	68,460,638	
	Total Capital Assets (Net)		485,092,154
1000	TOTAL ASSETS		843,852,547
	DEFERRED OUTFLOWS OF RESOURCES		
1701	Unamortized Loss on Refunded Bonds		8,453,275
1705	Deferred Outflow Related to TRS		13,859,036
1706	Deferred Outflow Related to TRS OPEB		1,029,994
1700	TOTAL DEFERRED OUTFLOWS OF RESOURCES		23,342,305
	LIABILITIES		
2110	Accounts Payable		11,726,830
2140	Interest Payable		10,592,135
2165	Accrued Liabilities		32,661,087
2300	Deferred Revenue		120,712
2400	Unamortized Premium on Issuance of Bonds		61,610,136
	NONCURRENT LIABILITIES		
2501	Due Within One Year	12,098,090	
2502	Due in More than One Year	619,785,482	
2540	Net Pension Liability (District's Share)	43,212,935	
2545	Net OPEB Liability (District's Share)	73,638,313	
	Total Noncurrent Liabilities		748,734,820
2000	TOTAL LIABILITIES		865,445,720
	DEFERRED INFLOWS OF RESOURCES		
2605	Deferred Inflow Related to TRS		7,062,090
2606	Deferred Inflow Related to TRS OPEB		30,804,124
2600	TOTAL DEFERRED INFLOWS OF RESOURCES		37,866,214
	NET POSITION		
3200	Net Investment in Capital Assets		18,579,025
3820	Restricted for State and Federal Programs		6,646,891
3850	Restricted for Debt Service		25,123,941
3900	Unrestricted		(86,466,939)
3000	TOTAL NET POSITION		$ (36,117,082)

JUDSON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

EXHIBIT B-1

DATA CONTROL CODES	FUNCTIONS/PROGRAMS	1 EXPENSES	3 PROGRAM REVENUES CHARGES FOR SERVICES	4 PROGRAM REVENUES OPERATING GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION GOVERNMENTAL ACTIVITIES
	Governmental Activities				
11	Instruction	$ 93,018,507	$ 1,611,310	$ (14,335,453)	$ (105,742,650)
12	Instructional Resources and Media Services	1,847,381	-	(298,936)	(2,146,317)
13	Curriculum and Staff Development	3,983,950	-	1,089,942	(2,894,008)
21	Instructional Leadership	2,318,544	-	(152,771)	(2,471,315)
23	School Leadership	8,065,790	-	(2,084,196)	(10,149,986)
31	Guidance, Counseling, and Evaluation Services	5,520,910	-	(1,255,311)	(6,776,221)
32	Social Work Services	855,460	-	(63,118)	(918,578)
33	Health Services	1,745,655	-	(246,272)	(1,991,927)
34	Student Transportation	6,827,519	-	(617,912)	(7,445,431)
35	Food Service	10,309,110	2,105,442	8,527,561	323,893
36	Extracurricular Activities	3,399,171	437,117	(442,204)	(3,404,258)
41	General Administration	4,599,567	-	(468,031)	(5,067,598)
51	Plant Maintenance and Operations	20,168,849	143,103	(545,016)	(20,570,762)
52	Security and Monitoring Services	2,166,170	-	(207,128)	(2,373,298)
53	Data Processing Services	3,304,535	-	(191,002)	(3,495,537)
61	Community Services	1,291,831	-	(8,199)	(1,300,030)
72	Interest on Long-Term Debt	23,708,517	-	2,244,228	(21,464,289)
73	Bond Issuance Costs and Fees	578,030	-	1,376	(576,654)
81	Facilities Acquisitions and Construction	2,169,329	-	714,416	(1,454,913)
93	Payments Related to Shared Service Arrangements	342,500	-	342,500	-
95	Payments to Juvenile Justice Alternative Education Program	2,038	-	92	(1,946)
99	Other Intergovernmental Charges	604,809	-	27,335	(577,474)
TG	Total Governmental Activities	196,828,172	4,296,972	(7,968,099)	(200,499,299)
TP	TOTAL PRIMARY GOVERNMENT	$ 196,828,172	$ 4,296,972	$ (7,968,099)	(200,499,299)
	General Revenues				
MT	Property Taxes, Levied for General Purposes				91,101,216
DT	Property Taxes, Levied for Debt Service				33,741,372
IE	Investment Earnings				4,204,850
GC	Grants and Contributions not Restricted to Specific Programs				90,054,962
MI	Miscellaneous				624,776
SI	Special Item				29,710,702
TR	Total General Revenues				249,437,878
CN	Change in Net Position				48,938,579
NB	NET POSITION - BEGINNING				44,949,061
PA	PRIOR PERIOD ADJUSTMENT				(130,004,722)
NE	NET POSITION - ENDING				$ (36,117,082)

JUDSON INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2018

EXHIBIT C-1

DATA CONTROL CODES		10 GENERAL FUND	50 DEBT SERVICE FUND	60 CAPITAL PROJECTS FUND	OTHER GOVERNMENTAL FUNDS	98 TOTAL GOVERNMENTAL FUNDS
	ASSETS					
1110	Cash and Cash Equivalents	$ 10,480,484	$ 554	$ -	$ 287,674	$ 10,768,712
1120	Current Investments	78,024,028	24,200,150	216,420,334	2,671,344	321,315,856
1225	Taxes Receivable, Net	2,860,030	1,030,612	-	-	3,890,642
1240	Due from Other Governments	19,342,198	-	-	2,451,141	21,793,339
1260	Due from Other Funds	1,200,326	573,310	-	103,891	1,877,527
1290	Other Receivables	46,644	-	10	145	46,799
1300	Inventories	486,582	-	-	28,542	515,124
1410	Prepaid Items	428,932	-	-	989	429,921
1000	TOTAL ASSETS	$ 112,869,224	$ 25,804,626	$ 216,420,344	$ 5,543,726	$ 360,637,920
	LIABILITIES					
2110	Accounts Payable	$ 2,817,621	$ -	$ 8,779,602	$ 129,607	$ 11,726,830
2150	Payroll Deductions and Withholdings	10,671,411	-	3,610	145,118	10,820,139
2160	Accrued Wages Payable	20,698,843	-	6,356	1,135,749	21,840,948
2170	Due to Other Funds	573,422	-	7,036	1,297,069	1,877,527
2300	Unearned Revenue	-	-	-	120,712	120,712
2000	Total Liabilities	34,761,297	-	8,796,604	2,828,255	46,386,156
	Deferred Inflows of Resources					
2600	Unearned Revenue - Property Taxes	1,916,925	680,685	-	-	2,597,610
	FUND BALANCES					
3410	Non-Spendable - Inventories	486,582	-	-	28,542	515,124
3430	Non-Spendable - Prepaid Items	428,932	-	-	989	429,921
3450	Restricted - Grant Funds	-	-	-	2,603,845	2,603,845
3470	Restricted - Capital Acquisitions and Contractual Obligations	-	-	164,838,981	-	164,838,981
3480	Restricted - Debt Service	-	25,123,941	-	-	25,123,941
3490	Restricted - Other	3,931,420	-	-	41,090	3,972,510
3550	Assigned - Construction	13,638,097	-	-	-	13,638,097
3590	Assigned - Encumbrances	2,231,373	-	42,784,759	41,005	45,057,137
3600	Unassigned	55,474,598	-	-	-	55,474,598
3000	Total Fund Balances	76,191,002	25,123,941	207,623,740	2,715,471	311,654,154
4000	TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 112,869,224	$ 25,804,626	$ 216,420,344	$ 5,543,726	$ 360,637,920

JUDSON INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
YEAR ENDED JUNE 30, 2018

EXHIBIT C-1R

Total Fund Balances - Governmental Funds Balance Sheet		$ 311,654,154
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets expensed in the governmental activities are not reported in the funds.		739,436,525
Accumulated depreciation used in governmental activities is not reported in the funds.		(254,344,371)
Property tax receivable unavailable to pay for current period expenditures is deferred in the funds.		2,597,610
Payables for bond principal which are not due in the current period are not reported in the funds.		(619,817,521)
Payables for loan proceeds which are not due in the current period are not reported in the funds.		(1,035,000)
Payables for accrued bond interest which are not due in the current period are not reported in the funds.		(10,592,135)
Bond premiums used in governmental activities are not reported in the funds.		(61,610,136)
Recognition of the District's proportionate share of net pension liability required by GASB 68 and the changes in deferred outflows and inflows of resources related to the TRS pension liability:		
Net Pension Liability	$ (43,212,935)	
Deferred Inflow of Resources - TRS	(7,062,090)	
Deferred Ouflows of Resources - TRS	13,859,036	(36,415,989)
Recognition of the District's proportionate share of net OPEB liability required by GASB 75 and the changes in deferred outflows and inflows of resources related to the TRS pension liability:		
Net OPEB Liability	(73,638,313)	
Deferred Inflow of Resources - TRS	(30,804,124)	
Deferred Ouflows of Resources - TRS	1,029,994	(103,412,443)
Capital appreciation bond accreted interest not due in the current year is not reported in the funds.		(8,907,089)
Bond refunding losses are amortized over the life of the bonds and are not reported in the funds.		8,453,275
Payables for compensated absences which are not due in the current period are not reported in the funds.		(2,123,962)
NET POSITION OF GOVERNMENTAL ACTIVITIES - STATEMENT OF NET POSITION		$ (36,117,082)

JUDSON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

EXHIBIT C-2

DATA CONTROL CODES		10 GENERAL FUND	50 DEBT SERVICE FUND	60 CAPITAL PROJECTS FUND	OTHER GOVERNMENTAL FUNDS	98 TOTAL GOVERNMENTAL FUNDS
	REVENUES					
5700	Local and Intermediate Sources	$ 95,938,142	$ 34,097,082	$ 2,876,050	$ 2,255,800	$ 135,167,074
5800	State Program Revenues	94,603,987	2,230,464	-	716,445	97,550,896
5900	Federal Program Revenues	4,214,626	-	-	20,468,307	24,682,933
5020	Total Revenues	194,756,755	36,327,546	2,876,050	23,440,552	257,400,903
	EXPENDITURES					
	Current					
0011	Instruction	117,381,673	-	-	6,536,910	123,918,583
0012	Instructional Resources and Media Service	2,278,897	-	-	58	2,278,955
0013	Curriculum and Staff Development	3,831,603	-	-	2,813,919	6,645,522
0021	Instructional Leadership	2,818,716	-	-	508,665	3,327,381
0023	School Leadership	11,281,905	-	-	66,153	11,348,058
0031	Guidance, Counseling, and Evaluation Services	7,538,138	-	-	214,472	7,752,610
0032	Social Work Services	1,048,788	-	-	189,672	1,238,460
0033	Health Services	2,135,434	-	-	67,611	2,203,045
0034	Student Transportation	9,474,124	-	-	-	9,474,124
0035	Food Service	-	-	-	12,324,092	12,324,092
0036	Cocurricular/Extracurricular Activities	4,150,971	-	-	16,495	4,167,466
0041	General Administration	5,174,315	-	67,673	-	5,241,988
0051	Plant Maintenance and Operations	20,458,081	-	1,421,497	289,158	22,168,736
0052	Security and Monitoring Services	2,499,808	-	10,935	495	2,511,238
0053	Data Processing Services	3,685,670	-	72,207	-	3,757,877
0061	Community Services	1,279,159	-	-	40,749	1,319,908
0071	Principal on Long-Term Debt	335,000	10,366,684	-	-	10,701,684
0072	Interest on Long-Term Debt	16,440	24,834,497	-	-	24,850,937
0073	Bond Issuance Costs and Fees	-	6,399	571,631	-	578,030
0081	Capital Outlay	15,807,262	-	55,313,832	-	71,121,094
0093	Payments Related to Shared Service Arrangements	-	-	-	342,500	342,500
0095	Payments to Juvenile Justice Alternative Education Programs	2,038	-	-	-	2,038
0099	Other Intergovernmental Charges	604,809	-	-	-	604,809
6030	Total Expenditures	211,802,831	35,207,580	57,457,775	23,410,949	327,879,135
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(17,046,076)	1,119,966	(54,581,725)	29,603	(70,478,232)
	Other Financing Sources and (Uses)					
7911	Proceeds from Bonds	-	-	55,730,000	-	55,730,000
7912	Sale of Real or Personal Property	28,385	-	-	398	28,783
7915	Transfers In	4,400,000	-	-	-	4,400,000
7916	Premium or Discount on Issuance of Bonds	-	-	4,841,631	-	4,841,631
8911	Transfers Out	-	-	(4,400,000)	-	(4,400,000)
7080	Total Other Financing Sources and (Uses)	4,428,385	-	56,171,631	398	60,600,414
	Special Items					
7919	Extraordinary Item	29,710,702	-	-	-	29,710,702
1200	Net Change in Fund Balances	17,093,011	1,119,966	1,589,906	30,001	19,832,884
0100	Fund Balances - Beginning	59,097,991	24,003,975	206,033,834	2,685,470	291,821,270
3000	FUND BALANCES - ENDING	$ 76,191,002	$ 25,123,941	$ 207,623,740	$ 2,715,471	$ 311,654,154

JUDSON INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

EXHIBIT C-3

Net Change in Fund Balances - Total Governmental Funds		$ 19,832,884
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are not reported as expenses in the statement of activites.		72,641,961
The depreciation of capital assets used in governmental activities is not reported in the funds.		(19,313,629)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.		(410,531)
Repayment of bond principal is an expenditure in the funds but is not an expense in the statement of activities.		10,366,684
Repayment of tax notes is an expenditure in the funds but is not an expense in the statement of activities.		335,000
Issuance of refunding bonds are other sources in the funds but are not revenue in the statement of activities. This amount is the net effect of these differences.		
Bond Issuance	$ (55,730,000)	
Bond Premium	(4,841,631)	(60,571,631)
Net change in principal of capital appreciation bonds is an expense in the statement of activities but not in the funds.		(355,736)
Unamortized loss on refunding bonds are amortized over the life of the bonds in the statement of activities and not in the funds.		(502,029)
The change in net pension liability, OPEB liability, deferred inflows and outflows related to the District's proportionate share of the TRS net pension and OPEB liability.		25,091,035
Amortization of bond premium is an expense in the statement of activites and not in the funds.		2,830,822
Compensated absences are reported as amounts expensed in the statement of activities but not in the funds.		(175,614)
Change in accrued interest payable for bonds.		(830,637)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES		$ 48,938,579

JUDSON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
JUNE 30, 2018

EXHIBIT E-1

DATA CONTROL CODES		AGENCY FUND
	ASSETS	
1110	Cash and Cash Equivalents	$ 1,567,616
1000	TOTAL ASSETS	$ 1,567,616
	LIABILITIES	
2190	Due to Student Groups	$ 1,567,616
2000	TOTAL LIABILITIES	$ 1,567,616

(The Accompanying Notes are an Integral Part of these Financial Statements)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Board of School Trustees, a seven-member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The board is elected by the public and has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency (TEA) or to the State Board of Education are reserved for the Board of Trustees, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the board. The District receives funding from local, state and federal government sources and must comply with the requirements of those funding entities. However, the District is not included in any other governmental reporting entity.

B. Basis of Presentation, Basis of Accounting

Basis of Presentation

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

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation, Basis of Accounting (Continued)

Basis of Presentation (Continued)

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 required to be accounted for in another fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *capital projects funds* accounts for bond proceeds and expenditures for the construction of school facilities as approved by the District's voters.

In addition, the District reports the following non-major governmental funds:

The *special revenue funds* account for the District's federal, state and locally funded grants or contributions. These grants are awarded to the District with the purpose of accomplishing specific educational tasks as defined in the grant awards.

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

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

Measurement Focus, Basis of Accounting

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation, Basis of Accounting (Continued)

Measurement Focus, Basis of Accounting (Continued)

Governmental fund financial statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty (60) days after year end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the state are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

C. Budgetary Information

The board adopts an appropriated budget on a basis consistent with GAAP for the general fund, debt service fund, and food service fund (which is included in special revenue funds).

At a minimum, the District is required to present the original and the final amended budgets for revenues and expenditures compared to actual revenues and expenditures for these three (3) funds.

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

Prior to June 19, the District prepares a budget based on the modified zero-based budgeting concept for departmental budgets, and the programmatic budgeting concept for campuses, for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.

After one (1) or more budget workshops with the board, a meeting is called for the purpose of adopting the proposed budget. At least ten (10) days but not more than thirty (30) days public notice of the meeting is required.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Budgetary Information (Continued)

Prior to June 30, the board of trustees legally adopts the budget for the general fund, debt service fund, and food service fund (which is included in special revenue funds).

After the budget for the above listed funds is approved, any amendment that causes an increase or decrease in a fund or functional spending category or total revenue or other resources object category requires board approval prior to the fact. These amendments are presented to the board at its regular monthly meeting and are reflected in the official minutes. Because the District has a policy of careful budgetary control, several budgetary amendments were necessary throughout the year.

Expenditure budgets are controlled at the functional and object level by the appropriate budget manager (principal or department director). Budget managers may authorize transfers within functional and organizational categories that do not affect the total functional and organizational appropriation. All budget appropriations lapse at year end.

	ORIGINAL BUDGET	NET CHANGE DURING YEAR	AMENDED BUDGET
General Fund	$ 192,019,978	$ 38,748,621	$ 230,768,599
Special Revenue Funds - Food Service	12,863,869	789,905	13,653,774
Debt Service	34,798,588	417,718	35,216,306

D. Financial Statement Amounts

Cash and Cash Equivalents

Cash in bank, money market accounts, external investment pools, and securities with maturities of less than three (3) months from the date of purchase are reported as cash and cash equivalents in the financial statements.

Investments

Investments for the District are stated at fair value. The fair value framework uses a hierarchy that prioritizes the inputs to the valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the District has the ability to access.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Financial Statement Amounts (Continued)

Investments (Continued)

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The valuation methodologies described above may produce a fair value calculation that may not be indicative of net realizable values or reflective of future fair values. Furthermore, while the District believes its valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Deposit Accounting Policy

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

Investment Accounting Policy

The District’s general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using ta cost-based measure.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Financial Statement Amounts (Continued)

Investment Policy (Continued)

However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term “short-term” refers to investments which have a remaining term of one (1) year or less at time of purchase. The term “nonparticipating” means that the investment’s value does not vary with market interest rate changes. Nonnegotiable certificates of deposits are examples of nonparticipating interest-earning investment contracts.

Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a sixty day period after the close of the fiscal year.

Allowances for uncollectible tax receivables within the general fund are $248,698 and $89,618 for the debt service fund and are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

Inventories and Prepaid Items

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Financial Statement Amounts (Continued)

Encumbrance Accounting

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at June 30, 2018, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget.

End-of-year outstanding encumbrances that were provided for in the subsequent year's budget are:

General Fund	$ 2,231,373
National School Breakfast and Lunch Program	41,005
Other Special Revenue Funds	171,888
Capital Projects Fund	42,784,759
TOTAL	$ 45,229,025

Capital Assets

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

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

ASSET CLASS	ESTIMATED USEFUL LIVES (YEARS)
Buildings and Improvements	35
Portable Buildings	25
Buses and Heavy Equipment	7
Office and Computer Equipment	5
Vehicles and Other	5-10

Receivable and Payable Balances

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Financial Statement Amounts (Continued)

Compensated Absences

On retirement, termination of employment, or death of employees, the District pays any accrued sick leave in a lump-sum payment to such employee or his/her beneficiary or estate – See Note 9: Accumulated Unpaid Sick Leave Benefit.

Pensions

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

Other Post-Employment Benefits

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

Deferred Inflows/Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure) until then. The District has two items that qualifies for reporting in this category. They are the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Financial Statement Amounts (Continued)

Deferred Inflows/Outflows of Resources (Continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. The amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

Interfund Activity

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

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Data Control Codes

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Balance

The District has implemented GASB Statement 54 "*Fund Balance Reporting and Governmental Fund Type Definitions*" which provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;

- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;

- Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority, to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;

- Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;

- Unassigned fund balance – amounts that are available for any purpose, positive amounts are reported only in the general fund.

The Board of Trustees establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. Assigned fund balance is delegated by the Trustees to the superintendent or chief financial officer of the District.

In the general fund, the District strives to maintain an unassigned fund balance to be used for local and regional emergencies without borrowing.

F. Change in Accounting Policy

During fiscal year 2018, the District changed accounting policies related to reporting the net Other Post-Employment Benefit (OPEB) liability, deferred outflows of resources, and deferred inflows of resources in the statement of net position by adopting GASB Statement No. 75 "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*" Accordingly, the effect of the accounting change is reported on the statement of net position and the statement of activities for the current year.

NOTE 2: COMPLIANCE AND ACCOUNTABILITY

A. Finance-Related Legal and Contractual Provisions

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

VIOLATION	ACTION TAKEN
None Reported	Not Applicable

NOTE 3: DEPOSITS AND INVESTMENTS

A. Cash Deposits

At June 30, 2018, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was $12,336,328 and the bank balance was $14,538,520. Of the bank balance, $250,000 was covered by federal depository insurance, and the remainder was covered by collateral held in the pledging bank's trust department in the District's name. The District's cash deposits are held in JP Morgan Chase Bank, which is qualified as a public depository under Texas law, and is deemed to be insured and not subject to classification by credit risk. At June 30, 2018, the market value of pledged collateral was $19,928,104.

B. Investments

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

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

C. Public Funds Investment Pools

Public funds investment pools in Texas are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act, Chapter 2256 of the Texas Government Code.

NOTE 3: DEPOSITS AND INVESTMENTS (CONTINUED)

C. Public Funds Investment Pools (Continued)

In addition to other provisions of the act designed to promote liquidity and safety of principal, the act requires pools to (1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, (2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service, and (3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The District's investments in pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is reported at share value.

D. Credit Risk

State law limits investments in money market mutual funds to not less than AAA rating or its equivalent by nationally recognized statistical rating organizations (NRSROs). It is the District's policy to limit its investments in these investment types to the AAA rating issued by NRSROs.

E. Concentration of Credit Risk

The District places no limit on the amount that may be invested in any one issuer. However, the District's investment policy calls for portfolio diversification by avoiding over-concentration in a specific maturity sector or specific instruments.

TexPool and Lone Star Pool Investment Funds uses amortized cost to value portfolio assets and follows the criteria for GASB Statement No. 79 for use of amortized cost. Those investments do not place any limitations or restrictions such as notice periods or maximum transaction amounts, on withdrawals.

TexPool and Lone Star Pool Investment Funds are rated AAAm and AAA, respectively by Standard and Poors. Investments in this rating category meet the highest standards for credit quality, conservative investment policies, and safety of principal. TexPool and Lone Star Investment Funds invests in a high quality portfolio of debt securities investments that are legally permissible for local governments in the state.

F. Interest Rate Risks

In accordance with its investment policy, the District manages its exposure to declines in fair values by investing in investments that match anticipated cash flow requirements, such as weighted average maturity limits and diversification benchmarks. Investments are limited to final stated maturities of not more than five years from the date of purchase. Money market funds and pools have a maturity of less than one year.

NOTE 3: DEPOSITS AND INVESTMENTS (CONTINUED)

G. Valuation

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of assets. The District's investments for all funds at fiscal year-end are listed below at fair value, net of accruals. The District has the following recurring fair value measurements as of June 30, 2018:

DESCRIPTION*	MINIMUM LEGAL RATING	INVESTMENT RATING	RATING ORGANIZATION	CARRYING VALUE	WEIGHTED AVERAGE	PERCENTAGE INVESTED
TexPool Investment Fund	AAA	AAAm	Standard & Poors	$ 300,891,698	0.10	94%
Lone Star Pool Investment Fund	AAA	AAA	Standard & Poors	20,424,158	0.10	6%
TOTAL INVESTMENTS				$ 321,315,856	0.10	100%

NOTE 4: CAPITAL ASSETS

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

	BEGINNING BALANCE JUNE 30, 2017	ADDITIONS	DELETIONS	TRANSFERS	ENDING BALANCE JUNE 30, 2018
Governmental Activities					
Capital Assets Not Being Depreciated:					
Land	$ 23,585,166	$ 82,737	$ -	$ -	$ 23,667,903
Construction in Progress	2,574,741	66,413,875	-	(527,978)	68,460,638
Total Capital Assets not being Depreciated	26,159,907	66,496,612	-	(527,978)	92,128,541
Capital Assets being Depreciated:					
Buildings and Improvements	594,279,308	2,363,680	-	527,978	597,170,966
Furniture, Equipment, and Vehicles	43,738,389	3,781,669	(92,108)	-	47,427,950
Capital Lease	2,709,068	-	-	-	2,709,068
Total Capital Assets, being Depreciated	640,726,765	6,145,349	(92,108)	527,978	647,307,984
Less Accumulated Depreciation for					
Buildings and Improvements	(197,005,863)	(16,589,934)	-	-	(213,595,797)
Furniture, Equipment, and Vehicles	(35,407,919)	(2,723,695)	92,108	-	(38,039,506)
Capital Lease	(2,709,068)	-	-	-	(2,709,068)
Total Accumulated Depreciation	(235,122,850)	(19,313,629)	92,108	-	(254,344,371)
Total Capital Assets being Depreciated, Net	405,603,915	(13,168,280)	-	527,978	392,963,613
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	$ 431,763,822	$ 53,328,332	$ -	$ -	$ 485,092,154

NOTE 4: CAPITAL ASSETS (CONTINUED)

Depreciation was charged to functions as follows: (Depreciation was distributed as a percentage of aggregate expenditures.)

	AMOUNT
Instruction	$ 10,894,659
Instruction Resources and Media Services	200,361
Curriculum and Staff Development	584,260
Instructional Leadership	292,536
School Leadership	997,697
Guidance, Counseling, and Evaluation Services	681,593
Social Work Services	108,883
Health Services	193,687
Student Transportation	832,945
Food Services	1,083,508
Extracurricular Activities	366,395
General Administration	460,865
Plant Maintenance and Operations	1,949,028
Security and Monitoring Services	220,783
Data Processing Services	330,385
Community Services	116,044
TOTAL DEPRECIATION EXPENSE	$ 19,313,629

NOTE 5: LONG-TERM OBLIGATIONS

The District has entered into a continuing disclosure undertaking to provide annual reports and material event notices to the Municipal Securities Rule Making Board through the electronic municipal market access website. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the District.

A. Long-Term Obligation Activity – Bonds

Bonded indebtedness of the District is reflected as governmental activities in the statement of net position. Effective interest rates range from 2.00% to 5.63%.

NOTE 5: LONG-TERM OBLIGATIONS (CONTINUED)

A. Long-Term Obligation Activity – Bonds (Continued)

A summary of changes in long-term debt for the year ended June 30, 2018 is as follows:

DESCRIPTION	INTEREST RATE PAYABLE	AMOUNT ORIGINAL ISSUE	AMOUNT OUTSTANDING JULY 1, 2017	ISSUED	RETIRED	AMOUNT OUTSTANDING JUNE 30, 2018
School Building Bonds:						
School Building Bonds Series 2007 (2), (10), (11)	4.00% to 5.63%	$ 240,779,223	$ 5,689,223	$ -	$ -	$ 5,689,223
School Building Bonds Series 2010 (3)	3.00% to 5.00%	24,404,982	15,244,982	-	1,151,684	14,093,298
School Building Bonds Series 2012 (4)	2.00% to 3.50%	9,370,000	5,720,000	-	1,250,000	4,470,000
Refunding Bonds Series 2013 (5)	2.00% to 4.00%	17,700,000	16,415,000	-	-	16,415,000
Refunding Bonds Series 2013 A (6)	4.00% to 5.00%	11,760,000	10,970,000	-	425,000	10,545,000
School Building Bonds Series 2013 (7)	2.00% to 5.00%	78,245,000	77,360,000	-	705,000	76,655,000
Refunding Bonds Series 2014 (8)	2.00% to 3.00%	5,595,000	3,480,000	-	110,000	3,370,000
Refunding Bonds Series 2015 (9)	3.00% to 5.00%	61,270,000	61,270,000	-	1,175,000	60,095,000
School Building and Refunding Bonds Series 2016 (10)	3.00% to 5.00%	310,915,000	310,915,000	-	3,565,000	307,350,000
Refunding Bonds Series 2016 A (11)	1.00% to 5.00%	63,985,000	62,445,000	-	1,935,000	60,510,000
School Building Bonds Series 2016 B (12)	3.25% to 5.00%	4,945,000	4,945,000	-	50,000	4,895,000
School Building Bonds Series 2017 (13)	2.00% to 5.00%	55,730,000	-	55,730,000	-	55,730,000
Totals			574,454,205	55,730,000	10,366,684	619,817,521

NOTE 5: LONG-TERM OBLIGATIONS (CONTINUED)

A. Long-Term Obligation Activity – Bonds (Continued)

DESCRIPTION	AMOUNT ORIGINAL ISSUE	AMOUNT OUTSTANDING JULY 1, 2017	ISSUED	RETIRED	AMOUNT OUTSTANDING JUNE 30, 2018
C.A.B.'s - Accreted Interest					
Series 2007 (1), (2)	$ 5,689,223	$ 7,014,404	$ 1,035,521	$ -	$ 8,049,925
C.A.B.'s - Accreted Interest					
Series 2010 (1), (3)	2,169,982	1,536,949	223,531	903,316	857,164
Total C.A.B.'s		8,551,353	1,259,052	903,316	8,907,089
TOTAL ALL BONDS		$ 583,005,558	$ 56,989,052	$ 11,270,000	$ 628,724,610

(1) Additions are made up of interest accreted on capital appreciation bonds for the year ended June 30, 2018. The capital appreciation bonds were originally recorded at their face value and have only been reduced as principal payments were made. Since these bonds mature at different dates the bonds are now included in bonds payable at their accreted value, for principal amounts due as of June 30, 2018.

(2) During the fiscal year ended June 30, 2007, the District issued bonds that were delivered on May 10, 2007. The District issued and received $240,779,223 in bond proceeds including refunding $9,400,000 of Unlimited Tax School Building Bonds Series 1999, $28,950,000 of Unlimited Tax School Building Bonds Series 2002, and $41,445,000 of Unlimited Tax School Building Bonds Series 2003. The bond issue consisted of $95,330,000 current interest bonds and $5,689,223 capital appreciation bonds. The purpose of the bonds are for the construction, renovation, and equipping of District facilities and to pay the costs associated with the issuance of the bonds. As a result, the refunded portions of the bonds are considered defeased. The purpose of the refunding was to restructure the overall debt service of the District to allow for additional debt to be issued and maintain a level debt service tax rate. The refunding resulted in a present value savings of $3,249,804.

NOTE 5: LONG-TERM OBLIGATIONS (CONTINUED)

A. Long-Term Obligation Activity – Bonds (Continued)

(3) During the fiscal year ended June 30, 2010, the District issued Judson Independent School District Unlimited Tax Refunding Bonds, Series 2010 for $24,404,982 to refund a portion of the Unlimited Tax School Building Bonds, Series 1999, Series 2002, and Series 2003 in the amount of $4,800,000, $4,980,000, and $14,625,000, respectively, by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. The bond issue consisted of $2,169,982 of capital appreciation bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. As a result of the advanced refunding, the District reduced its total debt service requirements by $2,276,150 and resulted in an economic gain of $1,419,768. Bonds outstanding that are considered defeased as a result of the refunding total $0 at June 30, 2017.

(4) During the fiscal year ended June 30, 2012, the District issued Judson Independent School District Unlimited Tax Refunding Bonds, Series 2012 for $9,370,000 to refund the Unlimited Tax School Building Series 2002 and to refund a portion of the Unlimited Tax School Building and Refunding Bonds Series 2003 in the amount of $3,170,000 and $6,355,000, respectively, by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. As a result of the advanced refunding, the District reduced its total debt service requirements by $2,218,728 and resulted in an economic gain of $1,824,235. Bonds outstanding that are considered defeased as a result of the refunding total $0 at June 30, 2017.

(5) During the fiscal year ended June 30, 2013, the District issued Judson Independent School District Unlimited Tax Refunding Bonds, Series 2013 for $17,700,000 to refund the Unlimited Tax School Building Bonds, Series 2004 in the amount of $18,875,000 by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. As a result of the advanced refunding, the District reduced its total debt service requirements by $4,347,913 which resulted in an economic gain of $3,601,024. Bonds outstanding that are considered defeased as a result of the current year refunding total $0 at June 30, 2017.

(6) During the fiscal year ended June 30, 2014, the District issued Judson Independent School District Unlimited Tax Refunding Bonds, Series 2013A for $11,760,000 to refund the Unlimited Tax School Building Series 2005B in the amount of $12,925,000 by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. As a result of the advanced refunding, the District reduced its total debt service requirements by $1,331,788 and resulted in an economic gain of $1,190,980. Bonds outstanding that are considered defeased as a result of the refunding total $0 at June 30, 2017.

NOTE 5: LONG-TERM OBLIGATIONS (CONTINUED)

A. Long-Term Obligation Activity – Bonds (Continued)

(7) During the fiscal year ended June 30, 2014, the District issued Judson Independent School District Unlimited Tax Building Bonds, Series 2013 that were delivered on August 20, 2013. The District issued and received $78,245,000 in bonds proceeds and $5,540,763 in bond premiums. The bonds are for the construction and equipping of District Schools, purchasing the necessary sites and to pay the costs associated with the issuance of the bonds.

(8) During the fiscal year ended June 30, 2014, the District issued Judson Independent School District Unlimited Tax Refunding Bonds, Series 2014 for $5,595,000 to refund the Unlimited Tax School Building Series 2005B in the amount of $5,770,000 by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. As a result of the advanced refunding, the District reduced its total debt service requirements by $1,262,325 and resulted in an economic gain of $964,148. Bonds outstanding that are considered defeased as a result of the refunding total $0 at June 30, 2017.

(9) During the fiscal year ended June 30, 2016, the District issued Judson Independent School District Unlimited Tax Refunding Bonds, Series 2015 for $61,270,000 to refund a portion of the Unlimited Tax School Building Bonds, Series 2008 in the amount of $63,095,000 by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. As a result of the advanced refunding, the District reduced its total debt service requirements by $6,221,755 and resulted in an economic gain of $4,506,397. Bonds outstanding that are considered defeased as a result of the refunding total $0 at June 30, 2017.

(10) During the fiscal year ended June 30, 2017, the District issued the Judson Independent School District Unlimited Tax Building and Refunding Bonds, Series 2016 for $310,915,000 with bond premiums of $38,227,844. The bonds were delivered on September 20, 2016. In the issuance, the District issued and received $188,040,000 in bond proceeds and $22,257,369 in bond premiums for the construction and equipping of District Schools, purchasing the necessary sites and to pay the costs associated with the issuance of the bonds. The remaining of the bond proceeds of $122,875,000 and bond premium of $15,970,475 were used to partially refund $135,035,000 of the current interest bonds Unlimited Tax School Building Bonds, Series 2007 by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. As a result of the advanced refunding, the District reduced its total debt service requirements by $30,316,263 and resulted in an economic gain of $24,764,902. Bonds outstanding that are considered defeased as a result of the refunding total $0 at June 30, 2017.

NOTE 5: LONG-TERM OBLIGATIONS (CONTINUED)

A. Long-Term Obligation Activity – Bonds (Continued)

(11) During the fiscal year ended June 30, 2017, the District issued the Judson Independent School District Unlimited Tax Building and Refunding Bonds, Series 2016A for $63,985,000 with bond premiums of $4,566,210. The issuance partially refunded $66,405,000 of the Unlimited Tax School Building Bonds, Series 2007 by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. As a result of the refunding, the District reduced its total debt service requirements by $9,241,225 and resulted in an economic gain of $6,408,673. Bonds outstanding that are considered defeased as a result of the refunding total $0 at June 30, 2017.

(12) During the fiscal year ended June 30, 2017, the District issued Judson Independent School District Unlimited Tax Building Bonds, Series 2016B for $4,945,000 to payoff of the Judson Independent School District Public Facility Corporation School Facility Lease Revenue Bonds, Series 2013 in the amount of $4,954,000 by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the District's financial statements. As a result of the issuance and retirement, the District increased its total debt service requirements by $2,336,672 and resulted in an economic loss of $156,529. Bonds outstanding that are considered defeased as a result of the refunding total $0 at June 30, 2017.

(13) During the fiscal year ended June 30, 2018, the District issued Judson Independent School District Unlimited Tax Building Bonds, Series 2017 that were delivered on December 15, 2017. The District issued and received $55,730,000 in bonds proceeds and $4,841,631 in bond premiums. The bonds are for the construction, renovation, and equipping of District Schools, purchasing the necessary sites and to pay the costs associated with the issuance of the bonds.

Summary information on the capital appreciation bonds is as follows:

SERIES	MATURITY DATE 2/1	ORIGINAL AMOUNT	ACCRETED VALUE JUNE 30, 2018	VALUE AT MATURITY
2007	2026-2027	$ 5,689,223	$ 8,049,925	$ 26,400,000
2010	2018-2019	2,169,982	857,164	4,015,000

NOTE 5: LONG-TERM OBLIGATIONS (CONTINUED)

A. Long-Term Obligation Activity – Bonds (Continued)

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended June 30, 2018 are as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE	AMOUNTS DUE WITHIN ONE YEAR
Governmental Activities					
General Obligation Bonds	$ 574,454,205	$ 55,730,000	$ 10,366,684	$ 619,817,521	$ 11,333,298
C.A.B.'s - Accreted Interest	8,551,353	1,259,052	903,316	8,907,089	-
Tax Notes	1,370,000	-	335,000	1,035,000	340,000
Compensated Absences	1,948,348	562,710	387,096	2,123,962	424,792
TOTAL GOVERNMENT ACTIVITIES	$ 586,323,906	$ 57,551,762	$ 11,992,096	$ 631,883,572	$ 12,098,090

The general fund, the primary governmental activity fund type, is typically used to liquidate compensated absences.

B. Debt Service Requirements

Debt service requirements on long-term debt at June 30, 2018, are as follows:

YEAR ENDING JUNE 30,	BONDS PAYABLE PRINCIPAL	INTEREST	TOTAL
2019	$ 11,333,298	$ 26,632,864	$ 37,966,162
2020	13,030,000	25,298,513	38,328,513
2021	13,760,000	24,811,063	38,571,063
2022	14,645,000	24,183,413	38,828,413
2023	16,660,000	23,526,362	40,186,362
2024-2028	76,329,223	127,755,927	204,085,150
2029-2033	115,430,000	90,303,038	205,733,038
2034-2038	137,320,000	64,501,875	201,821,875
2039-2043	153,580,000	32,236,200	185,816,200
2044-2046	67,730,000	4,536,200	72,266,200
TOTALS	$ 619,817,521	$ 443,785,455	$ 1,063,602,976

NOTE 5: LONG-TERM OBLIGATIONS (CONTINUED)

C. Tax Notes – Loan

The District has entered into limited maintenance tax notes to finance the acquisition of school buses.

The assets acquired with the tax notes are:

School Buses	$9,177,541

Debt service requirements on tax notes at June 30, 2018, are as follows:

YEAR ENDING	TAX NOTES PAYABLE		
JUNE 30,	PRINCIPAL	INTEREST	TOTAL
2019	$ 340,000	$ 12,420	$ 352,420
2020	345,000	8,340	353,340
2021	350,000	4,200	354,200
TOTALS	$ 1,035,000	$ 24,960	$ 1,059,960

The effective interest rate on the outstanding tax note is 1.20%

NOTE 6: COMMITMENTS UNDER NONCAPITALIZED LEASES

There are no significant commitments under operating (noncapitalized) lease agreements for facilities and equipment. Rental expense for the fiscal year ended June 30, 2018 was $774,629.

NOTE 7: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters for which the District carries commercial insurance. During fiscal year 2018, the District purchased replacement value commercial property insurance with a $100,000 deductible. There were no significant reductions in coverage in the past fiscal year.

NOTE 8: WORKER'S COMPENSATION SELF-INSURANCE

Judson Independent School District established a limited risk management program for worker's compensation effective September 1, 1991. During the year ended June 30, 2018, a total of $708,050 was paid in benefits and $175,991 in administrative costs.

NOTE 8: WORKER'S COMPENSATION SELF-INSURANCE (CONTINUED)

An excess coverage insurance policy covers individual claims in excess of $450,000 for any one event up to a maximum limit of $1,000,000. Accrued liabilities of $958,255 represents the administrator's estimate of the aggregate liability for claims made.

	BEGINNING OF FISCAL YEAR LIABILITY	CURRENT YEAR CLAIMS AND CHANGES IN ESTIMATES	CLAIM PAYMENTS	BALANCE AT FISCAL YEAR-END
2016-2017	$ 550,025	$ 601,056	$ (761,034)	$ 390,047
2017-2018	390,047	1,276,258	(708,050)	958,255

NOTE 9: ACCUMULATED UNPAID SICK LEAVE BENEFIT

Upon resignation from the District, employees with at least ten consecutive years of service are entitled to reimbursement for any unused local sick leave earned at the District. Employees retiring from the District are entitled to reimbursement for unused state, personal, and sick leave.

At June 30, 2018, the District's liability for accrued sick leave is as follows:

	SICK LEAVE
Balance, July 1, 2017	$ 1,948,348
Additions	562,710
Deletions	(387,096)
BALANCE AT JUNE 30, 2018	$ 2,123,962

NOTE 10: HEALTH CARE COVERAGE

During the year ended June 30, 2018, employees of the District were covered by a health insurance plan. The District paid premiums of $355 per month per employee to the plan during 2018. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by a contractual agreement. The contract between the District and the licensed insurer is renewable January 1st of each calendar year, and terms of coverage and premium costs are included in the contractual provisions. The District contracted Aetna on January 1, 2017 through June 30, 2018. Latest financial statements for Blue Cross Blue Shield of Texas and Aetna have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

Federal Legislation enacted in January 2006 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One provision of the law allows TRS-Care to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible participants. These payments totaled, $442,360, $423,873, and $530,254 for fiscal years 2018, 2017, and 2016, respectively. Revenue and expenditures equal to the amount paid by the federal government were recognized during the 2018 fiscal year.

NOTE 11: PENSION PLAN

A. 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.

B. Pension Plan Fiduciary Net Position

Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at http://www.trs.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.

C. Benefits Provided

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

NOTE 11: PENSION PLAN (CONTINUED)

D. Contributions

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

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

Contribution Rates

	2017	2018
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%

	Plan Year Contributions	
	2016	2017
Judson ISD - Employer Contributions	$ 4,340,287	$ 4,429,351
Judson ISD - Member Contributions	$ 9,910,770	$10,888,848
Judson ISD - NECE On-behalf Contributions	$ 6,770,384	$ 6,874,497

Contributions shown above are for the plan year which runs from September 1st through August 31st and are shown for the year of the measurement date.

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

As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers.

NOTE 11: PENSION PLAN (CONTINUED)

D. Contributions (Continued)

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 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.

E. 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
Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Inflation	2.50%
Salary Increases	3.50% to 9.50%
Projection Period (100 years)	2116
Benefit Changes During the Year	None
Ad Hoc Post-Employment Benefit Changes	None

NOTE 11: PENSION PLAN (CONTINUED)

E. Actuarial Assumptions (Continued)

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.

F. Discount Rate

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2017 are summarized below:

Asset Class	Target Allocation*	Long-Term Expected Geometric Real 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			0.1
U.S. Treaties	11.0	0.7	-
Absolute Return	-	1.8	0.1
Stable Value Hedge Funds	4.0	3.0	-
Cash	1.0	(0.2)	-
Real Return			
Global Inflation Linked Bonds	3.0	0.9	-
Real Assets	16.0	5.1	1.1
Energy and Natural Resources	3.0	6.6	0.2
Commodities	-	1.2	-
Risk Parity			
Risk Parity	5.0	6.7	0.3
Inflation Expectation			2.2
Alpha	-	-	1.0
TOTAL	100.0 %	51.6 %	8.7 %

NOTE 11: PENSION PLAN (CONTINUED)

F. Discount Rate (Continued)

* Target allocations are based on the plan year 2014 policy model. Infrastructure was moved from Real Assets to Energy and Natural Resources in plan year 2017, but the reallocation does not affect the long-term expected geometric real rate of return or expected contribution to long-term portfolio returns.

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

G. Discount Rate Sensitivity Analysis

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

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
District's Proportionate Share of the Net Pension Liability	$ 72,848,470	$43,212,935	$ 18,536,542

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

At June 30, 2018, the District reported a liability of $43,212,935 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	$ 43,212,935
State's proportionate share that is associated with the District	67,208,882
Total	$110,421,817

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 thru August 31, 2017.

At August 31, 2017 the employer's proportion of the collective net pension liability was 0.0013514764150%, which was a decrease of (0.00001457368%) from its proportion as of August 31, 2016.

NOTE 11: PENSION PLAN (CONTINUED)

H. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Changes since the Prior Actuarial Valuation

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

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

For the year ended June 30, 2018, the District recognized pension expense of $5,126,426 and revenue of $6,874,497 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 632,225	$ 2,330,417
Changes in actuarial assumptions	1,968,418	1,126,873
Difference between projected and actual investment earnings	-	3,149,264
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	7,345,074	455,536
Contributions paid to TRS subsequent to the measurement date	3,913,319	-
Total	$ 13,859,036	$ 7,062,090

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

Year Ended June 30,	Pension Expense Amount
2018	$ 362,761
2019	3,121,155
2020	150,829
2021	(672,215)
2022	20,421
Thereafter	(99,324)
Total	$ 2,883,627

NOTE 12: DEFINED OTHER POST-EMPLOYMENT PLAN - RETIREE HEALTH PLAN

A. Plan Description

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

B. 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.

C. Benefits Provided

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

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

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

NOTE 12: DEFINED OTHER POST-EMPLOYMENT PLAN - RETIREE HEALTH PLAN (CONTINUED)

C. Benefits Provided (Continued)

TRS-Care Plan Premium Rates
Effective Sept. 1, 2016 - Dec. 31, 2017

	TRS-Care 1 Basic Plan	TRS-Care 2 Optional Plan	TRS-Care 3 Optional Plan
Retiree*	$ -	$ 70	$ 10
Retiree and Spouse	20	175	255
Retiree* and Children	41	132	182
Retiree and Family	61	237	337
Surving Children Only	28	62	82

* Or Surviving Spouse

D. Contributions

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

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

Contribution Rates

	2017	2018
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.00%	1.25%
Employers	0.55%	0.75%
Federal/Private Funding Remitted by Employers	1.00%	1.25%

	Plan Year Contributions 2017
Judson ISD - Employer Contributions	$ 880,385
Judson ISD - Member Contributions	$ 919,189
Judson ISD - NECE On-behalf Contributions	$ 1,315,009

NOTE 12: DEFINED OTHER POST-EMPLOYMENT PLAN - RETIREE HEALTH PLAN (CONTINUED)

D. Contributions (Continued)

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

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

E. Actuarial Assumptions

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

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

NOTE 12: DEFINED OTHER POST-EMPLOYMENT PLAN - RETIREE HEALTH PLAN (CONTINUED)

E. Actuarial Assumptions (Continued)

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.50%
Discount Rate*	3.42%
Aging Factors	Based on plan specific experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Payroll Growth Rate	2.50%
Projected Salary Increases**	3.50% to 9.50%
Healthcare Trend Rates***	4.5% to 12.00%
Election Rates	Normal Retirement: 70% participation prior to age 65 and 75% participation after age 65
Ad Hoc Post-Employment Benefit Changes	None

* 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 2.5%

*** Initial trend rates are 7.00% for non-Medicare retirees; 10.00% for Medicare retirees and 12.00% for prescription for all retirees. Initial trend rates decrease to an ultimate trend rate of 4.5% over a period of 10 years.

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

F. Discount Rate

A single discount rate of 3.42% was used to measure the total OPEB liability. There was a change of .44 percent in the discount rate since the previous year. Because the plan is essentially a “pay-as-you-go” plan, the single discount rate is equal to the prevailing municipal bond rate.

NOTE 12: DEFINED OTHER POST-EMPLOYMENT PLAN - RETIREE HEALTH PLAN (CONTINUED)

F. Discount Rate (Continued)

The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability. The source of the municipal bond rate was Fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of August 31, 2017.

G. Discount Rate Sensitivity

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

	1% Decrease in Discount Rate (2.42%)	Discount Rate (3.42%)	1% Increase in Discount Rate (4.42%)
District's Proportionate Share of the Net Pension Liability	$ 86,911,490	$73,638,313	$ 62,969,671

H. 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 $73,638,313 for its proportionate share of the TRS's Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective Net OPEB Liability	$ 73,638,313
State's proportionate share that is associated with District	109,991,712
Total	$183,630,025

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 thru August 31, 2017.

At August 31, 2018 the employer's proportion of the collective Net OPEB Liability was 0.001693370088% which was the same proportion measured as of August 31, 2016.

NOTE 12: DEFINED OTHER POST-EMPLOYMENT PLAN - RETIREE HEALTH PLAN (CONTINUED)

H. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs (Continued)

Changes Since the Prior Actuarial Valuation

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

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

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

- The discount rate changed from 2.98 percent as of August 31, 2016 to 3.42 percent as of August 31, 2017. This change lowered the total OPEB liability.

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

For the year ended June 30, 2018, the District recognized OPEB expense of ($36,806,151) and revenue of ($1,315,009) for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ 1,537,256
Changes in actuarial assumptions	-	29,265,790
Difference between projected and actual investment earnings	11,186	-
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	-	1,078
Contributions paid to TRS subsequent to the measurement date	1,018,808	-
Total	$ 1,029,994	$ 30,804,124

NOTE 12: DEFINED OTHER POST-EMPLOYMENT PLAN - RETIREE HEALTH PLAN (CONTINUED)

H. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs (Continued)

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

Year Ended June 30,	OPEB Expense Amount
2018	$ (4,063,165)
2019	(4,063,165)
2020	(4,063,165)
2021	(4,063,165)
2022	(4,065,961)
Thereafter	(10,474,317)
Total	$ (30,792,938)

NOTE 13: COMMITMENTS AND CONTINGENCIES

A. Contingencies

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

B. Litigation

The District is a defendant in several lawsuits related to educating a diverse population. While the result of any litigation contains an element of uncertainty, the District's management believes that the amount of any liability and costs which might result would not have a material adverse effect on its operations or financial statements.

NOTE 13: COMMITMENTS AND CONTINGENCIES (CONTINUED)

C. Construction Commitments

As of June 30, 2018, the District was obligated under the terms of agreements for the construction of the following projects:

PROJECT NAME	CONTRACT AMOUNT	PAID TO DATE	COMMITMENT BALANCE REMAINING	RETAINAGE PAYABLE AMOUNT *
General Construction -				
Kitty Hawk Middle School	$ 24,434,052	$ 1,297,494	$ 23,136,558	$ 27,540
Wortham Oaks Elementary School	26,080,749	14,239,178	11,841,571	691,960
Veterans Memorial High School	7,545,753	5,028,841	2,516,912	-
Escondido Elementary School	26,719,130	24,687,310	2,031,820	1,232,484
Kirby Middle School	1,887,401	1,059,766	827,635	-
Wagner High School	5,557,000	4,749,965	807,035	280,261
Woodlake Hills Middle School	5,530,782	5,062,597	468,185	264,832
Hopkins Elementary School	2,419,254	2,259,797	159,457	111,554
Paschall Elementary School	2,243,609	2,089,229	154,380	107,665
Park Village Elementary School	2,068,230	1,913,975	154,256	94,424
Elolf Elementary School	2,986,793	2,837,453	149,340	140,225
Masters Elementary School	2,094,962	1,988,161	106,800	98,247
Other various locations	1,981,733	519,437	1,462,296	-
TOTAL CONSTRUCTION COMMITMENTS	$ 111,549,448	$ 67,733,203	$ 43,816,245	$ 3,049,192

* Amount has been accrued and is included in accounts payable.

NOTE 14: INTERFUND BALANCES AND ACTIVITIES

Due to and from Other Funds

Balances due to and due from other funds at June 30, 2018, consisted of the following:

DUE TO FUND	DUE FROM FUND	AMOUNT	PURPOSE
General Fund	Non-Major Funds	$ 1,193,290	Short-Term Loans
Non-Major Funds	General Fund	112	Short-Term Loans
Debt Service Fund	General Fund	573,310	Short-Term Loans
General Fund	Capital Projects Fund	7,036	Short-Term Loans
Non-Major Funds	Non-Major Funds	103,779	Short-Term Loans
	TOTAL	$ 1,877,527	

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

NOTE 14: INTERFUND BALANCES AND ACTIVITIES (CONTINUED)

Transfers between funds for the year ended June 30, 2018, consisted of the following:

TRANSFERS IN FUND	TRANSFERS OUT FUND	AMOUNT	PURPOSE
General Fund	Capital Projects Fund	$ 4,400,000	Reimbursment for Capital Improvements

NOTE 15: DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources at year end consisted of the following:

REVENUE DESCRIPTION	GENERAL FUND	DEBT SERVICE FUND	TOTAL
Deferred Inflow of Resources - Taxes Receivable	$ 1,916,925	$ 680,685	$ 2,597,610

NOTE 16: DUE FROM OTHER GOVERNMENTS

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and per capita programs. Amounts due from federal and state governments as of June 30, 2018, are reported on the combined financial statements as due from other governments and are summarized below:

FUND	STATE ENTITLEMENTS	FEDERAL GRANTS	LOCAL GOVERNMENTS	OTHER GRANTS	TOTAL
General Fund:					
School Foundation/Available	$ 18,881,585	$ -	$ -	$ -	$ 18,881,585
Bexar County Tax Collections	-	-	460,613	-	460,613
Total General Fund	18,881,585	-	460,613	-	19,342,198
Other Governmental Funds:					
ESEA Title III, Homeless Education	-	9,931	-	-	9,931
ESEA Title I, Part A Basic	-	1,125,362	-	-	1,125,362
ESEA Title I, School Improvement Program	-	12,571	-	-	12,571
IDEA, Part B - Formula	-	730,155	-	-	730,155
IDEA, Part B - Preschool Grant	-	16,265	-	-	16,265
Summer Feeding Program	-	86,408	-	-	86,408
Title V - Vocational Education Basic Grant	-	24,614	-	-	24,614
Title V - Vocational Education Reserve Grant		20,503			20,503
Title II, Part A - Teacher and Principal Training	-	104,323	-	-	104,323
English Language Acquisition and Enhancement	-	19,521	-	-	19,521
Texas Emergency Impact Aid	-	149,874	-	-	149,874
Industry Cluster Grant	35,032	53,227	-	-	88,259
Title IV, Part A	-	10,491	-	-	10,491
State Supplement Visually Impaired	-	-	-	-	-
OOG Truancy Prevention	44,843	-	-	-	44,843
UT Externship Grant	-	-	-	8,021	8,021
Instructional Materials Allotment	-	-	-		-
Total Other Governmental Funds	79,875	2,363,245	-	8,021	2,451,141
TOTALS	$ 18,961,460	$ 2,363,245	$ 460,613	$ 8,021	$ 21,793,339

NOTE 17: LOCAL AND INTERMEDIATE REVENUES

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

REVENUE DESCRIPTION	GENERAL FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	OTHER GOVERNMENTAL FUNDS	TOTAL REVENUE AMOUNT
Property Taxes:					
Current Year	$ 90,589,751	$ 33,535,634	$ -	$ -	$ 124,125,385
Prior Years	308,761	76,615	-	-	385,376
Penalty and Interest	542,036	200,221	-	-	742,257
Total Property Taxes	91,440,548	33,812,470	-	-	125,253,018
Investment Interest Revenue	1,022,657	284,512	2,876,050	21,631	4,204,850
Food Service Revenue	-	-	-	2,105,362	2,105,362
Athletic Revenue	436,919	-	-	-	436,919
Tuition Revenue	1,466,549	-	-	-	1,466,549
Rental Income	143,103	-	-	-	143,103
Gifts and Bequests	80,011	-	-	-	80,011
Other Revenue	1,348,355	100	-	128,807	1,477,262
TOTALS	$ 95,938,142	$ 34,097,082	$ 2,876,050	$ 2,255,800	$ 135,167,074

NOTE 18: GENERAL FUND FEDERAL REVENUE SOURCES

During the year, federal revenue recorded in the general fund consisted of the following:

PROGRAM OR SOURCE	REVENUE AMOUNT
Impact Aid (PL 81-874)	$ 117,243
Air Force Junior Reserve Officer Training Corp (AFJROTC)	155,977
School Health and Related Services (SHARS)	3,808,993
Indirect Cost from Federal Programs	
ESEA Title X, Part C, Education for Homeless Children & Youth	157
ESEA Title I, Part A, Improving Basic Programs	66,273
ESEA Title I, School Improvement Programs	2,953
IDEA-B, Formula	47,579
IDEA-B, Preschool	911
Title V, Vocational Education Basic Grant	2,850
Title II, Part A - Training and Recruiting	5,069
Title III, Part A - Limited English Proficiency	2,347
Title III, LEP & Immigrant	95
Title IV, Part A	489
Industry Cluster Federal Grant	3,690
TOTAL FEDERAL REVENUE IN GENERAL FUND	$ 4,214,626

NOTE 19: SHARED SERVICES ARRANGEMENTS

The District participates in a shared services arrangement (SSA) for a federal program with the following school districts:

Fort Sam Houston Independent School District
East Central Independent School District
Randolph Field Independent School District
North East Independent School District
San Antonio Independent School District

The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District does not have joint ownership interest in capital assets purchased by the fiscal agent, Judson Independent School District, nor does the District have a net equity interest in the fiscal agent. The fiscal agent does not accumulate significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for all financial activities of the SSA.

NOTE 20: NEGATIVE OPERATING GRANTS AND CONTRIBUTIONS – STATEMENT OF ACTIVITIES

Expense activity is required to be recorded by districts participating in cost sharing pension and OPEB plans with a special funding situation where non-employer contributing entities (NECE) also contribute to the plans. The TRS retirement plan and TRS Care OPEB plans are both cost sharing plans with special funding situations. Therefore, the District is required to record on-behalf expense and on-behalf revenues to record the contributions made by the State of Texas to the TRS pension and TRS Care plans as a NECE. The expenses and revenues are recorded in equal amounts in the statement of activities as part of the adjustments to record the net pension and OPEB liabilities in accordance with GASB statements 68 and 75.

During the year under audit, the NECE expense (and revenue) were negative due to additional funding by the State of Texas after the beginning net OPEB liability was determined and changes in the benefits offered within the TRS Care plans. The accrual for the District's proportionate share of that expense and revenue was a negative adjustment to the statement of activities. This resulted in negative revenue for operating grants and contributions on the statement of activities in accordance with guidance provided by GASB.

NOTE 20: NEGATIVE OPERATING GRANTS AND CONTRIBUTIONS – STATEMENT OF ACTIVITIES (CONTINUED)

The table below summarized the effects on the statement of activities as a result of the negative on-behalf adjustment.

FUNCTIONS	OPERATING GRANTS AND CONTRIBUTIONS	NEGATIVE ON-BEHALF ACCRUALS	OPERATING GRANTS AND CONTRIBUTIONS EXCLUDING ON-BEHALF ACCRUALS
Instruction	$ (14,335,453)	$ 26,122,009	$ 11,786,556
Instructional Resources and Media Services	(298,936)	401,990	103,054
Curriculum and Staff Development	1,089,942	1,895,623	2,985,565
Instructional Leadership	(152,771)	788,829	636,058
School Leadership	(2,084,196)	2,660,239	576,043
Guidance, Counseling, and Evaluation Services	(1,255,311)	1,810,473	555,162
Social Work Services	(63,118)	300,190	237,072
Health Services	(246,272)	410,395	164,123
Student Transportation	(617,912)	1,046,099	428,187
Food Service	8,527,561	1,686,057	10,213,618
Extracurricular Activities	(442,204)	646,304	204,100
General Administration	(468,031)	701,886	233,855
Plant Maintenance and Operations	(545,016)	1,708,159	1,163,143
Security and Monitoring Services	(207,128)	320,516	113,388
Data Processing Services	(191,002)	357,577	166,575
Community Services	(8,199)	106,760	98,561
Interest on Long-Term Debt	2,244,228	-	2,244,228
Bond Issuance Costs and Fees	1,376	-	1,376
Facilities Acquisitions and Construction	714,416	-	714,416
Payments Related to Shared Service Arrangements	342,500	-	342,500
Payments to Juvenile Justice Alternative Education Program	92	-	92
Other Intergovernmental Charges	27,335	-	27,335
	$ (7,968,099)	$ 40,963,106	$ 29,665,060

NOTE 21: NET POSITION DEFICIT

At June 30, 2018, the District has a deficit net position in the government-wide statement of net position. This deficit is due to the restatement of beginning net position to recognize the net OPEB liability related to TRS Care totaling $130,004,722 in accordance with GASB Statement No. 75.

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APPENDIX D

Form of Opinion of Bond Counsel

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DRAFT

IN REGARD to the authorization and issuance of the "Judson Independent School District Unlimited Tax Refunding Bonds, Series 2020" (the *Bonds*), dated December 1, 2019, in the aggregate original principal amount of $___________, we have reviewed the legality and validity of the issuance thereof by the Judson Independent School District (the *Issuer*). The Bonds are issuable in fully registered form only, in denominations of $5,000 or any integral multiple thereof. The Bonds have Stated Maturities of February 1 in each of the years 2021 through 2028, 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 Deposit Letter (the *Escrow Agreement*) between the Issuer and Zions Bancorporation, National Association, Houston, Texas (the *Escrow Agent*), and the certification (the *Sufficiency Certificate*) by SAMCO Capital Markets, Inc., as Financial Advisor to the Issuer, concerning the sufficiency of the cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement; (2) customary certifications and opinions of officials of the Issuer; (3) certificates executed by officers of the Issuer relating to the expected use and investment of proceeds of the Bonds and certain other funds of the Issuer, and to certain other facts solely within the knowledge and control of the Issuer; and (4) such other documentation, including an examination of the 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 documents submitted to us as originals,

Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, in connection with the authorization and issuance of "JUDSON INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX REFUNDING BONDS, SERIES 2020"

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 orders 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 Sufficiency Certificate 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 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.

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 Sufficiency Certificate 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 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

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Financial Advisory Services
Provided By:

SAMCO Capital