

OFFICIAL NOTICE OF SALE, BID FORM
and
PRELIMINARY OFFICIAL STATEMENT

\$4,500,000*

ALVARADO INDEPENDENT SCHOOL DISTRICT
(Johnson County, Texas)

Maintenance Tax Notes
Series 2020

Bids Due
January 14, 2020
at 10:00 a.m., Central Time

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

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

OFFICIAL NOTICE OF SALE

\$4,500,000*

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

MAINTENANCE TAX NOTES, SERIES 2020

THE SALE

NOTES OFFERED FOR SALE AT COMPETITIVE BID: The Board of Trustees (the "Board") of the Alvarado Independent School District (the "District" or the "Issuer") is offering for sale at competitive bid its \$4,500,000* Maintenance Tax Notes, Series 2020 (the "Notes"). Bidders may submit bids for the Notes by either of the following methods:

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

BIDS BY INTERNET: Interested bidders may, at their option and risk, submit their bid by electronic media, as described below, by 10:00 A.M., Central time, on January 14, 2020. Bidders submitting a bid by internet **shall not** be required to submit signed Official Bid Forms prior to the award. Any prospective bidder that intends to submit an electronic bid must submit its electronic bid via the facilities of the i-Deal, LLC Parity System ("PARITY") and should, as a courtesy, register with PARITY by 9:00 A.M., Central time, on January 14, 2020 indicating their intent to submit a bid by internet.

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

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

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

BIDS BY FACSIMILE: Interested bidders may, at their option and risk, submit their bid by facsimile to the District's Financial Advisor, SAMCO Capital Markets, Inc. Attention: Mr. Doug Whitt at (214) 279-8683 by 10:00 A.M., Central time, on January 14, 2020. Bidders submitting a bid by facsimile **shall not** be required to submit signed Official Bid Forms prior to the award. Any prospective bidder that intends to submit a bid by facsimile should, as a courtesy, submit an email message to dwhitt@samcocapital.com by 9:00 A.M., Central time, on January 14, 2020 indicating their intent to submit a bid by facsimile.

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

PLACE AND TIME OF BID OPENING: The bids for the Notes will be opened at the District's offices at 10:00 A.M. Central time, on January 14, 2020.

AWARD OF THE NOTES: The Board will take action to award the Notes (or reject all bids) at a meeting to commence at 7:00 P.M., Central time, on January 14, 2020.

THE NOTES

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

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

MATURITY SCHEDULE: The Notes will be stated to mature on August 15 in each of the following years in the following amounts:

Maturity	Principal Amount*	Maturity	Principal Amount*
2020	\$450,000	2025	\$450,000
2021	400,000	2026	460,000
2022	410,000	2027	475,000
2023	425,000	2028	490,000
2024	435,000	2029	505,000

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

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

SERIAL NOTES AND/OR TERM NOTES: Bidders may provide that all of the Notes be issued as serial maturities or may provide that maturities 2025 through 2029 be combined into term Notes (the "Term Notes").

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

OPTIONAL REDEMPTION: The Notes maturing on or after August 15, 2025 are subject to redemption at the option of the District in whole or in part on February 15, 2025 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption.

AUTHORITY FOR ISSUANCE AND SECURITY FOR PAYMENT: The Notes are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Section 45.108 of the Texas Education Code, as amended, and a note resolution to be adopted by the District's Board on January 14, 2020 (the "Resolution"). The Notes are direct obligations of the District and are payable as to both principal and interest from the District's Maintenance and Operations tax, a limited annual ad valorem tax to be levied on all taxable property within the District, within the limitations prescribed by law as provided in the Resolution. (See "THE NOTES – Security" in the Preliminary Official Statement).

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

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

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

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

MUNICIPAL BOND RATING AND INSURANCE: In connection with the sale of the Notes, the District has made application to S&P Global Ratings ("S&P") for a municipal bond rating. The District has an unenhanced, underlying rating, including the Notes, of "A+" by S&P. In addition, the District has made applications for a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Notes with a municipal bond insurance company. The purchase of such insurance, if available, and the payment of all associated costs will be at the option and expense of the Initial Purchaser (defined herein). IF THE BIDDER/PURCHASER CHOOSES TO SUBMIT A BID UTILIZING MUNICIPAL BOND INSURANCE, ANY DOWNGRADING OR PUBLISHED NEGATIVE CREDIT WATCH OR SIMILAR PUBLISHED INFORMATION FROM A RATING AGENCY REFLECTING A CHANGE OR POSSIBLE CHANGE IN THE RATING OF THE MUNICIPAL BOND INSURER THAT MAY OCCUR PRIOR TO THE CLOSING OF THE NOTES WILL NOT CONSTITUTE A RIGHT TO TERMINATE THE BIDDER/PURCHASER'S CONTRACT TO PURCHASE THE NOTES AT THE PRICE AND TERMS OF ITS BID. (See "BOND INSURANCE" and "BOND INSURANCE GENERAL RISKS" in the Preliminary Official Statement.)

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

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

CONDITIONS OF THE SALE

TYPES OF BIDS AND INTEREST RATES: The Notes will be sold in one block, on an "All or None" basis, and at a price of not less than their par value, and no accrued interest. **No bid producing a cash premium on the Notes that results in a dollar price of less than \$102.00 nor greater than \$108.00 will be considered; provided, however, that any bid is subject to adjustment as described under the caption "THE NOTES – ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE NOTES."** Bidders are invited to name the rate(s) of interest to be borne by the Notes, provided that each rate bid must be in a multiple of 1/8 of 1% or 1/20 of 1% and the net effective interest rate for the Notes (calculated in the manner required by Chapter 1204, as amended, Texas Government Code) must not exceed 15%. **The highest rate bid may not exceed the lowest rate bid by more than 300 basis points (or 3.00% in rate). No limitation is imposed upon bidders as to the number of rates or changes which may be used.** All Notes of one stated maturity must bear one and the same rate. No bids involving supplemental interest rates will be considered.

BASIS OF AWARD: The sale of the Notes will be awarded to the bidder making a bid that conforms to the specifications herein and which produces the **lowest True Interest Cost (defined herein) rate on the Notes to the District.** The "True Interest Cost" rate is that rate which, when used to compute the total present value as of the **date of Initial Delivery (defined herein) of the Notes** of all debt service payments on the Notes on the basis of semi-annual compounding, produces an amount equal to the sum of the par value of the Notes plus the premium bid. In the event of a bidder's error in interest cost rate calculations, the interest rates, and premium set forth in the Official Bid Form will be considered as the intended bid.

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

ESTABLISHMENT OF ISSUE PRICE:

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

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

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

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

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

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

- (1) the close of the fifth (5th) business day after the sale date; or

- (2) the date on which the underwriters have sold at least 10% of that maturity of the Notes to the public at a price that is no higher than the initial offering price to the public.

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

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

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

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

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

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

GOOD FAITH DEPOSIT: A bank cashier's check, payable to the order of "Alvarado Independent School District", in the amount of \$90,000 which is 2% of the proposed par value of the Notes (the "Good Faith Deposit"), is required to accompany any bid. The Good Faith Deposit of the Purchaser will be retained uncashed by the District pending the Purchaser's compliance with the terms of its bid and this Official Notice of Sale. In the event the Purchaser should fail or refuse to take up and pay for the Notes in accordance with its bid, then said check shall be cashed and accepted by the District as full and complete liquidated damages. The Good Faith Deposit may accompany the Official Bid Form or it may be submitted separately; however, if submitted separately, it shall be made available to the District prior to the opening of the bids, and shall be accompanied by instructions from the bank on which it is drawn which authorizes its use as a Good Faith Deposit by the Purchaser who shall be named in such instructions. **The Good Faith Deposit of the Purchaser will be returned to the Purchaser on the date of Initial Delivery.** No interest will be allowed on the Good Faith Deposit. Checks accompanying bids other than the winning bid will be returned promptly after the bids are opened, and an award of the Notes has been made by the District.

ADDITIONAL CONDITION OF AWARD — DISCLOSURE OF INTERESTED PARTY FORM:

New obligation of the District to receive information from winning bidder if bidder is not a publicly traded business entity (a "Privately Held Bidder"). Effective January 1, 2018, pursuant to Texas Government Code Section 2252.908 (the "Interested Party Disclosure Act"), the District may not award the Notes to a winning bidder which is a Privately Held Bidder unless such party submits a Certificate of Interested Parties Form 1295 (the "Disclosure Form") to the District as prescribed by the Texas Ethics Commission

("TEC"). In the event that a Privately Held Bidder's bid for the Notes is the best bid received, the District, acting through its financial advisor, will promptly notify the winning Privately Held Bidder. That notification will serve as the District's conditional verbal acceptance of the bid, and will obligate the winning Privately Held Bidder to establish (unless such winning Privately Held Bidder has previously so established) an account with the TEC, and promptly file a completed Disclosure Form, as described below, in order to allow the District to complete the award.

Process for completing the Disclosure Form. For purposes of illustration, the Disclosure Form is attached hereto, and reference should be made to such form for the following information needed to complete it: (a) item 2 – name of the governmental entity (Alvarado Independent School District) and (b) item 3 – the identification number assigned to this contract by the District (0001) and description of the goods or services (Purchase of the Alvarado Independent School District Maintenance Tax Notes, Series 2020). The Interested Party Disclosure Act and the rules adopted by the TEC with respect thereto (the "Disclosure Rules") require a non-publicly traded business entity contracting with the District to complete the Disclosure Form electronically at <https://www.ethics.state.tx.us/main/file.htm>, print, sign, and deliver, in physical form, the certified Disclosure Form that is generated by the TEC's "electronic portal" to the District. The Disclosure Form must be sent by email, to the District's financial advisor at dwhitt@samcocapital.com, as soon as possible following the notification of conditional verbal acceptance and prior to the final written award. Upon receipt of the final written award, the Disclosure Form with original signatures must be submitted by mail to Clay Binford, c/o Norton Rose Fulbright US LLP, 111 W. Houston Street, Suite 1800, San Antonio, Texas 78205.

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

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

Each bidder, through submittal of an executed Official Bid Form, hereby verifies that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, do not boycott Israel and, to the extent this Notice of Sale and Official Bid Form is a contract for goods or services, will not boycott Israel during the term of this agreement. The foregoing verification is made solely to comply with Section 2271.002, Texas Government Code, and to the extent such Section does not contravene applicable Federal law. As used in the foregoing verification, 'boycott Israel' means refusing to deal with, terminating business activities with, or otherwise taking any action that is intended to penalize, inflict economic harm on, or limit commercial relations specifically with Israel, or with a person or entity doing business in Israel or in an Israeli-controlled territory, but does not include an action made for ordinary business purposes. Each bidder, through submittal of an executed Official Bid Form, understands 'affiliate' to mean an entity that controls, is controlled by, or is under common control with the bidder and exists to make a profit.

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

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

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

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

OFFICIAL STATEMENT

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

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

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

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

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

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

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

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

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

DELIVERY AND ACCOMPANYING DOCUMENTS

INITIAL DELIVERY OF INITIAL NOTE: Initial Delivery will be accomplished by the issuance of one or more fully registered Notes in the aggregate principal amount of the Notes payable to the Purchaser (the "Initial Note" or "Initial Notes"), signed by the duly appointed officers of the Board, by their manual or facsimile signatures, approved by the Texas Attorney General, and registered and manually signed by the Texas Comptroller of Public Accounts. Initial Delivery will be at the corporate trust office of the Paying Agent/Registrar. Upon delivery of the Initial Notes, they shall be immediately canceled and one definitive Note for each maturity of the Notes payable to Cede & Co. will be delivered to DTC in connection with DTC's Book-Entry-Only System. Payment for the Notes must be made in immediately available funds for unconditional credit to the District, or as otherwise directed by the District. The Purchaser will be given six business days' notice of the time fixed for delivery of the Notes. It is anticipated that the delivery of the Initial Note can be made on or about February 11, 2020, but if for any reason the District is unable to make delivery by March 10, 2020, then the District shall immediately contact the Purchaser and offer to allow the Purchaser to extend its obligation to take up and pay for the Notes an additional thirty days. If the Purchaser does not elect to extend its offer within six days thereafter, then its Good Faith Deposit will be returned, and both the District and the Purchaser shall be relieved of any further obligation. In no event shall the District be liable for any damages by reason of its failure to deliver the Notes, provided that such failure is due to circumstances beyond the District's reasonable control.

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

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

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

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

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

GENERAL CONSIDERATIONS

RATING: In connection with the sale of the Notes, the District has made application to S&P for a municipal bond rating. The District's unenhanced, underlying rating, including the Notes, is "A+" by S&P. If the Purchaser chooses to submit a bid utilizing municipal bond insurance, the enhanced long-term rating on the Notes will be dependent upon the rating of the provider of such policy. See "BOND INSURANCE" and "BOND INSURANCE GENERAL RISKS" in the Preliminary Official Statement. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if in the judgment of said rating company, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Notes. Neither the District, except as described in the Preliminary Official Statement under the subcaption "CONTINUING DISCLOSURE OF INFORMATION – Notice of Certain Events," nor the Purchaser has undertaken any responsibility to advise owners of the Notes of any lowering or withdrawal of such ratings.

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

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

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

On the date of the sale, the Board will, in the Resolution, approve the form and content of the Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Notes by the Purchaser.

ALVARADO INDEPENDENT SCHOOL DISTRICT

/s/ Tom Head

President, Board of Trustees

ATTEST:

/s/ Gary Melson

Secretary, Board of Trustees

Dated: January 6, 2020

OFFICIAL BID FORM

President and Board of Trustees
 Alvarado Independent School District
 102 S. Bill Jackson
 Alvarado, Texas 76009

January 14, 2020

Ladies & Gentlemen:

Reference is made to your Official Notice of Sale and Preliminary Official Statement dated January 6, 2020 of \$4,500,000* ALVARADO INDEPENDENT SCHOOL DISTRICT MAINTENANCE TAX NOTES, SERIES 2020 (the "Notes"), both of which constitute a part hereof.

For your legally issued Notes, as described in said Official Notice of Sale and Preliminary Official Statement, we will pay you a price of par value thereof plus a cash premium of \$ _____ **(no bid producing a cash premium that results in a dollar price of less than \$102.00 nor greater than \$108.00 will be considered)** for Notes maturing and bearing interest as follows:

Maturity (8/15)	Principal Amount*	Interest Rate	Maturity (8/15)	Principal Amount*	Interest Rate
2020	\$450,000	_____	2025	\$450,000	_____
2021	400,000	_____	2026	460,000	_____
2022	410,000	_____	2027	475,000	_____
2023	425,000	_____	2028	490,000	_____
2024	435,000	_____	2029	505,000	_____

(Interest to Accrue from the Delivery Date)

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

Term Note Maturity Date	Year of First Mandatory Redemption	Principal Amount of Term Note	Interest Rate
August 15	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

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

TRUE INTEREST COST _____ %

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

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

Cashier's Check of the _____ (bank), _____ (location), in the amount of \$90,000 which represents our Good Faith Deposit is attached hereto or has been made available to you prior to the opening of the bid, in accordance with the terms set forth in the Official Notice of Sale and the Preliminary Official Statement. The Good Faith Deposit of the Purchaser will be returned to the Purchaser on the date of Initial Delivery upon completion of the closing.

We agree to accept delivery of the Initial Note through DTC and make payment for the Initial Note in immediately available funds at BOKF, NA, Dallas, Texas, no later than 10:00 A.M., Central time, on February 11, 2020 or thereafter on the date the Initial Note is tendered for delivery, pursuant to the terms set forth in the Official Notice of Sale.

The Issuer will consider any bid submitted pursuant to the Notice of Sale relating to the Notes to be a firm offer for the purchase of the Notes.

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

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

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

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

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

Respectfully submitted,

(Purchaser)

(Signature - Title)

(Telephone)

ACCEPTANCE CLAUSE

THE FOREGOING BID IS IN ALL THINGS HEREBY ACCEPTED this January 14, 2020 by Resolution of the Board of Trustees of the Alvarado Independent School District.

President, Board of Trustees

ATTEST:

Secretary, Board of Trustees

CERTIFICATE OF INTERESTED PARTIES

FORM 1295

1 of 1

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

**OFFICE USE ONLY
 CERTIFICATION OF FILING**

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

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

Alvarado Independent School District

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

0001

Purchase of the Alvarado Independent School District Maintenance Tax Notes, Series 2020

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

5 Check only if there is NO Interested Party.

6 UNSWORN DECLARATION

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

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

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

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

 Signature of authorized agent of contracting business entity
 (Declarant)

\$4,500,000*
ALVARADO INDEPENDENT SCHOOL DISTRICT
MAINTENANCE TAX NOTES, SERIES 2020

ISSUE PRICE CERTIFICATE

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

1. Reasonably Expected Initial Offering Price.

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

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

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

2. Defined Terms.

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

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

(c) *Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Notes. The Sale Date of the Notes is January 14, 2020.

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

*Preliminary. Subject to change.

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

By: _____
Name: _____
Title: _____

Dated: _____

SCHEDULE A
EXPECTED OFFERING PRICES

SCHEDULE B
COPY OF UNDERWRITER'S BID

BOND YEARS

\$4,500,000*

ALVARADO INDEPENDENT SCHOOL DISTRICT
(Johnson County, Texas)

MAINTENANCE TAX NOTES, SERIES 2020

Dated: February 1, 2020
Due: August 15

Year	Amount*	Bond Years*	
		Bond Years	Cumulative Bond Years
2020	\$ 450,000	229.9995	229.9995
2021	400,000	604.4440	834.4435
2022	410,000	1,029.5551	1,863.9986
2023	425,000	1,492.2218	3,356.2204
2024	435,000	1,962.3329	5,318.5532
2025	450,000	2,479.9995	7,798.5527
2026	460,000	2,995.1106	10,793.6633
2027	475,000	3,567.7773	14,361.4406
2028	490,000	4,170.4439	18,531.8845
2029	505,000	4,803.1106	23,334.9950

Average Maturity = 5.186

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

PRELIMINARY OFFICIAL STATEMENT
Dated: January 6, 2020

NEW ISSUE: BOOK-ENTRY-ONLY

In the opinion of Bond Counsel (defined below), assuming continuing compliance by the District (defined below) after the date of initial delivery of the Notes (defined below) with certain covenants contained in the Notes (defined below) and subject to the matters set forth under "TAX MATTERS" herein, interest on the Notes 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 Notes, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. See "TAX MATTERS" herein.

\$4,500,000*
ALVARADO INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Johnson County, Texas)
Maintenance Tax Notes, Series 2020

Interest Accrual Date: Initial Delivery

Dated Date: February 1, 2020

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

The Alvarado Independent School District Maintenance Tax Notes, Series 2020 (the "Notes") are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Section 45.108 of the Texas Education Code, as amended, and a note resolution (the "Resolution") authorizing the issuance of the Notes to be adopted on January 14, 2020 by the Board of Trustees (the "Board") of the Alvarado Independent School District (the "District"). The Notes constitute direct obligations of the District, secured by and payable from a continuing, direct annual ad valorem tax levied for maintenance purposes by the District against all taxable property located within the District, within the limit prescribed by law, as provided in the Resolution. (See "THE NOTES – Security" and "TAX RATE LIMITATIONS").

Interest on the Notes will accrue from the date of initial delivery to the Purchaser (defined below), anticipated to occur on or about February 11, 2020 (the "Initial Delivery") and will be payable on February 15 and August 15 of each year, commencing August 15, 2020, until stated maturity or prior redemption. The Notes will be issued in fully registered form in principal denominations of \$5,000 or any integral multiple thereof. Principal of the Notes will be payable by the Paying Agent/Registrar, which initially is BOKF, NA, Dallas, Texas (the "Paying Agent/Registrar"), upon presentation and surrender of the Notes for payment. Interest on the Notes is payable by check dated as of the interest payment date and mailed by the Paying Agent/Registrar to the registered owners as shown on the records of the Paying Agent/Registrar on the close of business as of the last business day of the month next preceding each interest payment date.

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

Proceeds from the sale of the Notes will be used for the payment of maintenance expenses of the District, including without limitation maintenance and renovations at the District's existing facilities consisting of HVAC replacements, security upgrades and paying the costs of issuance of the Notes. (See "THE NOTES – Authorization and Purpose").

The Notes maturing on or after August 15, 2025 are subject to redemption at the option of the District in whole or in part on February 15, 2025 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. (See "THE NOTES – Optional Redemption").

The District has made application to municipal bond insurance companies to have the payment of the principal of and interest on the Notes insured by a municipal bond guaranty policy. The purchase of such insurance, if available, and the payment of all associated costs will be at the option and expense of the initial Purchasers. (See "BOND INSURANCE" and "BOND INSURANCE GENERAL RISKS.")

MATURITY SCHEDULE
(On Inside Cover)

The Notes are offered for delivery when, as and if issued, and received by the initial purchaser (the "Purchaser") subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel. The Notes are expected to be available for initial delivery through the facilities of DTC on or about February 11, 2020.

BIDS DUE THURSDAY, JANUARY 14, 2020 BY 10:00 A.M., CENTRAL TIME

*Preliminary, subject to change.

\$4,500,000*
ALVARADO INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Johnson County, Texas)
MAINTENANCE TAX NOTES, SERIES 2020

MATURITY SCHEDULE
Base CUSIP No.: 022357 ⁽¹⁾

Maturity Date <u>8/15</u>	Principal Amount*	Interest Rate	Initial Yield	CUSIP No. Suffix⁽¹⁾
2020	\$450,000			
2021	400,000			
2022	410,000			
2023	425,000			
2024	435,000			
2025	450,000			
2026	460,000			
2027	475,000			
2028	490,000			
2029	505,000			

(Interest to accrue from the Delivery Date)

**Preliminary, subject to change.*

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

ALVARADO INDEPENDENT SCHOOL DISTRICT

BOARD OF TRUSTEES

<u>Name</u>	<u>Date Initially Elected</u>	<u>Current Term Expires</u>	<u>Occupation</u>
Tom Head, President	2003	2021	Supervisor Crown Electric
Kelly Price, Vice President	2004	2022	Retired/TXDOT
Gary Melson, Secretary	2016	2022	Police Officer
Rocky Biggs, Member	2017	2020	Self Employed/Insurance
Perry Burnett, Member	2018	2021	Area Manager – The Rios Group
Dana Walraven, Member	2016	2022	Community Health Outreach Manager
Hector Velazquez, Member	2019	2020	Self Employed/Landscaping

APPOINTED OFFICIALS

<u>Name</u>	<u>Position</u>	<u>Length of Education Service</u>	<u>Length of Service with the District</u>
Dr. Kenneth Estes	Superintendent	24 Years	23 Years
Mark Ratcliff	Assistant Superintendent of Operations	22 Years	16 Years
Rodney Toon	Chief Financial Officer	16 Years	16 Years
Maryann Wood	Human Resources Director	26 Years	26 Years

CONSULTANTS AND ADVISORS

Norton Rose Fulbright US LLP, San Antonio, Texas	Bond Counsel
SAMCO Capital Markets, Inc., Plano, Texas	Financial Advisor
Evans & Knauth, PLLC, Frisco, Texas	Certified Public Accountants

For additional information, contact:

Dr. Kenneth Estes
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USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

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

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

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein.

THE NOTES 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 NOTES IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THE NOTES HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

NONE OF THE DISTRICT, ITS FINANCIAL ADVISOR, OR THE PURCHASER MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY, NEW YORK, NEW YORK (“DTC”) OR ITS BOOK-ENTRY-ONLY SYSTEM, AS SUCH INFORMATION WAS PROVIDED BY DTC AND OR THE BOND INSURER, IF ANY, AND ITS MUNICIPAL BOND INSURANCE POLICY DESCRIBED HEREIN UNDER THE HEADING “BOND INSURANCE”, AS SUCH INFORMATION WAS PROVIDED BY DTC AND THE BOND INSURER, RESPECTIVELY.

The agreements of the District and others related to the Notes 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 Notes is to be construed as constituting an agreement with the purchasers of the Notes. INVESTORS SHOULD READ THIS ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

TABLE OF CONTENTS

<p>SELECTED DATA FROM THE OFFICIAL STATEMENT 1</p> <p>INTRODUCTORY STATEMENT 2</p> <p>THE NOTES 2</p> <p style="padding-left: 20px;">Authorization and Purpose 2</p> <p style="padding-left: 20px;">General Description 2</p> <p style="padding-left: 20px;">Optional Redemption 2</p> <p style="padding-left: 20px;">Notice of Redemption and DTC Notices 2</p> <p style="padding-left: 20px;">Security 3</p> <p style="padding-left: 20px;">Legality 3</p> <p style="padding-left: 20px;">Payment Record 3</p> <p style="padding-left: 20px;">Amendments 3</p> <p style="padding-left: 20px;">Defeasance 3</p> <p>REGISTERED OWNERS' REMEDIES 4</p> <p>BOOK-ENTRY-ONLY SYSTEM 4</p> <p>REGISTRATION, TRANSFER AND EXCHANGE 5</p> <p>BOND INSURANCE 6</p> <p>BOND INSURANCE GENERAL RISKS 6</p> <p>STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS 7</p> <p>CURRENT PUBLIC SCHOOL FINANCE SYSTEM 7</p>	<p>AD VALOREM TAX PROCEDURES 11</p> <p>TAX RATE LIMITATIONS 13</p> <p>THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT ... 15</p> <p>EMPLOYEE BENEFIT PLANS AND OTHER POST-EMPLOYMENT BENEFITS 15</p> <p>RATING 15</p> <p>LEGAL MATTERS 15</p> <p>TAX MATTERS 16</p> <p>INVESTMENT POLICIES 17</p> <p>REGISTRATION AND QUALIFICATION OF NOTES FOR SALE .. 18</p> <p>FINANCIAL ADVISOR 18</p> <p>LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS 18</p> <p>CONTINUING DISCLOSURE OF INFORMATION 18</p> <p>LITIGATION 19</p> <p>FORWARD-LOOKING STATEMENTS 20</p> <p>WINNING BIDDER 20</p> <p>CERTIFICATION OF THE OFFICIAL STATEMENT 20</p> <p>CONCLUDING STATEMENT 20</p>
<p>Financial Information of the District Appendix A</p> <p>General Information Regarding the District and Its Economy Appendix B</p> <p>Form of Legal Opinion of Bond Counsel Appendix C</p> <p>Audited Financial Report Fiscal Year Ended August 31, 2018 Appendix D</p>	

SELECTED DATA FROM THE OFFICIAL STATEMENT

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

The District	The Alvarado Independent School District (the "District") is a political subdivision of the State of Texas located in Johnson County, Texas. The District is governed by a seven-member Board of Trustees (the "Board"). Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors.
The Notes	The Notes are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Section 45.108 of the Texas Education Code, as amended, and a note resolution (the "Resolution") authorizing the issuance of the Notes to be adopted on January 14, 2020 by the Board. The Notes constitute direct obligations of the District, secured by and payable from a continuing, direct annual ad valorem tax levied for maintenance purposes by the District against all taxable property located within the District, within the limit prescribed by law, as provided in the Resolution. (See "THE NOTES – Security" and "TAX RATE LIMITATIONS"). Proceeds from the sale of the Notes will be used for the payment of maintenance expenses of the District, including without limitation maintenance and renovations at the District's existing facilities consisting of HVAC replacements, security upgrades and paying the costs of issuance of the Notes.. (See "THE NOTES – Authorization and Purpose").
Paying Agent/Registrar	The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas. The District intends to use the Book-Entry-Only System of The Depository Trust Company. (See "BOOK-ENTRY-ONLY SYSTEM" herein).
Security	The Notes are direct obligations of the District payable as to principal and interest from and secured by the proceeds of a continuing, direct annual ad valorem tax levied for maintenance purposes by the District, against all taxable property located within the District, within the limit prescribed by law as provided in the Resolution. (See "THE NOTES – Security" herein.) See "TAX RATE LIMITATIONS" herein for a discussion of applicable tax limitations pertaining to the District's limited maintenance tax.
Redemption	The Notes maturing on or after August 15, 2025 are subject to redemption at the option of the District in whole or in part on February 15, 2025 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. (See "THE NOTES – Optional Redemption").
Rating and Note Insurance	In connection with the sale of the Notes, the District has made application to S&P Global Ratings ("S&P") for a municipal bond rating. The District's unenhanced, underlying rating, including the Notes, is "A+" by S&P. In addition, the District has made an application for an insurance policy insuring the timely payment of the principal of and interest on the Notes. The purchase of such insurance, if available and the payment of all associated costs will be at the option and expense of the initial Purchaser. (See "BOND INSURANCE" and "BOND INSURANCE GENERAL RISKS" herein.)
Tax Matters	In the opinion of Bond Counsel for the District, interest on the Notes is excludable from gross income for federal income tax purposes described under statutes, regulations, published rulings and court decisions on the date hereof, subject to the matters described under "TAX MATTERS" herein. (See "TAX MATTERS" and Appendix C – "Form of Legal Opinion of Bond Counsel.")
Payment Record	The District has never defaulted on the payment of its bonded indebtedness.
Legal Opinion	Delivery of the Notes is subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel.
Delivery	When issued, anticipated to be on or about February 11, 2020.
Concurrent Issuance of Bonds by the District	The Notes are being issued concurrently with the District's issuance of \$11,150,000 (preliminary, subject to change) Alvarado Independent School District Unlimited Tax School Building Bonds, Series 2020, scheduled to close on or about February 11, 2020 (the "2020 Bonds"). This Official Statement describes only the Notes and not the 2020 Bonds. Investors interested in making an investment decision concerning the 2020 Bonds should review the offering document relating thereto.

INTRODUCTORY STATEMENT

This Official Statement (the "Official Statement"), which includes the cover page and Appendices attached hereto, has been prepared by the Alvarado Independent School District (the "District"), a political subdivision of the State of Texas (the "State") located in Johnson County, Texas, in connection with the offering by the District of its Maintenance Tax Notes, Series 2020 (the "Notes") identified on page ii hereof.

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

There follows in this Official Statement descriptions of the Notes and the Resolution (defined below) to be adopted by the Board of Trustees of the District (the "Board") on January 14, 2020 authorizing the issuance of the Notes and certain other information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained upon request by writing the Alvarado Independent School District, 102 S. Bill Jackson, Alvarado, Texas 76009 and, during the offering period, from the Financial Advisor, SAMCO Capital Markets, Inc., 5800 Granite Parkway, Suite 210, Plano, Texas 75024 by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

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

THE NOTES

Authorization and Purpose

The Notes are being issued in the principal amount of \$4,500,000 (preliminary, subject to change) pursuant to the Constitution and general laws of the State of Texas, particularly Section 45.108 of the Texas Education Code, as amended, and a note resolution (the "Resolution") authorizing the issuance of the Notes to be adopted on January 14, 2020 by the Board. Proceeds from the sale of the Notes will be used for the payment of maintenance expenses of the District, including without limitation maintenance and renovations at the District's existing facilities consisting of HVAC replacements, security upgrades and paying the costs of issuance of the Notes.. (See "THE NOTES – Authorization and Purpose").

General Description

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

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

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

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

Optional Redemption

The Notes maturing on or after August 15, 2025, are subject to redemption, at the option of the District, in whole or in part, on February 15, 2025, or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. If less than all of the Notes 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 Notes, or portions thereof, to be redeemed. Not less than 30 days prior to a redemption date for the Notes, 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 Note to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice.

Notice of Redemption and DTC Notices

Not less than 30 days prior to an optional redemption date for the Notes, a notice of redemption shall be sent by United States mail, first class postage prepaid, in the name of the District and at the District's expense, by the Paying Agent/Registrar to each registered owner of a Note to be redeemed in whole or in part at the address of the registered owner appearing on the Security Register at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE OF REDEMPTION SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER RECEIVED BY THE NOTEHOLDER, AND, SUBJECT TO PROVISION FOR PAYMENT OF THE REDEMPTION PRICE HAVING BEEN MADE, AND ANY PRECONDITIONS STATED IN THE NOTICE OF REDEMPTION HAVING BEEN SATISFIED INTEREST ON THE REDEEMED NOTES SHALL CEASE TO ACCRUE FROM AND AFTER SUCH REDEMPTION DATE NOTWITHSTANDING THAT A NOTE HAS NOT BEEN PRESENTED FOR PAYMENT.

The Paying Agent/Registrar and the District, so long as a Book-Entry-Only System is used for the Notes, will send any notice of redemption, notice of proposed amendment to the Resolution or other notices with respect to the Notes 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 Notes called for redemption or any other action premised on any such notice. Redemption of portions of the Notes by the District will reduce the outstanding principal amount of such Notes held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Notes 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 Notes from the beneficial owners. Any such selection of Notes to be redeemed will not be governed by the Resolution 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 Notes or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Notes for redemption. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Security

The Notes are direct obligations of the District and are payable as to both principal and interest from and secured by the proceeds of a continuing, direct annual ad valorem tax levied for maintenance purposes by the District against all taxable property located within the District, within the limit prescribed by law, as provided in the Resolution. (See "TAX RATE LIMITATIONS" herein for a discussion of applicable tax limitations pertaining to the maintenance tax. See also "AD VALOREM TAX PROCEDURES" and "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" herein).

Legality

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

Payment Record

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

Amendments

In the Resolution, the District has reserved the right to amend the Resolution without the consent of any holder for the purpose of amending or supplementing the Resolution to (i) cure any ambiguity, defect or omission therein that does not materially adversely affect the interests of the holders, (ii) grant additional rights or security for the benefit of the holders, (iii) add events of default as shall not be inconsistent with the provisions of the Resolution that do not materially adversely affect the interests of the holders, (iv) qualify the Resolution under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect or (v) make such other provisions in regard to matters or questions arising under the Resolution that are not inconsistent with the provisions thereof and which, in the opinion of Bond Counsel for the District, do not materially adversely affect the interests of the holders.

The Resolution further provides that the majority of owners of the Notes shall have the right from time to time to approve any amendment not described above to the Resolution if it is deemed necessary or desirable by the District; provided, however, that without the consent of 100% of the holders in principal amount of the then outstanding Notes so affected, no amendment may be made for the purpose of: (i) making any change in the maturity of any of the outstanding Notes; (ii) reducing the rate of interest borne by any of the outstanding Notes; (iii) reducing the amount of the principal of or redemption premium, if any, payable on any outstanding Notes; (iv) modifying the terms of payment of principal or interest on outstanding Notes or imposing any condition with respect to such payment; or (v) changing the minimum percentage of the principal amount of the Notes necessary for consent to such amendment. Reference is made to the Resolution for further provisions relating to the amendment thereof.

Defeasance

The Resolution provides for the defeasance of the Notes when the payment of the principal of and premium, if any, on the Notes, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, in trust (1) money sufficient to make such payment, (2) Government Securities (defined below) to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Notes, or (3) a combination of money and Government Securities together so certified sufficient to make such payment. The sufficiency of deposits as hereinbefore described shall be certified by an independent certified accountant, the District's Financial Advisor, the Paying Agent/Registrar, or some other qualified financial institution as specified in the Resolution. The District has additionally reserved the right in the Resolution, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Securities for the Government Securities originally deposited, to reinvest the uninvested money on deposit for such defeasance and to withdraw for the benefit of the District money in excess of the amount required for such defeasance. The Resolution provides that "Government Securities" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date 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 Notes. District officials are authorized to limit these eligible securities, as deemed necessary, in connection with the sale of the Notes. There is no assurance that the ratings for United States Treasury securities acquired to defease any Notes, or those for any other Government Securities, will be maintained at any particular rating category. Further, there is no assurance that current State 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 Notes ("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 Resolution 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 Notes, registered owners of Notes 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 State law as permissible defeasance securities.

Upon such deposit as described above, such Notes shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment of the Notes have been made as described above, all rights of the District to initiate proceedings to call the Notes for redemption or take any other action amending the terms of the Notes are extinguished; provided, however, the District has reserved the option, to be exercised at the time of the defeasance of the Notes, to call for redemption at an earlier date those Notes 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 Notes for redemption, (ii) gives notice of the reservation of that right to the owners of the Notes 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.

REGISTERED OWNERS' REMEDIES

The Resolution does not specify specific events of default with respect to the Notes. If the District defaults in the payment of principal or interest on the Notes when due, or if it fails to make payments into any fund or funds created in the Resolution, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Resolution, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Notes, if there is no other available remedy at law to compel performance of the Notes or the Resolution covenants 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 Notes in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Resolution does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the District to perform in accordance with the terms of the Resolution, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court has ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, bondholders may not be able to bring such a suit against the District for breach of the Notes or Resolution 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 Notes. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Resolution and the Notes are qualified with respect to the customary rights of debtors relative to their creditors by general principles of equity which permit the exercise of judicial discretion and by governmental immunity.

BOOK-ENTRY-ONLY SYSTEM

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

The District cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Notes, or redemption or any other notices, to Direct Participants, (2) Direct Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Notes) 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 Direct Participants are on file with DTC.

DTC will act as securities depository for the Notes. The Notes 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 Note certificate will be issued for each maturity of the Notes, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Purchases of Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC's records. The ownership interest of each actual purchaser of each Note ("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 Notes 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 Notes, except in the event that use of the Book-Entry-Only System for the Notes is discontinued.

To facilitate subsequent transfers, all Notes 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 Notes 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 Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes 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 Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Notes, such as, redemption, tenders, defaults, and proposed amendments to the Note documents. For example, Beneficial Owners of Notes may wish to ascertain that the nominee holding the Notes 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 Notes 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 Notes 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 Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

All payments on the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. All payments with respect to the Notes 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 Notes 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 Note certificates are required to be printed and delivered.

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

The information in this section concerning DTC and DTC's Book-Entry-Only System has been obtained from sources that the District believes to be reliable, but none of the District, the Financial Advisor, nor the Purchaser take any responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the Notes are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Direct or Indirect Participant acquires an interest in the Notes, 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 Resolution will be given only to DTC.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

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

Successor Paying Agent/Registrar

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

Initial Registration

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

Future Registration

In the event the Book-Entry-Only System is discontinued, the Notes may be transferred, registered and assigned on the registration books only upon presentation and surrender of the Notes 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 Note may be assigned by the execution of an assignment form on the Notes or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Note or Notes will be delivered by the Paying Agent/Registrar in lieu of the Note or Notes being transferred or exchanged at the corporate trust office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk and expense. To the extent possible, new Notes issued in an exchange or transfer of Notes 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 Notes 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 Notes registered and delivered in an exchange or transfer shall be in authorized denominations and for a like aggregate principal amount as the Notes surrendered for exchange or transfer.

Record Date For Interest Payment

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

Limitation on Transfer of Notes

The Paying Agent/Registrar shall not 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 Note or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date.

Replacement Notes

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

BOND INSURANCE

The District has made an application for an insurance policy insuring the timely payment of the principal of and interest on the Notes with a municipal bond insurance company. If the District accepts a bid for the Notes that is conditioned on obtaining a commitment from a bond insurance company (the "Insurer") to provide a municipal bond insurance policy relating to the Notes (the "Policy"), the final Official Statement shall disclose relevant information relating to the Insurer and the Policy.

BOND INSURANCE GENERAL RISKS

General

If an insurance policy is purchased, as a result of the District's acceptance of a bid for the Notes that is conditioned on obtaining such a policy, the following are risk factors relating to bond insurance.

In the event of default of the payment of principal or interest with respect to the Notes when all or some becomes due, any owner of the Notes shall have a claim under the Policy for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policy will not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional prepayment of the Notes by the District which is recovered by the District from the note owner as a voidable preference under applicable bankruptcy law is covered by the insurance policy, however, such payments will be made by the Insurer at such time and in such amounts as would have been due absent such prepayment by the District unless the Insurer chooses to pay such amounts at an earlier date.

Under most circumstances, default of payment of principal and interest does not obligate acceleration of the obligations of the Insurer without appropriate consent. The Insurer may reserve the right to direct and to consent to any remedies available to the holders of the Notes and the Insurer's consent may be required in connection with amendments to the Resolution.

In the event the Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Notes are payable solely from the moneys received by the Paying Agent/Registrar pursuant to the Resolution. In the event the Insurer becomes obligated to make payments with respect to the Notes, no assurance is given that such event will not adversely affect the market price of the Notes or the marketability (liquidity) for the Notes.

The long-term ratings on the Notes are dependent in part on the financial strength of the Insurer and its claim paying ability. The Insurer's financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the Insurer and of the ratings on the Notes insured by the Insurer will not be subject to downgrade and such event could adversely affect the market price of the Notes or the marketability (liquidity) for the Notes. See "BOND INSURANCE" herein.

The obligations of the Insurer are general obligations of the Insurer and in an event of default by the Insurer, the remedies available to the Paying Agent/Registrar may be limited by applicable bankruptcy law or other similar laws related to insolvency.

Neither the District nor the Purchasers have made independent investigation into the claims paying ability of the Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay the principal of and interest on the Notes and the claims paying ability of the Insurer, particularly over the life of the investment. See "BOND INSURANCE" herein for further information provided by the Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Insurer.

Claims-Paying Ability and Financial Strength of Municipal Bond Insurers

Moody's Investors Services, Inc., S&P (defined herein) and Fitch Ratings, Inc. (collectively, the "Rating Agencies") have, since 2008, downgraded the claims-paying ability and financial strength of providers of municipal bond insurance on multiple occasions. Additional downgrades or negative change in the rating outlook for these bond insurers is possible. In addition, recent events in the credit markets have had substantial negative effect on the bond insurance business. These developments could be viewed as having a material adverse effect on the claims paying ability of such bond insurers, including the Insurer of the Notes. Thus, when making an investment decision, potential investors should carefully consider the ability of the Insurer to pay principal and interest on the Notes and the claims paying ability of the Insurer, particularly over the life of the investment.

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

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

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

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

Possible Effects of Changes in Law on District Notes

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

Although, as a matter of law, the Notes, 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 Notes, specifically, the District's obligation to levy an annual M&O tax rate to pay the debt service requirements on the Notes would be adversely affected by any such legislation. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM".

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

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

Overview

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

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

the public school finance funding formulas are designed to generally equalize local funding generated by a school district's M&O tax rate.

Prior to the 2019 Legislative Session, a school district's maximum M&O tax rate for a given tax year was determined by multiplying that school district's 2005 M&O tax rate levy by an amount equal a compression percentage set by legislative appropriation or, in the absence of legislative appropriation, by the Commissioner of Education (the "Commissioner"). This compression percentage was historically set at 66.67%, effectively setting the maximum compressed M&O tax rate for most school districts at \$1.00 per \$100 of taxable value, since most school districts in the State had a voted maximum M&O tax rate of \$1.50 per \$100 of taxable value (though certain school districts located in Harris County had special M&O tax rate authorizations allowing a higher M&O tax rate). School districts were permitted, however, to generate additional local funds by raising their M&O tax rate up to \$0.04 above the compressed tax rate or, with voter-approval at a valid election in the 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 (96th) percentile of wealth per student in WADA, or (ii) the Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.016. For the 2020-2021 State fiscal biennium, school districts are guaranteed a yield of \$98.56 per student in WADA for each Golden Penny levied. Copper Pennies generate a guaranteed yield per student in WADA equal to the school district's Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.008. For the 2020-2021 State fiscal biennium, school districts are guaranteed a yield of \$49.28 per student in WADA for each Copper Penny levied. For any school year in which the guaranteed yield of Copper Pennies per student in WADA exceeds the guaranteed yield of Copper Pennies per student in WADA for the preceding school year, a school district is required to reduce its Copper Pennies levied so as to generate no more revenue per student in WADA than was available to the school district for the preceding year. Accordingly, the increase in the guaranteed yield from \$31.95 per Copper Penny per student in WADA for the 2018-2019 school year to \$49.28 per Copper Penny per student in WADA for the 2019-2020 school year requires school districts to compress their levy of Copper Pennies by a factor of 0.64834. As such, school districts that levied an Enrichment Tax Rate of \$0.17 in school year 2018-2019 must reduce their Enrichment Tax Rate to approximately \$0.138 per \$100 taxable value for the 2019-2020 school year.

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

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

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

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

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

Tax Rate and Funding Equity

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

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

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

Local Revenue Level in Excess of Entitlement

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

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

Options for Local Revenue Levels in Excess of Entitlement

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

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

Possible Effects of Wealth Transfer Provisions on the District's Financial Condition

For the 2019-2020 school year, the District was not designated as an "excess local revenue" district by TEA. Accordingly, the District has not been required to exercise one of the wealth equalization options permitted under applicable State law. As a district with wealth per student less than the equalized wealth value, the District may benefit in the future by agreeing to accept taxable property or funding assistance from or agreeing to consolidate with a property-rich district to enable such district to reduce its wealth per student to the permitted level.

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

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

AD VALOREM TAX PROCEDURES

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

Valuation of Taxable Property

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

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

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

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

State Mandated Homestead Exemptions

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

Local Option Homestead Exemptions

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

State Mandated Freeze on School District Taxes

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

Personal Property

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

Freeport Exemptions

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

Certain goods, that are acquired in or imported into the State to be forwarded to another location within or without the State, stored in a location that is not owned by the owner of the goods and are transported to another location within or without the State within 175 days (“Goods-in-Transit”), are generally exempt from ad valorem taxation; however, the Property Tax Code permits a taxing unit, on a local option basis, to tax Goods-in-Transit if the taxing unit takes official action, after conducting a public hearing, before January 1 of the first tax year in which the taxing unit proposes to tax Goods-in-Transit. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include aircraft or special inventories such as manufactured housing inventory, or a dealer’s motor vehicle, boat, or heavy equipment inventory.

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

Other Exempt Property

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

Tax Increment Reinvestment Zones

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

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

Tax Limitation Agreements

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

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

District and Taxpayer Remedies

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

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

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

Levy and Collection of Taxes

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

District's Rights in the Event of Tax Delinquencies

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

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

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

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

TAX RATE LIMITATIONS

M&O Tax Rate Limitations

A school district is authorized to levy maintenance and operation ("M&O") taxes subject to approval of a proposition submitted to district voters under Section 45.003(d) of the Texas Education Code, as amended. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the next succeeding paragraph. The maximum voted M&O tax rate for the District is \$1.50 per \$100 of assessed valuation as approved by the voters at an election held on May 19, 2001 under Chapter 20, Texas Education Code (now codified as Section 45.003, Texas Education Code).

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

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

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

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

I&S Tax Rate Limitations

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

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

proposed bonds and all previously issued bonds subject to the 50-cent Test from a tax rate of \$0.45 per \$100 of valuation. Once the prospective ability to pay such tax has been shown and the bonds are issued, a school district may levy an unlimited tax to pay debt service. The Notes are issued and payable by the annual levy of the M&O tax and are not subject to the \$0.50 threshold tax rate test. The District has not used State assistance, other than EDA or IFA allotment funding, or projected property values to satisfy this threshold test.

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 Notes.

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

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

THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT

The Appraisal District has the responsibility for appraising property in the District as well as other taxing units in Johnson County, Texas (the "County"). The Appraisal District is governed by a board of directors appointed by members of the governing bodies of various political subdivisions within the County.

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

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

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

The District's taxes are collected by the Johnson County Tax Assessor.

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

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

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

The District has taken action to tax freeport property. The District has not taken action to continue to tax goods-in-transit.

See "Appendix A – Assessed Valuation" for the reduction in taxable valuation attributable in the foregoing exemptions.

EMPLOYEE BENEFIT PLANS AND OTHER POST-EMPLOYMENT BENEFITS

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

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

During the year ended August 31, 2018, employees of the District were covered by a fully-insured health insurance plan (the "Health Care Plan"). The District contributed \$275 per month per employee to the Health Care Plan. Employees, at their option, authorize payroll withholdings to pay premiums for dependents. See "RISK MANAGEMENT – Health Care Coverage" of the Financial Statements.

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

RATING

In connection with the sale of the Notes, the District has made application to S&P Global Ratings ("S&P") for a municipal bond rating. The District's current unenhanced, underlying rating, including the Notes, is "A+" by S&P. In addition, the District has made an application for an insurance policy insuring the timely payment of the principal of and interest on the Notes. (See "BOND INSURANCE" and "BOND INSURANCE GENERAL RISKS"). The purchase of such insurance, if available and the payment of all associated costs will be at the option and expense of the initial Purchaser.

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

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

LEGAL MATTERS

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

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

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

TAX MATTERS

Tax Exemption

The delivery of the Notes is subject to the opinion of Bond Counsel to the effect that interest on the Notes 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 who are individuals. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change. A form of Bond Counsel's legal opinion appears in Appendix C hereto.

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

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 Notes. Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the District described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Notes is commenced, under current procedures the IRS is likely to treat the District as the "taxpayer," and the owners of the Notes 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 Notes, the District may have different or conflicting interests from the owners of the Notes. Public awareness of any audit of the Notes could adversely affect the value and liquidity of the Notes 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 Notes from gross income for federal income tax purposes. It is uncertain whether this legislation will be enacted and, if so, whether it will be enacted in its current form. Prospective purchasers of the Notes 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 Notes should be aware that the ownership of tax-exempt obligations such as the Notes 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 Notes

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

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

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

Owners of Discount Notes should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Notes and with respect to the state and local tax consequences of owning and disposing of Discount Notes. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on the Discount Notes 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 Notes

The initial public offering price to be paid for certain Notes may be greater than the stated redemption price amount payable on such Notes at maturity (the "Premium Notes"). An amount equal to the difference between the initial public offering price of a Premium Note (assuming that a substantial amount of the Premium Notes 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 Notes. The basis for federal income tax purposes of a Premium Note 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 Notes. 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 Note. 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 Notes should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Notes for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Notes.

INVESTMENT POLICIES

Investments

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

Legal Investments

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

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

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

Investment Policies

Under State law, the District is required to adopt and annually review written investment policies and must invest its funds in accordance with its policies. The policies must identify eligible investments and address investment diversification, yield, maturity, and the quality and capability of investment management. For investments whose eligibility is rating dependent, the policies must adopt procedures to monitor ratings and liquidate investments if and when required. The policies must require that all investment transactions settle on a delivery versus payment basis. The District is required to adopt a written investment strategy for each

fund group to achieve investment objectives in the following order of priority: (1) suitability, (2) preservation and safety of principal, (3) liquidity, (4) marketability, (5) diversification, and (6) yield.

State law requires the District's investments be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and the probable income to be derived." The District is required to perform an annual audit of the management controls on investments and compliance with its investment policies and provide regular training for its investment officers.

Current Investments

As of October 31, 2019, the District had approximately \$19,042,878 (unaudited) invested in TexPool, (a government investment pool that generally has the characteristics of a money-market mutual fund) and \$4,159,356 (unaudited) invested at a local bank. The market value of such investments (as determined by the District by reference to published quotations, dealer bids, and comparable information) is approximately 100% of the book value. No funds of the District are invested in derivative securities, i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

REGISTRATION AND QUALIFICATION OF NOTES FOR SALE

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

FINANCIAL ADVISOR

SAMCO Capital Markets, Inc. is employed as Financial Advisor to the District to assist in the issuance of the Notes. In this capacity, the Financial Advisor has compiled certain data relating to the Notes that is contained in this Official Statement. The Financial Advisor has not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the District to determine the accuracy or completeness of this Official Statement. Because of their limited participation, the Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein. The fee of the Financial Advisor for services with respect to the Notes is contingent upon the issuance and sale of the Notes. In the normal course of business, the Financial Advisor may from time to time sell investment securities to the District for the investment of bond proceeds or other funds of the District upon the request of the District.

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

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

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

CONTINUING DISCLOSURE OF INFORMATION

In the Resolution, the District has made the following agreement for the benefit of the holders and beneficial owners of the Notes. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Notes. 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"). The information provided to the MSRB will be available to the public free of charge via the Electronic Municipal Markets Access ("EMMA") system at www.emma.msrb.org.

Annual Reports

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

unaudited Financial Statements within such six-month period and audited Financial Statements for the applicable fiscal year, when and if the audit report on such Financial Statements becomes available.

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

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

Notice of Certain Events

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

For these purposes, (a) an event described in clause (12) of in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District. , 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

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 through EMMA at www.emma.msrb.org.

Limitations and Amendments

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

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

Compliance with Prior Undertakings

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

LITIGATION

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

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

FORWARD-LOOKING STATEMENTS

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

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

WINNING BIDDER

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

CERTIFICATION OF THE OFFICIAL STATEMENT

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

CONCLUDING STATEMENT

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

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

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

The Resolution will approve the form and content of this Official Statement and any addenda, supplement or amendment thereto and will authorize its further use in the re-offering of the Notes by the Purchaser.

/s/

President, Board of Trustees

ATTEST:

/s/

Secretary, Board of Trustees

APPENDIX A
FINANCIAL INFORMATION OF THE DISTRICT

ALVARADO INDEPENDENT SCHOOL DISTRICT

Financial Information

ASSESSED VALUATION ⁽¹⁾

2019/20 Total Valuation.....	\$ 1,953,647,850
Less Exemptions & Deductions ⁽²⁾ :	
State Homestead Exemption	\$ 104,110,655
State Over-65 Exemption	16,443,164
Disabled Exemption	7,939,340
Veterans Exemption	1,368,511
Freeport Exemption	55,008,568
Pollution Exemption	778,944
Productivity Loss	252,315,025
Homestead Cap Loss	25,708,155
	<u>\$ 463,672,362</u>
2019/20 Net Taxable Valuation	\$ 1,489,975,488

(1) Certified Values from the Central Appraisal District of Johnson County as of July 2019. The passage of a Texas Constitutional Amendment on November 3, 2015 increased the homestead exemption from \$15,000 to \$25,000.
 (2) Excludes the values on which property taxes are frozen for persons 65 years of age or older and disabled taxpayers, which totaled \$30,375,017 for 2018/19.

OUTSTANDING OBLIGATIONS

Voted Unlimited Tax Bonds Outstanding ⁽¹⁾	\$ 69,795,000
Non-Voted Limited Maintenance Tax Notes Outstanding	-
Plus: The Bonds ⁽²⁾	11,150,000
Plus: The Notes ⁽²⁾	4,500,000
Total Obligations ^{(1) (2)}	<u>85,445,000</u>
Less: Interest & Sinking Fund Balance (As of August 31, 2019) ⁽³⁾	<u>(1,251,000)</u>
Net Obligations	\$ 84,194,000
Ratio of Net G.O. Debt to Net Taxable Valuation ⁽⁴⁾	5.65%
2019 Population Estimate	19,800
Per Capita Net Taxable Valuation	\$75,251
Per Capita Net G.O. Debt	\$4,252

(1) Excludes interest accreted on outstanding capital appreciation bonds.
 (2) Preliminary, subject to change.
 (3) Source: Alvarado ISD Estimate. Unaudited.
 (4) See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement and "DEBT SERVICE REQUIREMENTS" in this appendix and see the "Audited Financial Report Fiscal Year Ended August 31, 2018" in Appendix D for more information relative to the District's outstanding obligations.

PROPERTY TAX RATES AND COLLECTIONS

Fiscal Year	Net		% Collections ⁽⁴⁾	
	Taxable Valuation	Tax Rate	Current ⁽⁵⁾	Total ⁽⁵⁾
2006/07	\$ 695,095,592 ⁽¹⁾	\$ 1.6029	95.57%	100.62%
2007/08	881,535,673 ⁽¹⁾	1.4100 ⁽⁶⁾	97.07%	101.20%
2008/09	1,525,343,687 ⁽¹⁾	1.3069	96.81%	98.88%
2009/10	1,749,317,311 ⁽¹⁾	1.2800	97.13%	99.11%
2010/11	1,561,840,281 ⁽¹⁾	1.3160	97.26%	99.91%
2011/12	1,470,853,974 ⁽¹⁾	1.3160	97.46%	100.11%
2012/13	1,451,791,266 ⁽¹⁾	1.3160	97.18%	99.45%
2013/14	1,357,594,069 ⁽¹⁾	1.4610	96.68%	98.90%
2014/15	1,481,766,413 ⁽¹⁾	1.4610	97.65%	100.14%
2015/16	1,467,984,207 ⁽¹⁾⁽²⁾	1.4610	97.78%	100.77%
2016/17	1,303,368,044 ⁽¹⁾	1.4610	97.56%	99.95%
2017/18	1,241,264,985 ⁽¹⁾	1.4610	97.81%	100.00%
2018/19	1,372,814,726 ⁽¹⁾	1.4610	98.21% ⁽⁸⁾	97.96% ⁽⁸⁾
2019/20	1,489,975,488 ⁽³⁾	1.4700 ⁽⁷⁾	(In Process of Collection)	

(1) Source: Comptroller of Public Accounts - Property Tax Division.
 (2) The passage of a Texas Constitutional Amendment on November 3, 2015 increased the homestead exemption from \$15,000 to \$25,000.
 (3) Certified Value from the Central Appraisal District of Johnson County as of July 2019.
 (4) Source: Alvarado ISD Audited Financial Statements.
 (5) Excludes penalties and interest.
 (6) The declines in the District's Maintenance & Operation Tax for the 2006/07 and 2007/08 fiscal years are a function of House Bill 1 adopted by the Texas Legislature in May 2006. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement.
 (7) The decline in the District's Maintenance & Operation Tax from the 2018/19 fiscal year to the 2019/20 fiscal year is a function of House Bill 3 adopted by the Texas Legislature in June 2019. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in Official Statement.
 (8) Source: Alvarado ISD Estimate.

TAX RATE DISTRIBUTION

	2015/16	2016/17	2017/18	2018/19	2019/20 ⁽¹⁾
Maintenance & Operations	\$1.0400	\$1.0400	\$1.0400	\$1.0400	\$0.9700
Debt Service	\$0.4210	\$0.4210	\$0.4210	\$0.4210	\$0.5000
Total Tax Rate	\$1.4610	\$1.4610	\$1.4610	\$1.4610	\$1.4700

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

VALUATION AND VOTED GENERAL OBLIGATION DEBT HISTORY

Fiscal Year	Net Taxable Valuation	Voted Unlimited Tax Bond Debt Outstanding ⁽¹⁾	Ratio Debt to A.V. ⁽²⁾
2006/07	\$ 695,095,592	\$ 63,054,126	9.07%
2007/08	881,535,673	61,724,392	7.00%
2008/09	1,525,343,687	60,065,966	3.94%
2009/10	1,749,317,311	57,014,393	3.26%
2010/11	1,561,840,281	54,984,393	3.52%
2011/12	1,470,853,974	52,589,393	3.58%
2012/13	1,451,791,266	50,404,393	3.47%
2013/14	1,357,594,069	83,224,393	6.13%
2014/15	1,481,766,413	80,273,631	5.42%
2015/16	1,467,984,207	77,598,599	5.29%
2016/17	1,303,368,044	74,826,000	5.74%
2017/18	1,241,264,985	71,198,000	5.74%
2018/19	1,372,814,726	69,795,000	5.08%
2019/20	1,489,975,488	74,582,000 ⁽³⁾	5.01%

(1) At fiscal year end. Excludes interest accreted on outstanding capital appreciation bonds.

(2) See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement, "DEBT SERVICE REQUIREMENTS" in this Appendix and see the "Audited Financial Report Fiscal Year Ended August 31, 2018" in Appendix D for more information.

(3) Includes the Bonds but does not include the Notes. Preliminary, subject to change.

ESTIMATED OVERLAPPING DEBT STATEMENT

Taxing Body	Amount	Percent Overlapping	Amount Overlapping
City of Alvarado	\$ 9,027,000	100.00%	\$ 9,027,000
Johnson County	24,175,000	10.17%	2,458,598
Total Overlapping Debt ⁽¹⁾			\$ 11,485,598
Alvarado Independent School District ^{(2) (3)}			84,194,000
Total Direct & Overlapping Debt			\$ 95,679,598
 Ratio of Net Direct & Overlapping Debt to Net Taxable Valuation		6.42%	
Per Capita Direct & Overlapping Debt		\$4,832	

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

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

(3) Excludes interest accreted on capital appreciation bonds.

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

PRINCIPAL TAXPAYERS ⁽¹⁾**2019/20 Top Ten Taxpayers ⁽²⁾**

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
FDL Operating LLC ⁽³⁾	Oil & Gas	\$ 97,472,176	6.54%
Halliburton Energy Services Inc.	Oil & Gas	40,619,687	2.73%
Sabre Industries Inc.	Telephone Utility	22,776,534	1.53%
Motor Home Specialist Inc.	Car Dealership	21,557,576	1.45%
SWG Pipeline LLC	Pipeline	20,439,745	1.37%
Pole Landlord LA TX LLC	Commerical Land	18,015,776	1.21%
XTO Energy Inc.	Oil & Gas	15,031,795	1.01%
Tesmec USA Inc.	Wholesale Supplier	12,665,898	0.85%
Enervest Operating LLC	Oil & Gas	12,110,221	0.81%
Energy Transfer Fuel LP	Oil & Gas	9,939,719	0.67%
		\$ 270,629,127	18.16%

2018/19 Top Ten Taxpayers ⁽⁴⁾

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
FDL Operating LLC ⁽³⁾	Oil & Gas	\$ 83,291,205	6.07%
Halliburton Energy Services Inc.	Oil & Gas	30,177,469	2.20%
Sabre Industries Inc.	Telephone Utility	24,196,098	1.76%
Motor Home Specialist Inc.	Car Dealership	22,547,176	1.64%
SWG Pipeline LLC	Pipeline	20,920,206	1.52%
Pole Landlord LA TX LLC	Commerical Land	18,243,775	1.33%
XTO Energy Inc.	Oil & Gas	15,786,093	1.15%
Enervest Operating LLC	Oil & Gas	13,972,721	1.02%
Tesmec USA Inc.	Wholesale Supplier	12,562,272	0.92%
Quikrete Companies Inc.	Manufacturing	9,903,127	0.72%
		\$ 251,600,142	18.33%

2017/18 Top Ten Taxpayers ⁽⁴⁾

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Devon Energy Production Co. LP ⁽³⁾	Oil & Gas	\$ 79,717,306	6.42%
Halliburton Energy Services Inc.	Oil & Gas	32,900,839	2.65%
Sabre Industries Inc.	Telephone Utility	24,118,058	1.94%
Motor Home Specialist Inc.	Car Dealership	20,781,480	1.67%
SWG Pipeline LLC	Pipeline	19,779,290	1.59%
Pole Landlord LA TX LLC	Commerical Land	17,981,570	1.45%
XTO Energy Inc.	Oil & Gas	14,538,892	1.17%
Tesmec USA Inc.	Wholesale Supplier	13,341,904	1.07%
Energy Transfer Fuel LP	Oil & Gas	10,320,032	0.83%
Power Line Services Inc.	Electric Utility	9,770,140	0.79%
		\$ 243,249,511	19.60%

(1) The District is located in the Barnett Shale bed rock that produces natural gas. As shown in the tables above, the top ten taxpayers in the District currently account for over 18% of the District's tax base, with the majority of such property comprised of minerals and related business activities. The District's largest taxpayer currently accounts for over 5% of the District's tax base. Adverse developments in economic conditions, especially in the oil and natural gas industry, could adversely impact the businesses that own mineral production-related properties in the District and the tax values in the District, resulting in less local tax revenue. If any major taxpayer were to default in the payment of taxes, the ability of the District to make timely payment of debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax lien, which is a time-consuming process, or, perhaps, to sell tax anticipation notes until such amounts could be collected, if ever. See "REGISTERED OWNERS' REMEDIES" and "AD VALOREM TAX PROCEDURES - District's Rights in the Event of Tax Delinquencies" in the Official Statement.

(2) Source: Central Appraisal District of Johnson County.

(3) On May 31st, 2018, Fleur de Lis Operating LLC purchased Devon Energy's southern Barnett Shale assets.

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

CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY ⁽¹⁾

Category	2019/20 ⁽²⁾	% of Total	2018/19 ⁽³⁾	% of Total	2017/18 ⁽³⁾	% of Total
Real, Residential, Single-Family	\$ 540,461,998	27.66%	\$ 491,085,429	27.04%	\$ 423,404,530	25.98%
Real, Residential, Multi-Family	9,802,855	0.50%	9,413,640	0.52%	8,095,083	0.50%
Real, Vacant Lots/Tracts	30,072,660	1.54%	28,352,534	1.56%	23,115,888	1.42%
Real, Acreage	263,232,166	13.47%	261,373,680	14.39%	219,938,759	13.49%
Real, Farm & Ranch Improvements	311,166,000	15.93%	300,696,168	16.56%	273,083,972	16.76%
Real, Commercial & Industrial	225,744,546	11.56%	194,827,037	10.73%	180,236,010	11.06%
Oil & Gas	190,069,400	9.73%	172,448,881	9.49%	149,367,919	9.16%
Utilities	86,173,153	4.41%	85,546,270	4.71%	84,708,782	5.20%
Tangible Personal, Commercial	80,265,000	4.11%	87,417,972	4.81%	76,886,242	4.72%
Tangible Personal, Industrial	179,987,518	9.21%	146,665,497	8.08%	157,830,671	9.68%
Tangible Personal, Mobile Homes & Other	10,922,333	0.56%	10,037,581	0.55%	9,602,409	0.59%
Tangible Personal, Residential Inventory	1,495,177	0.08%	3,646,579	0.20%	1,606,028	0.10%
Tangible Personal, Special Inventory	<u>24,255,044</u>	<u>1.24%</u>	<u>24,700,517</u>	<u>1.36%</u>	<u>21,947,986</u>	<u>1.35%</u>
Total Appraised Value	\$ 1,953,647,850	100.00%	\$ 1,816,211,785	100.00%	\$ 1,629,824,279	100.00%
Less:						
Homestead Cap Adjustment	\$ 25,708,155		\$ 27,473,325		\$ 9,900,331	
Productivity Loss	252,315,025		251,703,734		211,383,836	
Exemptions	<u>185,649,182</u> ⁽⁴⁾		<u>164,220,000</u> ⁽⁴⁾		<u>167,275,127</u> ⁽⁴⁾	
Total Exemptions/Deductions ⁽⁵⁾	<u>\$ 463,672,362</u>		<u>\$ 443,397,059</u>		<u>\$ 388,559,294</u>	
Net Taxable Assessed Valuation	\$ 1,489,975,488		\$ 1,372,814,726		\$ 1,241,264,985	

Category	2016/17 ⁽³⁾	% of Total	2015/16 ⁽³⁾	% of Total	2014/15 ⁽³⁾	% of Total
Real, Residential, Single-Family	\$ 387,173,822	22.96%	\$ 381,152,353	20.72%	\$ 440,862,289	24.40%
Real, Residential, Multi-Family	7,702,926	0.46%	5,919,163	0.32%	5,905,908	0.33%
Real, Vacant Lots/Tracts	24,091,138	1.43%	22,549,172	1.23%	32,759,920	1.81%
Real, Acreage	204,880,272	12.15%	204,980,755	11.14%	197,091,638	10.91%
Real, Farm & Ranch Improvements	259,569,550	15.39%	256,388,056	13.94%	155,275,104	8.59%
Real, Commercial & Industrial	171,840,199	10.19%	165,699,451	9.01%	158,186,619	8.76%
Oil & Gas	173,210,491	10.27%	339,302,289	18.45%	344,675,829	19.08%
Utilities	87,566,833	5.19%	90,692,630	4.93%	90,867,264	5.03%
Tangible Personal, Commercial	101,342,818	6.01%	86,856,314	4.72%	74,355,224	4.12%
Tangible Personal, Industrial	238,596,701	14.15%	254,757,172	13.85%	263,374,650	14.58%
Tangible Personal, Mobile Homes & Other	8,912,983	0.53%	8,862,400	0.48%	20,530,809	1.14%
Tangible Personal, Residential Inventory	912,027	0.05%	1,079,129	0.06%	1,740,524	0.10%
Tangible Personal, Special Inventory	<u>20,423,774</u>	<u>1.21%</u>	<u>21,251,190</u>	<u>1.16%</u>	<u>21,111,851</u>	<u>1.17%</u>
Total Appraised Value	\$ 1,686,223,534	100.00%	\$ 1,839,490,074	100.00%	\$ 1,806,737,629	100.00%
Less:						
Homestead Cap Adjustment	\$ 1,877,912		\$ 2,922,005		\$ 1,663,055	
Productivity Loss	197,463,878		197,867,372		189,784,380	
Exemptions	<u>183,513,700</u> ⁽⁴⁾		<u>170,716,490</u> ⁽⁴⁾		<u>133,523,781</u>	
Total Exemptions/Deductions ⁽⁵⁾	<u>\$ 382,855,490</u>		<u>\$ 371,505,867</u>		<u>\$ 324,971,216</u>	
Net Taxable Assessed Valuation	\$ 1,303,368,044		\$ 1,467,984,207		\$ 1,481,766,413	

(1) Historically, valuations of oil and natural gas properties have been volatile. The District's tax revenues are susceptible to increase and decrease as a result of such values. The fluctuations in oil and gas values from year to year are attributable in large part to changes in the market value of natural gas, which affects both the drilling activity for gas in the Barnett Shale gas field, in which the District is located, and the value of mineral reserves in the field.

(2) Source: Central Appraisal District of Johnson County.

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

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

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

VOTED UNLIMITED TAX BOND PRINCIPAL REPAYMENT SCHEDULE

Fiscal Year Ending 8/31	Outstanding Bonds ⁽¹⁾	Plus:		Bonds Unpaid At Year End	Percent of Principal Retired
		The Bonds ⁽²⁾	Total ^{(1) (2)}		
2020	\$ 2,063,000.00	\$ 4,300,000.00	\$ 6,363,000.00	\$ 74,582,000.00	7.86%
2021	2,118,000.00	1,375,000.00	3,493,000.00	71,089,000.00	12.18%
2022	1,798,000.00	1,430,000.00	3,228,000.00	67,861,000.00	16.16%
2023	1,823,000.00	840,000.00	2,663,000.00	65,198,000.00	19.45%
2024	1,868,000.00	220,000.00	2,088,000.00	63,110,000.00	22.03%
2025	1,894,000.00	230,000.00	2,124,000.00	60,986,000.00	24.66%
2026	1,779,000.00	230,000.00	2,009,000.00	58,977,000.00	27.14%
2027	1,824,000.00	240,000.00	2,064,000.00	56,913,000.00	29.69%
2028	1,859,000.00	250,000.00	2,109,000.00	54,804,000.00	32.29%
2029	1,899,000.00	255,000.00	2,154,000.00	52,650,000.00	34.96%
2030	2,895,000.00	240,000.00	3,135,000.00	49,515,000.00	38.83%
2031	3,000,000.00	250,000.00	3,250,000.00	46,265,000.00	42.84%
2032	2,885,000.00	200,000.00	3,085,000.00	43,180,000.00	46.66%
2033	2,995,000.00	200,000.00	3,195,000.00	39,985,000.00	50.60%
2034	3,100,000.00	215,000.00	3,315,000.00	36,670,000.00	54.70%
2035	3,215,000.00	220,000.00	3,435,000.00	33,235,000.00	58.94%
2036	3,335,000.00	225,000.00	3,560,000.00	29,675,000.00	63.34%
2037	3,450,000.00	230,000.00	3,680,000.00	25,995,000.00	67.89%
2038	3,830,000.00		3,830,000.00	22,165,000.00	72.62%
2039	4,010,000.00		4,010,000.00	18,155,000.00	77.57%
2040	4,205,000.00		4,205,000.00	13,950,000.00	82.77%
2041	4,420,000.00		4,420,000.00	9,530,000.00	88.23%
2042	4,645,000.00		4,645,000.00	4,885,000.00	93.97%
2043	4,885,000.00		4,885,000.00	-	100.00%
Total	\$ 69,795,000.00	\$ 11,150,000.00	\$ 80,945,000.00		

(1) Excludes the accreted value of outstanding capital appreciation bonds.

(2) Preliminary, subject to change.

MAINTENANCE TAX NOTE DEBT SERVICE REQUIREMENTS ⁽¹⁾

Fiscal Year Ending 8/31	Outstanding Maintenance Tax Obligations	Plus:			Percent of Principal Retired
		Principal	The Notes ⁽²⁾ Interest	Total	
2020	\$ -	\$ 450,000.00	\$ 450,000.00	\$ 519,000.00	10.00%
2021		400,000.00	400,000.00	521,500.00	18.89%
2022		410,000.00	410,000.00	519,500.00	28.00%
2023		425,000.00	425,000.00	522,200.00	37.44%
2024		435,000.00	435,000.00	519,450.00	47.11%
2025		450,000.00	450,000.00	521,400.00	57.11%
2026		460,000.00	460,000.00	517,900.00	67.33%
2027		475,000.00	475,000.00	519,100.00	77.89%
2028		490,000.00	490,000.00	519,850.00	88.78%
2029		505,000.00	15,150.00	520,150.00	100.00%
	\$ -	\$ 4,500,000.00	\$ 4,010,150.00	\$ 5,200,050.00	

(1) Maintenance Tax Notes are payable solely from the limited maintenance and operations tax or other lawfully available funds of the District.

(2) Preliminary, subject to change.

VOTED UNLIMITED TAX PRINCIPAL REPAYMENT & DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 8/31	Outstanding Debt Service ⁽¹⁾	Plus:			Combined Total ^{(1) (2) (3)}
		Principal	The Bonds ⁽²⁾ Interest	Total	
2020	\$ 5,625,493.76 ⁽⁴⁾	\$ 4,300,000.00	\$ 212,775.56	\$ 4,512,775.56	\$ 10,138,269.32 ⁽⁴⁾
2021	5,620,581.26	1,375,000.00	206,050.00	1,581,050.00	7,201,631.26
2022	5,624,093.76	1,430,000.00	149,950.00	1,579,950.00	7,204,043.76
2023	5,620,206.26	840,000.00	108,750.00	948,750.00	6,568,956.26
2024	5,623,756.26	220,000.00	92,850.00	312,850.00	5,936,606.26
2025	5,621,956.26	230,000.00	86,100.00	316,100.00	5,938,056.26
2026	5,624,856.26	230,000.00	79,200.00	309,200.00	5,934,056.26
2027	5,623,693.76	240,000.00	72,150.00	312,150.00	5,935,843.76
2028	5,621,218.76	250,000.00	64,800.00	314,800.00	5,936,018.76
2029	5,622,181.26	255,000.00	57,225.00	312,225.00	5,934,406.26
2030	4,995,250.01	240,000.00	49,800.00	289,800.00	5,285,050.01
2031	4,992,175.01	250,000.00	42,450.00	292,450.00	5,284,625.01
2032	4,769,925.01	200,000.00	35,700.00	235,700.00	5,005,625.01
2033	4,773,362.51	200,000.00	29,700.00	229,700.00	5,003,062.51
2034	4,767,750.01	215,000.00	23,475.00	238,475.00	5,006,225.01
2035	4,767,987.51	220,000.00	16,950.00	236,950.00	5,004,937.51
2036	4,771,543.76	225,000.00	10,275.00	235,275.00	5,006,818.76
2037	4,769,559.38	230,000.00	3,450.00	233,450.00	5,003,009.38
2038	5,004,375.00				5,004,375.00
2039	5,007,975.00				5,007,975.00
2040	5,007,625.00				5,007,625.00
2041	5,007,000.00				5,007,000.00
2042	5,005,375.00				5,005,375.00
2043	5,007,125.00				5,007,125.00
Total	\$ 124,875,065.80	\$ 11,150,000.00	\$ 1,341,650.56	\$ 12,491,650.56	\$ 137,366,716.36

(1) Includes the accreted value of outstanding capital appreciation bonds

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

(3) Based on its wealth per student, the District does not expect to receive Instructional Facilities Allotment nor Existing Debt Allotment state financial assistance for the payment of debt service for the fiscal year 2019/20. The amount of state financial assistance for debt service, if any, may differ substantially each year depending on a variety of factors, including the amount, if any, appropriated for that purpose by the state legislature and a school district's wealth per student. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement.

(4) The District will contribute an additional \$2,650,000 from the Interest & Sinking Fund towards the payment of debt service.

TAX ADEQUACY WITH RESPECT TO THE DISTRICT'S BONDS

Projected Maximum Debt Service Requirement ⁽¹⁾	\$ 10,138,269.32 ⁽²⁾
Projected State Financial Assistance for Hold Harmless of Increased Homestead Exemption ⁽³⁾	137,718.00
Projected Net Debt Service Requirement	\$ 10,000,551.32
 \$0.68489 Tax Rate @ 98% Collections Produces	 \$ 10,000,551.32
 2019/20 Net Taxable Assessed Valuation	 \$ 1,489,975,488

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

(2) The District will contribute an additional \$2,650,000 from the Interest & Sinking Fund towards the payment of debt service.

(3) The amount of state financial assistance for debt service, if any, may differ substantially each year depending on a variety of factors, including the amount, if any, appropriated for that purpose by the state legislature and a school district's wealth per student. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement. The District does not expect to receive any Instructional Facilities Allotment nor Existing Debt Allotment state aid in 2019/20, but will receive additional state aid for the increase in the homestead exemption which took effect in 2015/16.

AUTHORIZED BUT UNISSUED BONDS

Following the issuance of the Bonds, the District will not have authorized but unissued unlimited ad valorem tax bonds from the November 5, 2019 bond election or any other bond election. The District may incur other financial obligations payable from its collection of taxes and other sources of revenue, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes.

COMPARATIVE STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES ⁽¹⁾

	Fiscal Year Ended August 31				
	2014	2015	2016	2017	2018
Beginning Fund Balance	\$ 15,274,390	\$ 14,920,814	\$ 16,136,190	\$ 14,555,816	\$ 14,231,143
Revenues:					
Local and Intermediate Sources	\$ 15,149,182	\$ 15,934,472	\$ 15,668,916	\$ 13,924,790	\$ 13,479,694
State Sources	10,269,477	12,942,193	12,794,687	14,188,734	16,889,923
Federal Sources & Other	384,708	448,011	632,883	533,643	761,989
Total Revenues	\$ 25,803,367	\$ 29,324,676	\$ 29,096,486	\$ 28,647,167	\$ 31,131,606
Expenditures:					
Instruction	\$ 14,412,739	\$ 15,949,311	\$ 16,241,295	\$ 16,633,605	\$ 17,043,875
Instructional Resources & Media Services	180,097	134,948	141,027	132,941	129,514
Curriculum & Instructional Staff Development	375,763	357,549	312,958	369,696	336,468
Instructional Leadership	333,434	402,444	452,427	375,050	468,389
School Leadership	1,033,978	1,148,160	1,286,885	1,302,108	1,423,959
Guidance, Counseling & Evaluation Services	1,022,820	1,026,349	1,079,678	1,059,505	1,025,160
Social Work Services	126,632	163,757	132,103	137,748	137,848
Health Services	261,419	249,001	302,197	262,067	271,160
Student (Pupil) Transportation	1,153,291	1,312,001	1,117,800	1,371,723	1,402,423
Food Services	757	334	445	1,113	234
Cocurricular/Extracurricular Activities	1,091,073	1,092,676	1,081,993	1,063,141	1,086,113
General Administration	1,138,816	1,078,732	1,189,314	1,204,242	1,225,891
Plant Maintenance and Operations	3,123,924	3,279,729	3,196,851	3,466,901	3,713,102
Security and Monitoring Services	80,044	105,598	84,097	142,875	145,279
Data Processing Services	878,878	712,523	810,738	1,045,707	967,738
Community Services	188,363	208,874	217,955	205,519	213,251
Facilities Acquisition and Construction	580,830	715,476	2,984,587	30,102	337,401
Incremental Costs Associated with Chapter 41	-	2,034	-	-	-
Payments to Fiscal Agent/Member Districts of SSA	174,085	169,804	186,518	167,797	184,841
Payments to Juvenile Justice Alternative Ed Program	-	-	-	-	774
Total Expenditures	\$ 26,156,943	\$ 28,109,300	\$ 30,818,868	\$ 28,971,840	\$ 30,113,420
Excess (Deficiency) of Revenues over Expenditures	\$ (353,576)	\$ 1,215,376	\$ (1,722,382)	\$ (324,673)	\$ 1,018,186
Other Resources and (Uses):					
Sale of Property	\$ 260,339	\$ -	\$ 184,757	\$ -	\$ -
Transfers In	-	-	75,422	-	110,443
Transfers Out (Use)	-	-	(118,171)	-	(110,443)
Proceeds from Capital Leases	(260,339)	-	-	-	-
Total Other Resources (Uses)	\$ -	\$ -	\$ 142,008	\$ -	\$ -
Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	\$ (353,576)	\$ 1,215,376	\$ (1,580,374)	\$ (324,673)	\$ 1,018,186
Ending Fund Balance ⁽²⁾	\$ 14,920,814	\$ 16,136,190	\$ 14,555,816	\$ 14,231,143	\$ 15,249,329

(1) See "MANAGEMENT'S DISCUSSION AND ANALYSIS - Economic Factors and Next Year's Budgets and Rates" in Appendix D hereto for a discussion of the 2018/19 budget and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Possible Effects of Wealth Transfer Provisions on the District's Financial Condition" in the Official Statement.
(2) The District's 2019 Ending General Fund Balance (unaudited) was approximately \$15,250,000.

CHANGE IN NET ASSETS ⁽¹⁾

	Fiscal Year Ended August 31				
	2014	2015	2016	2017	2018
Revenues:					
Program Revenues:					
Charges for Services	\$ 966,305	\$ 954,523	\$ 1,039,624	\$ 960,096	\$ 995,974
Operating Grants and Contributions	3,976,618	3,521,952	4,288,332	4,795,647	(354,090)
General Revenues:					
Property Taxes Levied for General Purposes	13,928,909	15,306,400	14,629,775	13,171,957	12,557,673
Property Taxes Levied for Debt Service	5,672,148	6,049,809	5,939,296	5,340,195	5,084,883
State Aid - Formula Grants	9,067,295	11,847,499	11,638,305	12,972,651	15,646,448
Grants and Contributions Not Restricted	384,630	448,006	1,331,986	645,171	116,869
Investment Earnings	44,579	18,288	68,159	125,529	286,929
Miscellaneous	1,272,171	473,207	832,778	514,961	508,219
Total Revenue	<u>\$ 35,312,655</u>	<u>\$ 38,619,684</u>	<u>\$ 39,768,255</u>	<u>\$ 38,526,207</u>	<u>\$ 34,842,905</u>
Expenses:					
Instruction	\$ 18,272,893	\$ 19,411,468	\$ 20,583,772	\$ 20,763,432	\$ 15,493,728
Instruction Resources & Media Services	245,463	916,203	387,698	214,315	176,517
Curriculum & Staff Development	378,287	399,083	386,022	381,152	303,815
Instructional Leadership	339,068	404,330	480,199	418,606	354,897
School Leadership	1,035,161	1,136,499	1,351,565	1,343,743	896,938
Guidance, Counseling & Evaluation Services	1,058,684	1,046,003	1,174,386	1,131,687	678,870
Social Work Services	126,632	203,853	212,988	217,398	127,318
Health Services	261,419	258,928	316,128	273,267	171,824
Student Transportation	1,165,962	1,282,274	1,217,755	1,378,364	1,062,789
Food Service	1,808,682	1,783,890	1,827,308	2,391,304	2,195,445
Cocurricular/Extracurricular Activities	1,644,392	1,980,793	1,703,211	1,622,367	1,511,965
General Administration	1,287,658	1,140,580	1,285,564	1,287,704	1,040,002
Plant Maintenance & Operations	3,673,831	3,538,102	3,452,168	3,740,498	3,568,496
Security and Monitoring Services	92,062	116,310	88,139	146,114	148,518
Data Processing Services	953,988	730,239	920,190	1,083,762	750,752
Community Services	188,363	207,485	227,552	210,410	140,973
Debt Service - Interest on Long-term Debt	3,834,016	3,255,595	3,305,589	3,303,686	3,260,410
Debt Service - Bond Issuance Cost and Fees	160,930	289,305	103,774	89,300	3,900
Payments to Fiscal Agent/Member Districts of SSA	174,085	169,804	186,518	167,797	184,841
Incremental Costs related to WADA	-	2,034	-	-	-
Payments to Juvenile Justice Alternative Ed. Program	-	-	-	-	774
Total Expenditures	<u>\$ 36,701,576</u>	<u>\$ 38,272,778</u>	<u>\$ 39,210,526</u>	<u>\$ 40,164,906</u>	<u>\$ 32,072,772</u>
Change in Net Assets	\$ (1,388,921)	\$ 346,906	\$ 557,729	\$ (1,638,699)	\$ 2,770,133
Beginning Net Assets	\$ 11,800,934	\$ 10,412,013	\$ 7,559,609	\$ 8,117,338	\$ 6,478,639
Prior Period Adjustment	\$ -	\$ (3,199,310) ⁽²⁾	\$ -	\$ -	\$ (16,967,112) ⁽³⁾
Ending Net Assets	<u>\$ 10,412,013</u>	<u>\$ 7,559,609</u>	<u>\$ 8,117,338</u>	<u>\$ 6,478,639</u>	<u>\$ (7,718,340)</u>

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

(2) In 2015, the District adopted GASB Statement No. 68 for Accounting and Reporting Pensions which required a prior period adjustment to report the effect of GASB 68 retroactively.

(3) In 2018, the Prior Period Adjustment was the result of implementation of GASB Statement 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions."

APPENDIX B

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

ALVARADO INDEPENDENT SCHOOL DISTRICT

General and Economic Information

Alvarado Independent School District (the "District"), located in Johnson County, Texas includes the City of Alvarado, Texas, a commercial center located 25 miles south of Fort Worth, Texas on Interstate Highway 35 West. Johnson County is a north central Texas county. The county seat is Cleburne. The current estimated population of the District is approximately 19,800.

Source: Texas Municipal Report for Alvarado ISD and Johnson County.

Enrollment Statistics

<u>Year Ending 8/31</u>	<u>Enrollment</u>
2009	3,259
2010	3,404
2011	3,249
2012	3,293
2013	3,365
2014	3,485
2015	3,536
2016	3,591
2017	3,680
2018	3,682
2019	3,641
Current	3,666

District Staff

Teachers	232
Teachers' Aides & Secretaries	139
Auxiliary Personnel	47
Administrators	33
Other (Counselors/Technology)	36
	<hr/>
	487

Facilities

<u>Campus</u>	<u>Grades</u>	<u>Current Enrollment</u>	<u>Capacity</u>	<u>Year Built</u>	<u>Year of Addition/ Renovation</u>
Alvarado Elementary North	PK-3	373	600	1986	N/A
Alvarado Elementary South	PK-3	385	700	1980	2002
Lillian Elementary School	PK-3	375	600	2000	N/A
Alvarado Intermediate School	4-6	825	1,000	2008	N/A
Alvarado Junior High School	7-8	596	800	1964	2000
Alvarado High School	9-12	1,112	2,000	1995	2004

Principal Employers within the District

<u>Name of Company</u>	<u>Type of Business</u>	<u>Number of Employees</u>
Halliburton	Oil and Gas Well Supplies	475
Alvarado ISD	Education	487
SABRE	Steel	225
Superior Well Services	Oil Field Solutions and Services	100
Johnson County Pipe Co.	Pipe Company	100
Rich Mix Products	Concrete Products	82
American Flat Glass	Glass Tempering	81

Unemployment Rates

	<u>October 2017</u>	<u>October 2018</u>	<u>October 2019</u>
Johnson County	3.2%	3.2%	3.1%
State of Texas	3.8%	3.5%	3.3%

Source: Texas Workforce Commission.

APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL



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DRAFT 12/12/19

IN REGARD to the authorization and issuance of the “Alvarado Independent School District Maintenance Tax Notes, Series 2020” (the *Notes*), dated February 1, 2020, in the aggregate principal amount of \$_____ we have reviewed the legality and validity of the issuance thereof by the Board of Trustees of the Alvarado Independent School District (the *District*). The Notes are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity). The Notes have Stated Maturities of August 15 in each of the years 20__ through 20__, unless redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Notes. Interest on the Notes accrues from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the resolution (the *Resolution*) authorizing the issuance of the Notes. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Resolution.

WE HAVE SERVED AS BOND COUNSEL for the District solely to pass upon the legality and validity of the issuance of the Notes under the laws of the State of Texas and with respect to the exclusion of the interest on the Notes 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 District. We have not assumed any responsibility with respect to the financial condition or capabilities of the District or the disclosure thereof in connection with the sale of the Notes. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Notes. Our role in connection with the District’s Official Statement prepared for use in connection with the sale of the Notes 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 District in connection with the issuance of the Notes, including the Resolution; (2) customary certifications and opinions of officials of the District; (3) certificates executed by officers of the District relating to the expected use and investment of proceeds of the Notes and certain other funds of the District, and to certain other facts solely within the knowledge and control of the District; and (4) such other documentation, including an examination of the Notes executed and delivered initially by the District, and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such certificates. We express no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

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Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, in connection with the authorization and issuance of “ALVARADO INDEPENDENT SCHOOL DISTRICT MAINTENANCE TAX NOTES, SERIES 2020”

BASED ON OUR EXAMINATION, we are of the opinion that, under applicable law of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Notes have been duly authorized by the District and, when issued in compliance with the provisions of the Resolution, are valid, legally binding, and enforceable obligations of the District, payable from the proceeds of an annual maintenance and operations ad valorem tax levied, within the limitations prescribed by law, upon all taxable property within the District, 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.

2. Pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the *Code*), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance after the date hereof by the District with the provisions of the Resolution relating to sections 141 through 150 of the Code, interest on the Notes will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes, and such interest 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 Notes. Ownership of tax-exempt obligations such as the Notes 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

APPENDIX D

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

**ALVARADO
INDEPENDENT SCHOOL DISTRICT**

Annual Financial Report for the Year Ended

August 31, 2018

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
CERTIFICATE OF BOARD	i	
FINANCIAL SECTION		
Independent Auditor’s Report	1	
Management’s Discussion and Analysis	3	
Basic Financial Statements:		
Government – Wide Financial Statements:		
Statement of Net Position	10	A-1
Statement of Activities.....	11	B-1
Fund Financial Statements:		
Balance Sheet – Governmental Funds	12	C-1
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	15	C-2
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds	16	C-3
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	18	C-4
Statement of Net Position – Fiduciary Funds.....	19	D-1
Notes to the Financial Statements	20	
Required Supplementary Information:		
Budgetary Comparison Schedule – General Fund	49	E-1
Schedule of the District’s Proportionate Share of the Net Pension Liability	50	E-2
Schedule of the District’s Contributions for Pension	51	E-3
Schedule of the District’s Proportionate Share of the Net OPEB Liability	52	E-4
Schedule of the District’s Contributions for OPEB	53	E-5
Combining Statements:		
Combining Balance Sheet – Nonmajor Governmental Funds.....	56	F-1
Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds	60	F-2
Required T.E.A Schedules:		
Schedule of Delinquent Taxes Receivable	64	G-1
Budgetary Comparison Schedule – Child Nutrition Fund.....	66	G-2
Budgetary Comparison Schedule – Debt Service Fund	67	G-3


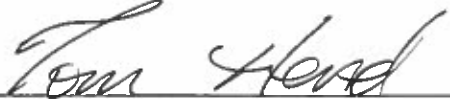
TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
FEDERAL AWARDS SECTION		
Report on Internal Control Over Financial Reporting and on Compliance and Other Matter Based on an Audit of Financial Statements performed in accordance with <i>Government Auditing Standards</i>	71	
Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.....	73	
Schedule of Findings and Questioned Costs.....	75	
Schedule of Status of Prior Findings.....	76	
Corrective Action Plan	77	
Schedule of Expenditures of Federal Awards.....	78	H-1
Notes to Schedule of Expenditures of Federal Awards	79	

CERTIFICATE OF BOARD

Alvarado Independent School District Johnson 126-901
Name of School District County County – District Number

We, the undersigned, certify that the attached financial reports of the above-named school district were reviewed and () approved () disapproved for the year ended August 31, 2018, at a meeting of the Board of School Trustees of such school district on the 7th day of January, 2019.

 
Signature of Board Vice President Signature of Board President

If the auditor's report was disapproved, the reason(s) therefore is/are (attach list if necessary):

FINANCIAL SECTION



Independent Auditor's Report

Board of School Trustees
Alvarado Independent School District
Alvarado, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Alvarado Independent School District (the District), as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedules of the District's proportionate share of the net pension and net OPEB, and schedules of District contributions for pension and OPEB, 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 introductory section, combining and individual fund statements and schedules, and required Texas Education Agency schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards is presented for purposes of additional analysis as required Title 2 U.S. *Code of Federal Regulations* (CFR) 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.

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

The introductory and statistical sections 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 December 17, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Alvarado Independent School District's internal control over financial reporting and compliance.

Evans & Knauth, PLLC

Evans & Knauth, PLLC
Frisco, TX
December 17, 2018

ALVARADO INDEPENDENT SCHOOL DISTRICT

Management's Discussion and Analysis

Year Ended August 31, 2018

This section of the **Alvarado Independent School District** annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended August 31, 2018. Please read it in conjunction with the District's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position (Exhibit A-1, page 10) and the Statement of Activities (Exhibit B-1, page 11). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting with Exhibit C-1, page 12) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the District.

The notes to the financial statements (starting on page 20, following Exhibit D-1) provide narrative explanations or additional data needed for full disclosure in the government-wide statements of the fund financial statements.

The combining statements for non-major funds contain even more information about the District's individual funds. These are not required by TEA (Texas Education Agency) and are contained in Exhibits F-1 and F-2, pages 56-62.

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

REPORTING THE DISTRICT AS A WHOLE

Government-Wide Statements: The Statement of Net Position & the Statement of Activities

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, Exhibit A-1, includes all of the government's assets and liabilities. The Statement of Activities, Exhibit B-1, accounts for all of the current period's revenues and expenses.

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, are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's Net Position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall financial health of the District, one should consider additional non-financial factors such as changes in the District's tax base.

Within the government-wide financial statements of the District, most of the District's basic services are included, such as instruction, extracurricular activities, curriculum and staff development, health services, and general administration. Property taxes, grants and state revenues finance most of the activities.

ALVARADO INDEPENDENT SCHOOL DISTRICT

Management's Discussion and Analysis

Year Ended August 31, 2018

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

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 bond covenants
- Other funds are established to control and manage money for particular purposes or to show that the District is properly using certain taxes and grants.

The District has two kinds of funds:

- *Governmental Funds* – Most of the District's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances at the end of the fiscal year. The governmental funds statements provide a detailed, short-term view of the District's general operations and the basic services it provides. The differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds are described in reconciliation narratives following each of the fund financial statements. (See Exhibits C-2 and C-4, pages 15 and 18)
- *Fiduciary Funds* – The District is the trustee, or *fiduciary*, for money raised by student activities. All of the District's fiduciary activities are reported in the Statement of Fiduciary Net Position, Exhibit D-1, on page 19. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's Net Position increased by \$488,752 as a result of this year's operations. The general fund ended the year with an increase of \$1,018,186 and an ending fund balance of \$15,249,329. The major factor affecting the increase was the increase in state revenues and an overpayment from the state. The annual budget serves as the foundation for the District's financial planning and control. A major financial goal for the District is for the fund balance to be 25% of the expenditures and to improve budgetary controls to meet the current and future needs of the district.

ALVARADO INDEPENDENT SCHOOL DISTRICT

Management's Discussion and Analysis

Year Ended August 31, 2018

**Table A-1
The District's Net Position**

Net Position. The District's combined Net Position was (\$7,718,340) on August 31, 2018.

	August 31, 2018	August 31, 2017	Percentage Change
Current Assets	\$ 24,128,938	\$ 23,495,315	2.70%
Capital Assets	71,470,576	74,716,330	-4.34%
Total Assets	<u>95,599,514</u>	<u>98,211,645</u>	-2.66%
Deferred Outflows of Resources	3,350,952	4,031,645	-16.88%
Current Liabilities	5,101,050	4,893,122	4.25%
Long-term Liabilities	96,641,627	90,492,294	6.80%
Total Liabilities	<u>101,742,677</u>	<u>95,385,416</u>	6.66%
Deferred Inflows of Resources	4,926,129	379,235	1198.96%
Net Position:			
Net Invested in Capital Assets	1,311,898	(7,947,676)	116.51%
Restricted	(8,182,676)	2,461,605	-432.41%
Unrestricted	(847,562)	11,964,710	-107.08%
Total Net Position	<u>\$ (7,718,340)</u>	<u>\$ 6,478,639</u>	-219.14%

Governmental Activities (Table A-2, next page)

The property tax maintenance and operation remained at \$1.04 due to the State Legislature and will remain at this rate until a local tax increase election. The HB1 formula for funding schools has many complicated factors. Increased tax collections because of the increasing value of the District will reduce the funding payment to the District. AISD was informed in 2014 that the District did not qualify as a Chapter 41 district. The district decided to keep the Interest & Sinking tax at the same rate at \$0.421.

Tax Rate History			
<u>Year</u>	<u>M&O</u>	<u>I&S</u>	<u>Total</u>
2009	1.0400	0.2669	1.3069
2010	1.0400	0.2400	1.2800
2011	1.0400	0.2760	1.3160
2012	1.0400	0.2760	1.3160
2013	1.0400	0.2760	1.3160
2014	1.0400	0.4210	1.4610
2015	1.0400	0.4210	1.4610
2016	1.0400	0.4210	1.4610
2017	1.0400	0.4210	1.4610
2018	1.0400	0.4210	1.4610

ALVARADO INDEPENDENT SCHOOL DISTRICT

Management's Discussion and Analysis

Year Ended August 31, 2018

**Table A-2
Change in Net Position**

	<u>Fiscal Year 8/31/2018</u>	<u>Fiscal Year 8/31/2017</u>
Revenues:		
Program Revenues		
Charges for Services	\$ 995,974	\$ 960,096
Operating Grants & Contributions	<u>(354,090)</u>	<u>4,795,647</u>
Total Program Revenues	<u>641,884</u>	<u>5,755,743</u>
General Revenues		
Property Taxes	17,642,556	18,512,152
State Aid Formula	15,763,317	13,617,822
Investment Earnings	286,929	125,529
Other	<u>508,219</u>	<u>514,961</u>
Total General Revenue	<u>34,201,021</u>	<u>32,770,464</u>
Total Revenues	<u>34,842,905</u>	<u>38,526,207</u>
Expenses:		
Instruction	15,493,728	20,763,432
Instruction Resources & Media Services	176,517	214,315
Curriculum and Staff Development	303,815	381,152
Instructional Leadership	354,897	418,606
School Leadership	896,938	1,343,743
Guidance, Counseling & Evaluation Services	678,870	1,131,687
Social Work Services	127,318	217,398
Health Services	171,824	273,267
Student Transportation	1,062,789	1,378,364
Food Services	2,195,445	2,391,304
Extracurricular Activities	1,511,965	1,622,367
General Administration	1,040,002	1,287,704
Facilities Maintenance & Operations	3,568,496	3,740,498
Security and Monitoring Services	148,518	146,114
Data Processing Services	750,752	1,083,762
Community Services	140,973	210,410
Debt Service - Interest on Long Term Debt	3,260,410	3,303,686
Debt Service - Bond Issuance Cost and Fees	3,900	89,300
Payments Related to Shared Services Arrangements	184,841	167,797
Payments to Juvenile Justice Alt Ed Programs	<u>774</u>	<u>-</u>
Total Expenses	<u>32,072,772</u>	<u>40,164,906</u>
Increase/(Decrease) in Net Position	2,770,133	(1,638,699)
Beginning Net Position	6,478,639	8,117,338
Prior Period Adjustment	<u>(16,967,112)</u>	<u>-</u>
Ending Net Position	<u>\$ (7,718,340)</u>	<u>\$ 6,478,639</u>

ALVARADO INDEPENDENT SCHOOL DISTRICT

Management's Discussion and Analysis

Year Ended August 31, 2018

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on Exhibit C-1, pages 12-13) reported a combined fund balance in the General Fund of \$15,249,329. The fund balance increased 7.15% over the previous year.

General Fund Budgetary Highlights

During the course of the year, the District reviews and revises its budget on a monthly basis in accordance with TEA FARG standards. At fiscal year-end 2018, the ending fund balance of \$15,249,329 represents 38.07% of the 2017-2018 operating expenditures.

<u>Year</u>	<u>ADA</u>	<u>Fund Balance</u>	<u>Change</u>
2008-2009	3055	10,768,815	2,923,041
2009-2010	3168	12,774,740	2,005,925
2010-2011	3270	13,407,285	632,545
2011-2012	3148	15,018,593	1,611,308
2012-2013	3218	15,274,390	255,797
2013-2014	3272	14,920,814	(353,576)
2014-2015	3330	16,136,190	1,215,376
2015-2016	3385	14,555,816	(1,580,374)
2016-2017	3480	14,231,143	(324,673)
2017-2018	3491	15,249,329	1,018,186

CAPITAL ASSETS & DEBT ADMINISTRATION

At the end of fiscal year 2017, the District had invested \$132,445,816 in a broad range of capital assets, including land, equipment, and buildings. (See Table A-3) Additional information on capital assets is contained in Note 4, Section E of the Notes to the Financial Statements.

Table A-3
District Capital Assets
Governmental Activities

	<u>August 31, 2018</u>	<u>August 31, 2017</u>	Percentage Change
Land	\$ 2,205,867	\$ 2,205,867	0.00%
Buildings & Improvements	119,681,885	119,529,524	0.13%
Furniture & Equipment	10,979,397	10,701,925	2.59%
Construction in Progress	443,671	8,500	100.00%
Total Historical Cost	<u>133,310,820</u>	<u>132,445,816</u>	0.65%
Total Accumulated Depreciation	<u>(61,840,244)</u>	<u>(57,729,486)</u>	-7.12%
Net Capital Assets	<u>\$ 71,470,576</u>	<u>\$ 74,716,330</u>	-4.34%

ALVARADO INDEPENDENT SCHOOL DISTRICT

Management's Discussion and Analysis

Year Ended August 31, 2018

Table A4
Long Term Debt Analysis

	<u>August 31, 2018</u>	<u>August 31, 2017</u>	Percentage Change
Bonds Payable	\$ 71,798,000	\$ 74,681,000	-3.86%
Bond Premium	2,469,010	2,624,190	-5.91%
Accreted Interest	<u>10,117,491</u>	<u>9,497,377</u>	6.53%
Total Debt	<u>\$ 84,384,501</u>	<u>\$ 86,802,567</u>	-2.79%

ECONOMIC FACTORS

Alvarado is located in Johnson County and over the years has been a farming and ranching area. During the period covering fiscal years 2002 through 2010, the District has grown increasingly wealthy. However, over the last eight years, property values have decreased 32.08%. A large part of the decrease is in the Market Values for oil, gas, and minerals. The District is located at the crossroads of Interstate Highway 35W and U.S. Highway 67, and recent economic development activity in the District has also been associated with the transportation Commercial corridor that runs through the District.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances, and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Finance Office at (817) 783-6800.

BASIC FINANCIAL STATEMENTS

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

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 3,203,436
1120 Current Investments	16,771,881
1220 Property Taxes - Delinquent	2,053,446
1230 Allowance for Uncollectible Taxes	(41,069)
1240 Due from Other Governments	1,799,335
1290 Other Receivables, Net	9,395
1410 Prepayments	332,514
Capital Assets:	
1510 Land	2,205,867
1520 Buildings, Net	67,313,151
1530 Furniture and Equipment, Net	1,507,887
1580 Construction in Progress	443,671
1000 Total Assets	95,599,514
DEFERRED OUTFLOWS OF RESOURCES	
1701 Deferred Charge for Refunding	1,043,370
1705 Deferred Outflow Related to TRS Pension	2,145,043
1706 Deferred Outflow Related to TRS OPEB	162,539
1700 Total Deferred Outflows of Resources	3,350,952
LIABILITIES	
2110 Accounts Payable	590,825
2140 Interest Payable	112,499
2160 Accrued Wages Payable	1,427,261
2180 Due to Other Governments	7,605
2190 Due to Student Groups	746
2200 Accrued Expenses	14,114
Noncurrent Liabilities:	
2501 Due Within One Year	2,948,000
2502 Due in More Than One Year	81,436,501
2540 Net Pension Liability (District's Share)	5,528,934
2545 Net OPEB Liability (District's Share)	9,676,192
2000 Total Liabilities	101,742,677
DEFERRED INFLOWS OF RESOURCES	
2602 Deferred Revenue	300
2605 Deferred Resource Inflow Related to TRS Pension	878,259
2606 Deferred Resource Inflow Related to TRS OPEB	4,047,570
2600 Total Deferred Inflows of Resources	4,926,129
NET POSITION	
3200 Net Investment in Capital Assets	1,311,898
3820 Restricted for Federal and State Programs	606,545
3850 Restricted for Debt Service	1,598,270
3860 Restricted for Capital Projects	(10,387,491)
3900 Unrestricted	(847,562)
3000 Total Net Position	\$ (7,718,340)

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

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

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
Codes	Expenses	3 Charges for Services	4 Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 15,493,728	\$ 187,786	\$ (541,398)	\$ (15,847,340)
12 Instructional Resources and Media Services	176,517	-	(19,208)	(195,725)
13 Curriculum and Instructional Staff Development	303,815	-	33,176	(270,639)
21 Instructional Leadership	354,897	-	(42,698)	(397,595)
23 School Leadership	896,938	-	(280,880)	(1,177,818)
31 Guidance, Counseling and Evaluation Services	678,870	-	(155,950)	(834,820)
32 Social Work Services	127,318	-	37,634	(89,684)
33 Health Services	171,824	-	(53,395)	(225,219)
34 Student (Pupil) Transportation	1,062,789	-	(193,760)	(1,256,549)
35 Food Services	2,195,445	499,395	1,467,727	(228,323)
36 Extracurricular Activities	1,511,965	292,849	(103,807)	(1,322,923)
41 General Administration	1,040,002	-	(147,221)	(1,187,223)
51 Facilities Maintenance and Operations	3,568,496	15,944	(177,454)	(3,730,006)
52 Security and Monitoring Services	148,518	-	-	(148,518)
53 Data Processing Services	750,752	-	(141,346)	(892,098)
61 Community Services	140,973	-	(35,510)	(176,483)
72 Debt Service - Interest on Long-Term Debt	3,260,410	-	-	(3,260,410)
73 Debt Service - Bond Issuance Cost and Fees	3,900	-	-	(3,900)
93 Payments Related to Shared Services Arrangements	184,841	-	-	(184,841)
95 Payments to Juvenile Justice Alternative Ed. Prg.	774	-	-	(774)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 32,072,772	\$ 995,974	\$ (354,090)	(31,430,888)

Data Control Codes	General Revenues:	
	Taxes:	
MT	Property Taxes, Levied for General Purposes	12,557,673
DT	Property Taxes, Levied for Debt Service	5,084,883
SF	State Aid - Formula Grants	15,646,448
GC	Grants and Contributions not Restricted	116,869
IE	Investment Earnings	286,929
MI	Miscellaneous Local and Intermediate Revenue	508,219
TR	Total General Revenues	34,201,021
CN	Change in Net Position	2,770,133
NB	Net Position - Beginning	6,478,639
PA	Prior Period Adjustment	(16,967,112)
NE	Net Position--Ending	\$ (7,718,340)

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

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

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
ASSETS			
1110 Cash and Cash Equivalents	\$ 2,827,584	\$ 90,098	\$ 2,312
1120 Investments - Current	12,433,591	1,042,582	2,792,650
1220 Property Taxes - Delinquent	1,578,354	475,092	-
1230 Allowance for Uncollectible Taxes	(31,567)	(9,502)	-
1240 Due from Other Governments	1,460,173	-	-
1260 Due from Other Funds	277	-	-
1290 Other Receivables	8,750	-	-
1410 Prepayments	332,514	-	-
1000 Total Assets	<u>\$ 18,609,676</u>	<u>\$ 1,598,270</u>	<u>\$ 2,794,962</u>
LIABILITIES			
2110 Accounts Payable	\$ 463,787	\$ -	\$ -
2160 Accrued Wages Payable	1,334,613	-	-
2170 Due to Other Funds	-	-	-
2180 Due to Other Governments	-	-	-
2190 Due to Student Groups	746	-	-
2200 Accrued Expenditures	14,114	-	-
2000 Total Liabilities	<u>1,813,260</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	1,546,787	465,590	-
2602 Unavailable Revenue - Other	300	-	-
2600 Total Deferred Inflows of Resources	<u>1,547,087</u>	<u>465,590</u>	<u>-</u>
FUND BALANCES			
Nonspendable Fund Balance:			
3430 Prepaid Items	332,514	-	-
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	-	-
3470 Capital Acquisition and Contractual Obligation	-	-	2,794,962
3480 Retirement of Long-Term Debt	-	1,132,680	-
3600 Unassigned Fund Balance	14,916,815	-	-
3000 Total Fund Balances	<u>15,249,329</u>	<u>1,132,680</u>	<u>2,794,962</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 18,609,676</u>	<u>\$ 1,598,270</u>	<u>\$ 2,794,962</u>

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

Other Funds	Total Governmental Funds
\$ 283,442	\$ 3,203,436
503,058	16,771,881
-	2,053,446
-	(41,069)
339,162	1,799,335
75	352
645	9,395
-	332,514
<u>\$ 1,126,382</u>	<u>\$ 24,129,290</u>
\$ 127,038	\$ 590,825
92,648	1,427,261
352	352
7,605	7,605
-	746
-	14,114
<u>227,643</u>	<u>2,040,903</u>
-	2,012,377
-	300
<u>-</u>	<u>2,012,677</u>
-	332,514
606,545	606,545
-	2,794,962
-	1,132,680
292,194	15,209,009
<u>898,739</u>	<u>20,075,710</u>
<u>\$ 1,126,382</u>	<u>\$ 24,129,290</u>

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

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$	20,075,710
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$132,445,816 and the accumulated depreciation was (\$57,729,486). In addition, long-term liabilities, including bonds payable of (\$74,681,000), are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to decrease net position.		35,330
2 Current year capital outlays of \$865,004 and long-term debt principal payments of \$2,883,000 are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the current year capital outlays and debt principal payments is to increase net position.		3,748,004
3 The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(4,110,758)
4 Accrued interest payable on long-term debt is not reflected on the fund financial statements, but is included on the government-wide financial statements. The effect of showing accrued interest payable is to decrease net position.		(112,499)
5 Accreted interest on capital appreciation bonds has not been included on the fund financial statements, but is included on the government-wide financial statements. The effect of including the accreted interest is to decrease net position.		(10,117,491)
6 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68. The net position related to TRS included a Deferred Resource Outflow in the amount of \$2,145,043, a Deferred Resource Inflow in the amount of (\$878,259), and a Net Pension Liability in the amount of (\$5,528,934). The net effect of including the GASB 68 adjustment is to decrease net position.		(4,262,150)
7 Included in the items related to debt is the recognition of the District's proportionate share of the net OPEB liability required by GASB 75. The net position related to TRS included a Deferred Resource Outflow in the amount of \$162,539, a Deferred Resource Inflow in the amount of (\$4,047,570), and a Net OPEB Liability in the amount of (\$9,676,192). The net effect of including the GASB 75 adjustment is to decrease net position.		(13,561,223)
8 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.		586,737
19 Net Position of Governmental Activities	\$	(7,718,340)

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

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

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 13,479,694	\$ 5,173,548	\$ 42,149
5800 State Program Revenues	16,889,923	116,911	-
5900 Federal Program Revenues	761,989	-	-
5020 Total Revenues	<u>31,131,606</u>	<u>5,290,459</u>	<u>42,149</u>
EXPENDITURES:			
Current:			
0011 Instruction	17,043,875	-	-
0012 Instructional Resources and Media Services	129,514	-	-
0013 Curriculum and Instructional Staff Development	336,468	-	-
0021 Instructional Leadership	468,389	-	-
0023 School Leadership	1,423,959	-	-
0031 Guidance, Counseling and Evaluation Services	1,025,160	-	-
0032 Social Work Services	137,848	-	-
0033 Health Services	271,160	-	-
0034 Student (Pupil) Transportation	1,402,423	-	-
0035 Food Services	234	-	-
0036 Extracurricular Activities	1,086,113	-	-
0041 General Administration	1,225,891	-	-
0051 Facilities Maintenance and Operations	3,713,102	-	-
0052 Security and Monitoring Services	145,279	-	-
0053 Data Processing Services	967,738	-	-
0061 Community Services	213,251	-	-
Debt Service:			
0071 Principal on Long-Term Debt	-	2,883,000	-
0072 Interest on Long-Term Debt	-	2,741,544	-
0073 Bond Issuance Cost and Fees	-	3,900	-
Capital Outlay:			
0081 Facilities Acquisition and Construction	337,401	-	284,982
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	184,841	-	-
0095 Payments to Juvenile Justice Alternative Ed. Prg.	774	-	-
6030 Total Expenditures	<u>30,113,420</u>	<u>5,628,444</u>	<u>284,982</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,018,186</u>	<u>(337,985)</u>	<u>(242,833)</u>
OTHER FINANCING SOURCES (USES):			
7915 Transfers In	110,443	-	-
8911 Transfers Out (Use)	(110,443)	-	-
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
1200 Net Change in Fund Balances	1,018,186	(337,985)	(242,833)
0100 Fund Balance - September 1 (Beginning)	<u>14,231,143</u>	<u>1,470,665</u>	<u>3,037,795</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 15,249,329</u>	<u>\$ 1,132,680</u>	<u>\$ 2,794,962</u>

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

Other Funds	Total Governmental Funds
\$ 739,808	\$ 19,435,199
250,454	17,257,288
3,087,879	3,849,868
4,078,141	40,542,355
1,700,097	18,743,972
16,548	146,062
93,842	430,310
50,252	518,641
278	1,424,237
35,466	1,060,626
65,579	203,427
-	271,160
-	1,402,423
1,951,870	1,952,104
99,985	1,186,098
8,708	1,234,599
1,091	3,714,193
-	145,279
3,041	970,779
-	213,251
-	2,883,000
-	2,741,544
-	3,900
-	622,383
-	184,841
-	774
4,026,757	40,053,603
51,384	488,752
-	110,443
-	(110,443)
-	-
51,384	488,752
847,355	19,586,958
\$ 898,739	\$ 20,075,710

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

EXHIBIT C-4

Total Net Change in Fund Balances - Governmental Funds	\$	488,752
Current year capital outlays of \$865,004 and long-term debt principal payments of \$2,883,000 are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the current year capital outlays and debt principal payments is to increase net position.		3,748,004
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.		(4,110,758)
Accrued interest payable on long-term debt is not shown on the fund financial statements, but is included on the government-wide financial statements. The net effect of showing the accrued interest payable is to increase net position.		3,464
Accreted interest on capital appreciation bonds is not included on the fund financial statements, but is included on the government-wide financial statements. The net effect of including accreted interest is to decrease net position.		(620,114)
GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in the ending net position to increase in the amount of \$612,868. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability for the District. This caused a decrease in the change in net position totaling (\$566,720). Finally, the District's proportionate share of the TRS pension expense on the the plan as a whole had to be recorded. The net pension expense decreased the change in net position by (\$287,515). The net effect of including the GASB 68 adjustment is to decrease net position.		(241,367)
The implementation of GASB 75 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in the ending net position to increase in the amount of \$161,023. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net OPEB liability for the District. This caused a decrease in the change in net position totaling (\$115,717). Finally, the District's proportionate share of the TRS OPEB expense on the the plan as a whole had to be recorded. The net OPEB expense increased the change in net position by \$3,360,583. The net effect of including the GASB 68 adjustment is to increase net position.		3,405,889
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.		96,263
Change in Net Position of Governmental Activities	\$	2,770,133

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

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

	Agency Funds
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 141,587
Total Assets	<u>\$ 141,587</u>
 LIABILITIES	
Due to Student Groups	\$ 141,587
Total Liabilities	<u>\$ 141,587</u>

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

ALVARADO INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

Year Ended August 31, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Alvarado Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the "Board") elected by registered voters of the District. The District prepares its basic financial statements in conformity with accounting principles generally accepted in the United States of America promulgated by the Governmental Accounting Standards Board (GASB), and it complies with the requirements of the appropriate version of the Texas Education Agency's *Financial Accountability System Resource Guide* (the Resource Guide) and the requirements of contracts and grants of agencies from which it receives funds.

Reporting Entity

The Board is elected by the public and has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by GASB in its Statement No. 14, "The Financial Reporting Entity," as amended by Statements No. 39, "Determining Whether Certain Organizations are Component Units," and No. 61, "The Financial Reporting Entity: Omnibus – an Amendment of GASB Statements No. 14 and No. 34." There are no component units within the reporting entity.

Government–Wide & Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all non-fiduciary activities of the District. Taxes and intergovernmental revenues normally support governmental activities. The effect of interfund activity has been removed from these statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Program revenues include: 1) charges for services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Taxes and other items not identifiable as program revenues are reported instead as general revenues.

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

Measurement Focus, Basis of Accounting & Financial Statement Presentation

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

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

ALVARADO INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

Year Ended August 31, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Measurement Focus, Basis of Accounting & Financial Statement Presentation *(continued)*

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available. Expenditures are generally recorded when a liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. Expenditures related to compensated absences, claims, and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers all revenues available if they are collectible within 60 days of year end.

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.

The special revenue funds, except for the Child Nutrition Fund, include programs that are financed on a project grant basis. These projects have grant periods that range from less than twelve months to in excess of two years. Grant funds are considered to be earned to the extent expenditures are made under the provisions of the grant. When grant funds are received in advance of being earned, they are recorded as unearned revenue until earnings criteria are met. If balances have not been expended by the end of the project period, grantors sometimes require the District to refund all or part of the unused amount.

Fiduciary Fund Financial Statements are accounted for on a flow of economic resources measurement focus. With this focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. Agency funds are custodial in nature and do not involve measurement of results or operations.

Fund Accounting

The District reports its financial activities through the use of "fund accounting". The activities of the District are organized on the basis of funds. The operations of each fund are accounted for within a separate set of self-balancing accounts to reflect results of activities. Fund accounting segregates funds according to their intended purposes to assist management in demonstrating compliance with finance-related legal and contractual provisions.

Governmental Funds are those through which most governmental functions of the District are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities are accounted for through the governmental funds. The following are the District's major governmental funds:

General Fund - The General Fund is the general operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenses that are not paid through other funds are paid from the General Fund.

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the retirement of, long-term debt principal, interest and related costs.

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources to be used for the acquisition, renovation or construction of major capital projects.

ALVARADO INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

Year Ended August 31, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fund Accounting – Governmental Funds *(continued)*

Other non-major governmental funds consist of special revenue funds that account for resources that are legally restricted or locally committed to expenditures for specified purposes. Most Federal and some State financial assistance is accounted for in special revenue funds.

Fiduciary Funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, organizations, and/or other funds:

Agency Funds - The Student Activity Fund accounts for the receipt and disbursement of monies from student activity organizations. These organizations exist with the explicit approval of, and are subject to revocation by, the District's Board of Trustees. This accounting reflects the District's agency relationship with the student activity organizations. Agency Funds are fiduciary funds that are custodial in nature (assets equal liabilities).

Assets, Liabilities & Deferred Inflows/Outflows

Cash & Cash Equivalents - The District's cash and cash equivalents include cash on hand, demand deposits, money markets, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments – Investments, except for the investment pools, are recorded at fair value. Fair value is determined by the amount at which a financial instrument can be exchanged in a current transaction between willing parties. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost. District management believes that the District adheres to the requirements of the State of Texas Public Funds Investment Act regarding investment practice, management reports and establishment of appropriate policies. Additionally, management believes that the investment practices of the District are in accordance with local policies for the current fiscal year.

Interfund Receivables & Payables - Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." All residual balances between governmental activities are eliminated in the government-wide statements.

Prepaid Expenditures – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements and expended in a subsequent period using the consumption method. All prepaid expenditures are offset at fiscal yearend by nonspendable fund balance in the fund financial statements.

Capital Assets - Capital assets, which include property, plant, and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

ALVARADO INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

Year Ended August 31, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Capital Assets *(continued)*

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

<u>Assets</u>	<u>Years</u>
Buildings	40
Building Improvements	20
Vehicles	10
Office Equipment	7
Computer Equipment	5

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

Long-Term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the *Statement of Net Position*. Bond premiums and discounts are reported as a liability or contra-liability, as appropriate, and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

In the fund financial statements, the face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances and payments to bond refunding escrow agents are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Pensions – The District records its proportionate share of the net pension liability of the Teacher Retirement System of Texas (TRS). The fiduciary net position of TRS has been determined using the 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 by TRS when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

ALVARADO INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

Year Ended August 31, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Deferred Outflows/Inflows of Resources – In addition to assets and liabilities, the government-wide Statement of Net Position and governmental fund Balance Sheet report separate sections for deferred outflows and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position/fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred inflows of resources represent the acquisition of net position/fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. In addition to deferred losses on debt refunding transactions, which are reported as deferred outflows of resources, the District reports certain deferred inflows and outflows related to pensions on the government-wide Statement of Net Position. At the governmental fund level, earned but unavailable tax revenue is reported as a deferred inflow of resources.

Fund Balances and Net Position

Net position on the government-wide Statement of Net Position includes the following:

Net Investment in Capital Assets reports the difference between capital assets, net of accumulated depreciation, and the outstanding balance of debt, excluding unspent bond proceeds that is directly attributable to the acquisition, construction or improvement of those capital assets.

Restricted for Federal and State Grant Programs is the component of net position restricted to be spent for specific purposes prescribed by federal and state granting agencies.

Restricted for Debt Service is the component of net position that is restricted for payment of debt service by constraints established by the bond covenants.

Restricted for Capital Projects is the component of net position that is restricted for construction of capital projects.

Unrestricted Net Position is the residual difference between assets, deferred outflows, liabilities and deferred inflows that is not invested in capital assets or restricted for specific purposes.

It is the District's policy to spend funds available from restricted sources prior to unrestricted sources.

Fund balances on the governmental funds' Balance Sheet include the following:

Nonspendable Fund Balance is the portion of the gross fund balance that is not expendable because it is either not in spendable form or it is legally or contractually required to be maintained intact.

Restricted Fund Balance includes amounts restricted for a specific purpose by the provider (such as a grantors, bondholders, and high levels of government), through constitutional provisions, or by enabling legislation. Debt service resources are to be used for future servicing of the District's bonded debt and are restricted through debt covenants. Capital Projects bond funds are restricted by the bondholders for the specific purpose of capital projects and capital outlays. Federal and State grant resources are restricted pursuant to the mandates of the granting agency.

Committed Fund Balance is that portion of fund balance that is committed to a specific purpose by the District's Board of Trustees. The Board of Trustees establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. These amounts cannot be used for any other purpose unless the Board removes or changes the constraint by exercising the same type of action originally used to commit the funds.

ALVARADO INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

Year Ended August 31, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fund Balances and Net Position *(continued)*

Assigned Fund Balance is that portion of fund balance that is spendable or available for appropriation but has been tentatively earmarked for some specific purpose. This intent can be expressed by an official to which the Board of Trustees delegates this authority.

Unassigned Fund Balance is the difference between the total fund balance and the total of the nonspendable, restricted, committed, and assigned fund balances and can be utilized for any legal purpose. This portion of the total fund balance in the General Fund is available to finance operating expenditures.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed.

As of August 31, 2018, fund balances are composed of the following:

	General Fund	Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Nonspendable:					
Prepays	\$ 332,514	-	-	-	332,514
Restricted:					
Debt Service	-	1,132,680	-	-	1,132,680
Federal Grant	-	-	-	606,545	606,545
Capital Projects	-	-	2,794,962	-	2,794,962
Unassigned	<u>14,916,815</u>	<u>-</u>	<u>-</u>	<u>292,194</u>	<u>15,209,009</u>
Total Fund Balances	<u><u>\$ 15,249,329</u></u>	<u><u>1,132,680</u></u>	<u><u>2,794,962</u></u>	<u><u>898,739</u></u>	<u><u>20,075,710</u></u>

Data Control Codes

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

Management's Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimations and assumptions that affect the reported amounts of assets, deferred outflows, liabilities, and deferred inflows at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

ALVARADO INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

Year Ended August 31, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Encumbrance Accounting

Under encumbrance accounting, purchase orders, contracts and other commitments for the expenditure of funds are recorded in the accounting system in order to assign the portion of the applicable appropriation. This methodology is employed in the governmental fund financial statements. Encumbrances are not liabilities and are therefore not recorded as expenditures until receipt of the material or service. For budgetary purposes, appropriations lapse at fiscal year-end, and outstanding encumbrances at year-end are re-appropriated in the next fiscal year. There were no outstanding encumbrances at year end.

Budgetary Data

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund, and Child Nutrition Special Revenue Fund on a basis consistent with accounting policies generally accepted in the United States of America. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The Budgetary Comparison Schedule for the General Fund appears in Exhibit E-1. The Budgetary Comparison Schedules for the Child Nutrition Fund and Debt Service Fund appear in Exhibits G-2 and G-3. The remaining special revenue funds and the Capital Projects Fund adopt project-length budgets which do not correspond to the District's Fiscal Year.

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

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

Once a budget is approved, it can only be amended at the fund and function level. To do so requires the approval of a majority of the members of the Board of Trustees. Amendments are presented to the Board at its regular meetings. Such amendments are reflected in the official minutes of the Board. The budget was properly amended throughout the year by the Board of Trustees.

The Budget Coordinator controls each budget for revenues and expenditures at the fund, function, and object level. Management is able to transfer amounts within each function. Budgeted amounts are as amended by the Board of Trustees. All budget appropriations lapse at year end. A reconciliation of fund balances for both appropriated budget and non-appropriated budget special revenue funds is as follows:

August 31, 2018 Fund Balance

Appropriated budget funds - Child Nutrition Special Revenue Fund	\$ 531,541
Non-appropriated budget funds	<u>367,198</u>
All Special Revenue Funds	<u><u>\$ 898,739</u></u>

ALVARADO INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

Year Ended August 31, 2018

RECONCILIATION OF GOVERNMENT-WIDE & FUND FINANCIAL STATEMENTS

Explanation of Certain Differences Between the Governmental Fund Balance Sheet & the Government-Wide Statement of Net Position

Exhibit C-2 provides a reconciliation between *fund balance - total governmental funds* and *net position - governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that "various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the full accrual basis of accounting." The details of this \$586,737 adjustment are as follows:

Long Term Debt:	
Premium and Discount Costs on Bonds	\$ (2,469,010)
Deferred Loss on Refunding Bonds	1,043,370
	<u>(1,425,640)</u>
Unavailable Revenue	
To remove the current period uncollected tax levy from unavailability revenue	378,815
To remove prior year collectible delinquent tax levy receivable from unavailability revenue	1,633,562
	<u>2,012,377</u>
Net adjustment to decrease fund balance - total governmental funds to arrive at net position - governmental activities	<u>\$ 586,737</u>

Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances & the Government - Wide Statement of Activities

Exhibit C-4 provides a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "various other reclassifications are necessary to convert from the modified accrual basis of accounting to the full accrual basis of accounting." The details of this \$96,263 adjustment are as follows:

Long-Term Debt:	
Current year amortization	\$ 97,784
	<u>97,784</u>
Taxes:	
To move the uncollected tax levy to revenue	(1,521)
	<u>(1,521)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes to net position of governmental activities	<u>\$ 96,263</u>

ALVARADO INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

Year Ended August 31, 2018

CASH & INVESTMENTS

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

At August 31, 2018, the carrying amount of the District's deposits (cash) was \$3,345,023. The bank balance was \$3,702,953. The District's combined deposits at August 31, 2018 and during the year ended August 31, 2018 were fully insured by federal depository insurance or collateralized with securities pledged to the District and held by the District's agent.

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

- Name of Bank – First Financial Bank, N.A.
- The highest combined balances of cash, savings, and time deposit accounts amounted to \$6,036,840 and occurred during the month of February 2018.
- Amount of bond and securities pledged as of the date of the highest combined balance on deposit was \$7,060,974.
- Total amount of FDIC coverage at the time of highest combined balance was \$250,000.

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas:

- Safety of principal and liquidity,
- Portfolio diversification,
- Allowable investments,
- Acceptable risk levels,
- Expected rates of return,
- Maximum allowable stated maturity of portfolio investments,
- Maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio,
- Investment staff quality and capabilities, and
- Bid solicitation preferences for certificates of deposit.

Statutes authorize the District to invest in obligations of the U.S. Treasury and U.S. agencies, municipal securities, repurchase agreements, and certain other investments. The investments owned at fiscal yearend are held by the District or its agent in the District's name.

ALVARADO INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

Year Ended August 31, 2018

CASH & INVESTMENTS *(continued)*

All investment pools utilized by the District meet the requirements of the Texas Public Funds Investment Act (PFIA). The fair value of the positions in the pools is the same as the value of the pools. The District invests in the following investment pools:

- Texas Local Government Investment Pool (TexPool) - The Texas Comptroller of Public Accounts exercises oversight responsibility over TexPool.

In compliance with the PFIA, the District has adopted a deposit and investment policy. That policy addresses the following risks:

Credit risk is the risk that a security issuer may default on an interest or principal payment. The District controls and monitors this risk by purchasing quality rated instruments that have been evaluated by nationally recognized agencies such as Standard and Poor's (S&P) or Moody's Investors Service.

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution or counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover its deposits, value of its investments, or collateral securities that are in the possession of an outside party. The PFIA, the District's investment policy, and Government Code Chapter 2257 "Collateral for Public Funds" contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits and investments. The District's funds are deposited and invested under terms of a depository contract with amounts greater than the FDIC insurance coverage protected by approved pledged securities held on behalf of the District. Public funds investment pools created to function as money market mutual funds must mark their portfolios to market daily, and, to the extent reasonably possible, stabilize at a \$1 net asset value. The District's policy manages custodial credit risk by requiring securities purchased by a broker-dealer for the District to be held in a Safekeeping account in the District's name. The policy also requires that security transactions be conducted on a delivery-versus-payment basis.

Concentration of credit risk is the risk associated with holding investments that are not pools and full faith credit securities. These risks are controlled by limiting the percentages of these investments in the District's portfolio.

Interest rate risk is the risk that interest rates will rise and an investment in a fixed-income security will decrease in value. Interest rate risk is reduced by diversifying, investing in securities with different durations, and laddering maturity dates. The District manages its exposure to interest rate risk by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase. The weighted average maturity for the District's investment in external investment pools is less than 60 days.

Foreign currency risk is the potential for loss due to fluctuations in exchange rates. The District's policy does not allow for any direct foreign investments, and therefore the District is not exposed to foreign currency risk.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72, Fair Value Measurement and Application provides a framework for measuring fair value which establishes a three-level fair value hierarchy that describes the inputs used to measure assets and liabilities:

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 inputs are inputs – other than quoted prices included within Level 1 – that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

ALVARADO INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

Year Ended August 31, 2018

CASH & INVESTMENTS *(continued)*

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

The District has recurring fair value measurements as presented in the table below. The District's investment balances at August 31, 2018 are as follows:

<u>Description</u>	<u>Credit Rating</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
TexPool	AAAm	\$ 16,771,881	\$ 16,771,881

PROPERTY TAXES

The District's ad valorem property tax is levied on all real and business personal property located in the District. A lien exists on all property on January 1st of each year. Tax statements are mailed on October 1st each year or as soon thereafter as possible. Taxes are due upon receipt and become delinquent if not paid before February 1st of the following calendar year. The assessed value of the property tax roll on August 1, 2017, upon which the levy for the 2017-18 fiscal period was based, was \$1,215,157,455.

The tax rates levied for the fiscal year ended August 31, 2018, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.04 and \$0.421 per \$100 valuation, respectively, for a total of \$1.461 per \$100 valuation.

Current year tax collections for the period ended August 31, 2018, were 97.81% of the levy.

The ad valorem tax rate is allocated each year between the General Fund and the Debt Service Fund. The full amount estimated to be required for general obligation bond retirement is provided by the debt service tax together with interest earned within the Debt Service Fund.

Allowances for uncollectible taxes within the General Fund and Debt Service Fund are based on historical experience. 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. As of August 31, 2018, the allowance for uncollectible taxes was approximately 2% of total delinquent property taxes receivable.

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 Program and Available School Fund.

Receivables due from other governments as of August 31, 2018, for the District's individual major funds and Non-Major Governmental Funds are as follows:

<u>Fund</u>	<u>State Entitlements</u>	<u>Federal Grants</u>	<u>Total</u>
General	\$ 1,435,774	24,399	1,460,173
Special Revenue	66,202	272,960	339,162
Total	<u>\$ 1,501,976</u>	<u>297,359</u>	<u>1,799,335</u>

ALVARADO INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

Year Ended August 31, 2018

INTERFUND TRANSACTIONS

Inter-fund balances at August 31, 2018, consisted of the following individual fund receivables and payables:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Special Revenue, Title I	\$ 172
General Fund	Special Revenue, IDEA	\$ 180
Special Revenue, Title II	General Fund	\$ 75

All interfund balances represent transactions between the General Fund and other funds. Non-major funds owed the General Fund for grant expenditures financed by General Fund cash prior to receiving reimbursements from federal or state agencies.

CAPITAL ASSETS

A summary of changes in capital assets for the year ended August 31, 2018, follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Capital Assets not being depreciated:				
Land	\$ 2,205,867	-	-	2,205,867
Construction in Progress	8,500	587,532	(152,361)	443,671
	<u>2,214,367</u>	<u>587,532</u>	<u>(152,361)</u>	<u>2,649,538</u>
Capital Assets being depreciated:				
Buildings & Improvements	119,529,524	152,361	-	119,681,885
Furniture & Equipment	10,701,925	277,472	-	10,979,397
	<u>130,231,449</u>	<u>429,833</u>	<u>-</u>	<u>130,661,282</u>
Less: Accumulated depreciation for:				
Buildings & Improvements	(48,706,848)	(3,661,886)	-	(52,368,734)
Furniture & Equipment	(9,022,638)	(448,872)	-	(9,471,510)
	<u>(57,729,486)</u>	<u>(4,110,758)</u>	<u>-</u>	<u>(61,840,244)</u>
Total Capital Assets for Governmental Activities, net	<u>\$ 74,716,330</u>	<u>(3,093,393)</u>	<u>(152,361)</u>	<u>71,470,576</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 2,772,953
Instructional Resources & Media	67,533
Student Transportation	180,459
Food Services	250,965
Extracurricular Activities	541,698
General Administration	52,197
Plant Maintenance & Operations	227,586
Security & Monitoring	3,239
Data Processing Services	14,128
Total Depreciation Expense	<u>\$ 4,110,758</u>

ALVARADO INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

Year Ended August 31, 2018

CAPITAL ASSETS *(continued)*

Construction Commitments

At August 31, 2018, the District was obligated under major contracts for construction of new facilities and renovations or repair of various existing facilities. A summary of the status of these projects and the related binding contracts with contractors is as follows:

	<u>08/31/17</u>	<u>Additions</u>	<u>Retirements</u>	<u>08/31/18</u>
Instant Replay	\$ 8,500	143,861	(152,361)	-
Track Resurfacing	-	312,424	-	312,424
Abatement & Flooring	-	131,247	-	131,247
Total	<u>\$ 8,500</u>	<u>587,532</u>	<u>(152,361)</u>	<u>443,671</u>

LONG-TERM DEBT

A summary of changes in long-term debt for the year ended August 31, 2018, follows:

<u>Governmental Activities</u>	<u>Interest Rate Payable</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonded Indebtedness:						
1995 Refunding	6.05%	\$ 485,000	-	-	485,000	\$ 80,000
1998 School Building	6.15%	1,125,000	-	-	1,125,000	-
2011 Refunding	3.16%	7,365,000	-	(400,000)	6,965,000	365,000
2012 Refunding	2.80%	6,250,000	-	(310,000)	5,940,000	320,000
2013 School Building	4.87%	28,560,000	-	-	28,560,000	-
2014 School Building	4.37%	5,201,000	-	(433,000)	4,768,000	433,000
2015 Refunding	4.38%	8,695,000	-	(145,000)	8,550,000	120,000
2015A Refunding	3.76%	1,540,000	-	(965,000)	575,000	75,000
2016 Refunding	3.11%	9,300,000	-	(165,000)	9,135,000	135,000
2017 Refunding	2.72%	6,160,000	-	(465,000)	5,695,000	475,000
Subtotal		74,681,000	-	(2,883,000)	71,798,000	2,003,000
Bond Premium		2,624,190	-	(155,180)	2,469,010	
Accreted Interest		9,497,377	620,114	-	10,117,491	945,000
Total Bonded Indebtedness		<u>\$ 86,802,567</u>	<u>620,114</u>	<u>(3,038,180)</u>	<u>84,384,501</u>	<u>\$ 2,948,000</u>

General obligation bonds consist of School Building and Refunding Bonds bearing interest at 2.72% – 6.15% per annum. Interest expense for the year on all bonded indebtedness was \$2,741,544.

Changes in debt-related deferred outflows of resources for the year ended August 31, 2018, were:

	<u>Beginning Balance</u>	<u>Issued/ Increases</u>	<u>Retired/ Refunded</u>	<u>Ending Balance</u>
Deferred loss on refunding	\$ 1,100,766	-	(57,396)	\$ 1,043,370

ALVARADO INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

Year Ended August 31, 2018

LONG-TERM DEBT *(continued)*

Capital Appreciation Bonds

A capital appreciation bond (CAB) is a bond bearing no interest that is sold at a significant discount but matures at a stated value. Accreted interest is the obligation associated with CABs and reflects period increases in the obligation to reflect the bond at stated value at maturity. CAB premiums represent premium received on the issuance of these bonds which must also be paid back at maturity. Current year accreted interest expense recognized in the government-wide financial statements was \$620,114, and no outstanding accreted interest was paid off during the year. Total accreted interest on CABs at August 31, 2018 is \$10,117,491, which is reported as long-term liabilities in the government-wide financial statements.

Defeasance of Debt

In prior years, the District defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. On August 31, 2018, none of the outstanding bonds are considered defeased.

Debt service requirements for the general obligation bonds are as follows:

Year Ending August 31	Principal	Interest	Total Requirements
2019	\$ 2,003,000	2,753,442	4,756,442
2020	2,063,000	2,697,492	4,760,492
2021	2,118,000	2,632,580	4,750,580
2022	1,798,000	2,731,093	4,529,093
2023	1,823,000	2,672,205	4,495,205
2024-2028	9,224,000	12,421,471	21,645,471
2029-2033	13,674,000	10,828,884	24,502,884
2034-2038	16,930,000	12,776,210	29,706,210
2039-2043	22,165,000	20,152,338	42,317,338
	<u>\$ 71,798,000</u>	<u>69,665,715</u>	<u>141,463,715</u>

UNEARNED REVENUE

Unearned revenue at August 31, 2018, consisted of the following:

	General Fund	Debt Service Fund	Total
Net Tax Revenue	\$ 1,546,787	465,590	2,012,377
Facility Rental	300		300
Total	<u>\$ 1,547,087</u>	<u>465,590</u>	<u>2,012,677</u>

ALVARADO INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

Year Ended August 31, 2018

REVENUES FROM LOCAL & INTERMEDIATE SOURCES

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

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
Property Taxes	\$ 12,586,628	-	5,080,620	-	17,667,248
Food Sales	-	499,395	-	-	499,395
Investment Income	208,085	6,757	29,938	42,149	286,929
Penalties, Interest & Other					-
Tax Related Income	181,181	-	62,990	-	244,171
Co-Curricular Student Activities	67,679	225,170	-	-	292,849
Other	436,121	8,486	-	-	444,607
Total	<u>\$ 13,479,694</u>	<u>739,808</u>	<u>5,173,548</u>	<u>42,149</u>	<u>19,435,199</u>

RISK MANAGEMENT

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

Health Care Coverage

For the year ended August 31, 2018, all employees of the District were offered health care coverage under the TRS ActiveCare insurance plan (the Plan), which is a statewide health coverage program for public education employees established by the 77th Texas Legislature. The District contributed \$275 per month per enrolled employee to the Plan, and employees, at their option, authorized payroll withholdings to pay the additional cost of premiums for themselves and dependents.

Worker's Compensation Insurance

The District participates in the East Texas Educational Insurance Association (ETEIA), a public entity risk pool. The District pays premiums to ETEIA for its workers' compensation insurance. The ETEIA has obtained reinsurance from Safety National Casualty Corporation for claims exceeding \$225,000. At August 31, 2018, the District's unpaid claims total \$154,883, including incurred but not reported (IBNR) claims of \$85,686, estimated. The District has reported this as a liability in the General Fund.

Changes in the balances of claims liability amounts in fiscal years 2018 and 2017 are as follows:

	2018	2017
Unpaid Claims, Beginning of Period	\$ 151,964	88,113
Incurred Claims (including IBNR)	108,193	172,125
Claim Payments	(105,274)	(108,274)
Unpaid Claims, End of Period	<u>\$ 154,883</u>	<u>151,964</u>

ALVARADO INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

Year Ended August 31, 2018

RISK MANAGEMENT *(continued)*

Unemployment Compensation Pool

During the year ended August 31, 2018, the District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (The Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Local Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop loss coverage for the Unemployment Compensation pool. For the year ended August 31, 2018, the Fund anticipates that the District has no additional liability beyond the contractual obligation for payment of contribution.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statement as of August 31, 2017, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

Litigation & Contingencies

The District is a party to various legal actions none of which is believed by administration to have a material effect on the financial condition of the District. Accordingly, no provision for losses has been recorded in the accompanying combined financial statements for such contingencies.

State & Federal Programs

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

PENSION PLAN AND OTHER POST EMPLOYMENT BENEFITS

Employee Retirement Plan

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

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

ALVARADO INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

Year Ended August 31, 2018

PENSION PLAN AND OTHER POST EMPLOYMENT BENEFITS *(continued)*

Employee Retirement Plan *(continued)*

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 (CAFR) that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX 78701; or by calling (512) 542-6592.

The information provided in the Notes to the Financial Statements in the 2017 CAFR for TRS provides the following information regarding the Pension Plan fiduciary net position as of August 31, 2017:

<u>Net Pension Liability</u>	<u>Total</u>
Total Pension Liability	\$ 179,336,534,819
Less: Plan Fiduciary Net Position	(147,361,922,120)
Net Pension Liability	<u>\$ 31,974,612,699</u>

Net Position as a percentage of Total Pension Liability 82.17%

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, when 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 postemployment benefit changes, including ad hoc by the Texas Legislature as noted in the Plan description above.

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

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

ALVARADO INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

Year Ended August 31, 2018

PENSION PLAN AND OTHER POST EMPLOYMENT BENEFITS *(continued)*

Employee Retirement Plan - Contributions *(continued)*

	<u>2017</u>	<u>2018</u>
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Fiscal Year 2018 Employer Contributions		\$ 612,868
Fiscal Year 2018 Member Contributions		\$ 1,557,556
2017 Measurement Year NECE On-Behalf Contributions		\$ 977,557

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

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

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

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

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

ALVARADO INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

Year Ended August 31, 2018

PENSION PLAN AND OTHER POST EMPLOYMENT BENEFITS *(continued)*

Employee Retirement Plan *(continued)*

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

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

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

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

ALVARADO INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

Year Ended August 31, 2018

PENSION PLAN AND OTHER POST EMPLOYMENT BENEFITS *(continued)*

Employee Retirement Plan – Discount Rate *(continued)*

Best estimates of geometric real rates of return for each major asset class included in the System's target asset allocation as of August 31, 2017 are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns*
Global Equity			
U.S.	18.0%	7.0%	1.0%
Non-U.S. Developed	13.0%	7.3%	0.8%
Emerging Markets	9.0%	8.1%	0.7%
Directional Hedge Funds	4.0%	5.4%	0.1%
Private Equity	13.0%	9.2%	1.1%
Stable Value			
U.S. Treasuries	11.0%	2.9%	0.1%
Absolute Return	0.0%	4.0%	0.0%
Stable Value Hedge Funds	4.0%	5.2%	0.1%
Cash	1.0%	2.0%	0.0%
Real Return			
Global Inflation Linked Bonds	3.0%	3.1%	0.0%
Real Assets	16.0%	7.3%	1.1%
Energy and Natural Resources	3.0%	8.8%	0.2%
Commodities	0.0%	3.4%	0.0%
Risk Parity			
Risk Parity	5.0%	8.9%	0.3%
Inflation Expectation			2.2%
Alpha			1.0%
Total	<u>100.0%</u>		<u>8.7%</u>

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

Discount Rate Sensitivity Analysis – The following schedule shows the impact of the District's portion of the TRS 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:	\$ 9,320,691	\$ 5,528,934	\$ 2,371,682

ALVARADO INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

Year Ended August 31, 2018

PENSION PLAN AND OTHER POST EMPLOYMENT BENEFITS *(continued)*

Employee Retirement Plan – Discount Rate *(continued)*

Pension Liabilities, Pension Expense, Deferred Outflows of Resources & Deferred Inflows of Resources Related to Pensions - At August 31, 2018, the District reported a liability of \$5,528,934 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	\$ 5,528,934
State's proportionate share that is associated with the District	<u>9,557,136</u>
Total	<u>\$ 15,086,070</u>

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

At August 31, 2017 the employer's proportion of the collective net pension liability was 0.0172916% which was a decrease of (0.0001018% from its proportion measured as of August 31, 2016.

For the year ended August 31, 2018, the District recognized pension expense of \$1,583,215 and revenue of \$728,980 for support provided by the State.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experiences	\$ 80,891	\$ 298,168
Changes in actuarial assumptions	251,852	144,179
Differences between projected and actual investment earnings	-	402,937
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	<u>1,199,432</u>	<u>32,975</u>
Total as of August 31, 2017	\$ 1,532,175	\$ 878,259
Contributions paid to TRS subsequent to the measurement date	<u>612,868</u>	<u>-</u>
Total as of Fiscal year end	<u>\$ 2,145,043</u>	<u>\$ 878,259</u>

ALVARADO INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

Year Ended August 31, 2018

PENSION PLAN AND OTHER POST EMPLOYMENT BENEFITS *(continued)*

Employee Retirement Plan – Pension Liabilities, Pension Expense, Deferred Outflows of Resources & Deferred Inflows of Resources Related to Pensions *(continued)*

\$612,868 reported as deferred outflow of resources resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. The remaining net amounts of the employer’s balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended August 31,	Pension Expense Amount
2019	\$ 118,333
2020	\$ 471,259
2021	\$ 91,218
2022	\$ (21,089)
2023	\$ 3,610
Thereafter	\$ (9,415)
	<u>\$ 653,916</u>

Long-Term Liability Disclosure

	<u>08/31/17</u>	<u>Additions</u>	<u>Retirements</u>	<u>08/31/18</u>
Net Pension Liability	\$ 6,572,727	(477,074)	(566,719)	5,528,934

Changes Since the Prior Actuarial Valuation – There were no changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior period measurement period. There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

Retiree Health Plan

Plan Description - The District participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care). TRS-Care 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. The plan is established and administered in accordance with the Texas Insurance Code, Chapter 1575.

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

Benefits Provided - TRS-Care provides 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. Option dependent coverage is available for an additional fee.

ALVARADO INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

Year Ended August 31, 2018

PENSION PLAN AND OTHER POST EMPLOYMENT BENEFITS *(continued)*

Retiree Health Plan *(continued)*

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

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

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

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

** or surviving spouse*

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

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

	<u>2017</u>	<u>2018</u>
Member	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%
Fiscal Year 2018 Employer Contributions		\$ 161,023
Fiscal Year 2018 Member Contributions		\$ 131,485
2017 Measurement Year NECE On-behalf Contributions		\$ 183,480

ALVARADO INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

Year Ended August 31, 2018

PENSION PLAN AND OTHER POST EMPLOYMENT BENEFITS *(continued)*

Retiree Health Plan - 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.

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

The following assumptions and other inputs used for members of TRS-Care are identical to the assumptions used in the August 31, 2017 TRS pension actuarial valuation: Rates of Mortality, Rates of Retirement, Rates of Termination, Rates of Disability Incidence, General Inflation, Wage Inflation, and Expected Growth.

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 claim costs.
Payroll Growth Rate	2.50%
Salary Increases**	3.50% to 9.50%**
Healthcare Trend Rates***	4.50% to 12.00%***
Election Rates	Normal Retirement: 70% participation prior to age 65 and 75% participation after age 65.
Ad hoc post-employment benefit changes	None

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

** Includes Inflation at 2.50%.

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

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

ALVARADO INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

Year Ended August 31, 2018

PENSION PLAN AND OTHER POST EMPLOYMENT BENEFITS *(continued)*

Retiree Health Plan *(continued)*

Discount Rate - A single discount rate of 3.42% was used to measure the total OPEB liability. There was a change of .44 percent in the discount rate since the previous year. The Discount Rate can be found in the 2017 TRS CAFR on page 83. Because the plan is essentially a “pay-as-you-go” plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability.

Discount Rate Sensitivity Analysis – The following schedule shows the impact of the District’s portion 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%)
Proportionate share of the net OPEB liability:	\$ 11,420,309	\$ 9,676,192	\$ 8,274,316

Healthcare Cost Trend Rate Sensitivity Analysis – The following schedule shows the impact of the District’s portion of the net OPEB Liability of the plan using the assumed healthcare trend rate, as well as what the net OPEB liability would be if the trend rate used was 1% less than and 1% greater than the assumed healthcare cost trend rate.

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Proportionate share of the net OPEB liability:	\$ 8,056,397	\$ 9,676,192	\$ 11,801,568

OPEB Liabilities, OPEB Expense & Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs - At August 31, 2018, the District reported a liability of \$9,676,192 for its proportionate share of the TRS’s net OPEB liability. This liability reflects a reduction of 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	\$ 9,676,192
State’s proportionate share that is associated with the District	15,346,916
Total	<u>\$ 25,023,108</u>

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

At August 31, 2017, the employer’s proportion of the collective net OPEB liability was 0.0222512%. Since this is the first year of implementation, the District does not have the proportion measured as of August 31, 2016. The notes to the financial statements for August 31, 2016 for TRS stated that the change in proportion was immaterial and therefore, disregarded this year.

ALVARADO INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

Year Ended August 31, 2018

PENSION PLAN AND OTHER POST EMPLOYMENT BENEFITS *(continued)*

Retiree Health Plan *(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: These can be found in the TRS CAFR on page 83.

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

For the year ended August 31, 2018, the District recognized OPEB expense of (\$8,380,352) and revenue of (\$5,135,486) for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experiences	\$ -	\$ 201,998
Changes in actuarial assumptions	-	3,845,572
Differences between projected and actual investment earnings	1,470	-
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	46	-
Total as of August 31, 2017 measurement date	\$ 1,516	\$ 4,047,570
Contributions paid to TRS subsequent to the measurement date	161,023	-
Total as of August 31, 2018	\$ 162,539	\$ 4,047,570

\$161,023 reported as deferred outflow of resources resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. The remaining net amounts of the employer's balances of deferred outflows and inflows of resources related to OPEBs will be recognized in pension expense as follows:

<u>Fiscal Year ended August 31,</u>	
2019	\$ (533,881)
2020	(533,881)
2021	(533,881)
2022	(533,881)
2023	(534,248)
Thereafter	(1,376,282)
	\$ (4,046,054)

Long-Term Liability

	Beginning Balance	Additions	Reductions	Ending Balance
Net OPEB Liability	\$ 17,082,829	(7,290,953)	(115,684)	\$ 9,676,192

ALVARADO INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

Year Ended August 31, 2018

PENSION PLAN AND OTHER POST EMPLOYMENT BENEFITS *(continued)*

Medicare Part D

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare D allows for the Texas Public School Retired Employee Group Insurance Program (TRSCare) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. The funds allocated to the District are considered on-behalf payments and are recognized as equal revenues and expenditures in the General Fund. For the year ended August 31, 2018, the contribution made on behalf of the District was \$60,593.

NEGATIVE OPERATING GRANTS AND CONTRIBUTIONS – STATEMENT OF ACTIVITIES

Expense activity is required to be recorded by districts who are participants in cost-sharing pension and OPEB benefit plans with a special funding situation where non-employer contributing entities (NECE) also participate in contributions to the plans. TRS-retirement and TRS-care benefit plans are both cost-sharing plans with special funding situations. Therefore, on-behalf expense activity of the NECE must be recorded at the government-wide level of reporting on the Statement of Activities in accordance with GASB 68 and 75.

During the year under audit, the NECE expense was negative due to changes in benefits within the TRSCare plan. The accrual for the proportionate share of that expense was a negative on-behalf revenue and negative on-behalf expense. This resulted in negative revenue for operating grants and contributions on the Statement of Activities. According to guidance provided directly from GASB, this is the correct reporting.

Following are the effects on the Statement of Activities as a result of the negative on-behalf accruals recorded:

<u>Functional Allocation</u>	<u>Operating Grants & Contributions - Statement of Activities</u>	<u>GASB 75 Negative Government-Wide On-Behalf Accrual</u>	<u>***</u>
6011 Pension Exp - Instruction	\$ (541,398)	(3,381,532)	\$ 2,840,134
6012 Pension Exp - Instructional Resources & Media	(19,208)	(22,144)	2,936
6013 Pension Exp - Curriculum Development	33,176	(69,942)	103,118
6021 Pension Exp - Instructional Leadership	(42,698)	(105,174)	62,476
6023 Pension Exp - School Leadership	(280,880)	(323,826)	42,946
6031 Pension Exp - Guidance & Counseling	(155,950)	(217,744)	61,794
6032 Pension Exp - Social Work Services	37,634	(32,217)	69,851
6033 Pension Exp - Health Services	(53,395)	(61,559)	8,164
6034 Pension Exp - Student Transportation	(193,760)	(223,385)	29,625
6035 Pension Exp - Food Services	1,467,727	(70)	1,467,797
6036 Pension Exp - Extracurricular Activities	(103,807)	(119,678)	15,871
6041 Pension Exp - General Administration	(147,221)	(169,731)	22,510
6051 Pension Exp - Plant Maintenance & Operations	(177,454)	(204,587)	27,133
6053 Pension Exp - Data Processing Services	(141,346)	(162,958)	21,612
6061 Pension Exp - Community Services	(35,510)	(40,939)	5,429
	<u>\$ (354,090)</u>	<u>(5,135,486)</u>	<u>\$ 4,781,396</u>

*** Operating Grants & Contributions - Statement of Activities (excluding the effects of GASB 75 negative on-behalf accrual).

ALVARADO INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

Year Ended August 31, 2018

PRIOR PERIOD ADJUSTMENT

During fiscal year 2018, the District adopted GASB Statement No. 75 for Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB). With GASB 75, The District must assume their proportionate share of the Net OPEB liability of the Teacher Retirement System of Texas. Adoption of GASB 75 required a prior period adjustment to report the effect of GASB 75 retroactively. The prior period adjustment totaled (\$16,967,112), which resulted in a restated beginning net position balance of (\$10,488,473).

ARBITRAGE COMPLIANCE

The District is monitoring its compliance with Federal arbitrage regulations. As of August 31, 2018, the District is in compliance with Federal regulations and the District has no liability for arbitrage rebates.

TAX ABATEMENTS

In compliance with GASB Statement #77, the District did not have any outstanding tax abatements for the year ended August 31, 2018.

EVALUATION OF SUBSEQUENT EVENTS

The District has evaluated subsequent events through December 17, 2018, the date which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

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

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 14,243,452	\$ 14,626,474	\$ 13,479,694	\$ (1,146,780)
5800	State Program Revenues	15,869,013	15,869,013	16,889,923	1,020,910
5900	Federal Program Revenues	568,155	568,155	761,989	193,834
5020	Total Revenues	30,680,620	31,063,642	31,131,606	67,964
EXPENDITURES:					
Current:					
0011	Instruction	17,243,038	17,305,474	17,043,875	261,599
0012	Instructional Resources and Media Services	133,172	133,000	129,514	3,486
0013	Curriculum and Instructional Staff Development	403,840	407,451	336,468	70,983
0021	Instructional Leadership	491,621	477,346	468,389	8,957
0023	School Leadership	1,414,975	1,424,794	1,423,959	835
0031	Guidance, Counseling and Evaluation Services	1,012,332	1,025,572	1,025,160	412
0032	Social Work Services	134,675	138,175	137,848	327
0033	Health Services	267,773	271,267	271,160	107
0034	Student (Pupil) Transportation	1,503,884	1,503,884	1,402,423	101,461
0035	Food Services	1,500	1,500	234	1,266
0036	Extracurricular Activities	1,061,337	1,096,042	1,086,113	9,929
0041	General Administration	1,175,405	1,226,325	1,225,891	434
0051	Facilities Maintenance and Operations	3,757,852	3,841,852	3,713,102	128,750
0052	Security and Monitoring Services	163,000	187,724	145,279	42,445
0053	Data Processing Services	1,034,205	1,060,606	967,738	92,868
0061	Community Services	209,368	220,368	213,251	7,117
Capital Outlay:					
0081	Facilities Acquisition and Construction	461,585	534,204	337,401	196,803
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	187,000	187,000	184,841	2,159
0095	Payments to Juvenile Justice Alternative Ed. Prg.	15,000	15,000	774	14,226
6030	Total Expenditures	30,671,562	31,057,584	30,113,420	944,164
1100	Excess of Revenues Over Expenditures	9,058	6,058	1,018,186	1,012,128
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	1,161,533	1,161,533	110,443	(1,051,090)
8911	Transfers Out (Use)	(1,170,591)	(1,170,591)	(110,443)	1,060,148
7080	Total Other Financing Sources (Uses)	(9,058)	(9,058)	-	9,058
1200	Net Change in Fund Balances	-	(3,000)	1,018,186	1,021,186
0100	Fund Balance - September 1 (Beginning)	14,231,143	14,231,143	14,231,143	-
3000	Fund Balance - August 31 (Ending)	\$ 14,231,143	\$ 14,228,143	\$ 15,249,329	\$ 1,021,186

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

	FY 2018 Plan Year 2017	FY 2017 Plan Year 2016	FY 2016 Plan Year 2015	FY 2015 Plan Year 2014
District's Proportion of the Net Pension Liability (Asset)	0.0172916%	0.0173935%	0.018155%	0.0105713%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 5,528,934	\$ 6,572,727	\$ 6,417,551	\$ 2,723,740
State's Proportionate Share of the Net Pension Liability (Asset) Associated with the District	9,557,136	11,753,013	10,971,853	9,579,928
Total	<u>\$ 15,086,070</u>	<u>\$ 18,325,740</u>	<u>\$ 17,389,404</u>	<u>\$ 12,303,668</u>
District's Covered Payroll	\$ 19,369,070	\$ 19,130,726	\$ 18,190,277	\$ 17,148,757
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	28.55%	34.36%	35.28%	16.47%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	82.17%	78.00%	78.43%	83.25%

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

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

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

	2018	2017	2016	2015
Contractually Required Contribution	\$ 612,868	\$ 566,719	\$ 552,816	\$ 537,577
Contribution in Relation to the Contractually Required Contribution	(612,868)	(566,719)	(552,816)	(537,577)
Contribution Deficiency (Excess)	\$ -0-	\$ -0-	\$ -0-	\$ -0-
District's Covered Payroll	\$ 20,227,999	\$ 19,369,070	\$ 19,130,726	\$ 18,190,277
Contributions as a Percentage of Covered Payroll	3.03%	2.93%	2.89%	2.96%

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

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

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

	<u>FY 2018</u> <u>Plan Year 2017</u>
District's Proportion of the Net Liability (Asset) for Other Post Employment Benefits	0.0222512%
District's Proportionate Share of Net Post Employment Benefit Liability (Asset)	\$ 9,676,192
State's Proportionate Share of the Net Post Employment Benefit Liability (Asset) Associated with the District	15,346,916
Total	<u>\$ 25,023,108</u>
District's Covered Payroll	\$ 19,369,070
District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	49.96%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.91%

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

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

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

	2018
Contractually Required Contribution	\$ 161,023
Contribution in Relation to the Contractually Required Contribution	(161,023)
Contribution Deficiency (Excess)	\$ -0-
District's Covered Payroll	\$ 20,227,999
Contributions as a Percentage of Covered Payroll	0.80%

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

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

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COMBINING STATEMENTS

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

Data Control Codes	211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool
ASSETS			
1110 Cash and Cash Equivalents	\$ (14,007)	\$ (23,039)	\$ (19,061)
1120 Investments - Current	-	-	-
1240 Due from Other Governments	50,272	64,880	20,668
1260 Due from Other Funds	-	-	-
1290 Other Receivables	-	-	-
1000 Total Assets	<u>\$ 36,265</u>	<u>\$ 41,841</u>	<u>\$ 1,607</u>
LIABILITIES			
2110 Accounts Payable	\$ -	\$ -	\$ -
2160 Accrued Wages Payable	36,093	41,661	1,607
2170 Due to Other Funds	172	180	-
2180 Due to Other Governments	-	-	-
2000 Total Liabilities	<u>36,265</u>	<u>41,841</u>	<u>1,607</u>
FUND BALANCES			
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	-	-
3600 Unassigned Fund Balance	-	-	-
3000 Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>
4000 Total Liabilities and Fund Balances	<u>\$ 36,265</u>	<u>\$ 41,841</u>	<u>\$ 1,607</u>

240 National Breakfast and Lunch Program	244 Career and Technical - Basic Grant	255 ESEA II, A Training and Recruiting	263 Title III, A English Lang. Acquisition	289 Other Federal Special Revenue Funds	410 State Textbook Fund	429 Other State Special Revenue Funds	461 Campus Activity Funds
\$ 43,446	\$ (2,562)	\$ 7,530	\$ (289)	\$ (5,283)	\$ 3,568	\$ 945	\$ 284,194
503,058	-	-	-	-	-	-	-
111,430	2,562	13,287	289	9,573	66,201	-	-
-	-	75	-	-	-	-	-
645	-	-	-	-	-	-	-
<u>\$ 658,579</u>	<u>\$ -</u>	<u>\$ 20,892</u>	<u>\$ -</u>	<u>\$ 4,290</u>	<u>\$ 69,769</u>	<u>\$ 945</u>	<u>\$ 284,194</u>
\$ 127,038	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	13,287	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	7,605	-	-	-	-	-
<u>127,038</u>	<u>-</u>	<u>20,892</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
531,541	-	-	-	4,290	69,769	945	-
-	-	-	-	-	-	-	284,194
<u>531,541</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,290</u>	<u>69,769</u>	<u>945</u>	<u>284,194</u>
<u>\$ 658,579</u>	<u>\$ -</u>	<u>\$ 20,892</u>	<u>\$ -</u>	<u>\$ 4,290</u>	<u>\$ 69,769</u>	<u>\$ 945</u>	<u>\$ 284,194</u>

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

Data Control Codes	499 Other Local Special Revenue Funds	Total Nonmajor Governmental Funds
ASSETS		
1110 Cash and Cash Equivalents	\$ 8,000	\$ 283,442
1120 Investments - Current	-	503,058
1240 Due from Other Governments	-	339,162
1260 Due from Other Funds	-	75
1290 Other Receivables	-	645
1000 Total Assets	<u>\$ 8,000</u>	<u>\$ 1,126,382</u>
LIABILITIES		
2110 Accounts Payable	\$ -	\$ 127,038
2160 Accrued Wages Payable	-	92,648
2170 Due to Other Funds	-	352
2180 Due to Other Governments	-	7,605
2000 Total Liabilities	<u>-</u>	<u>227,643</u>
FUND BALANCES		
Restricted Fund Balance:		
3450 Federal or State Funds Grant Restriction	-	606,545
3600 Unassigned Fund Balance	8,000	292,194
3000 Total Fund Balances	<u>8,000</u>	<u>898,739</u>
4000 Total Liabilities and Fund Balances	<u>\$ 8,000</u>	<u>\$ 1,126,382</u>

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

Data Control Codes	211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool
REVENUES:			
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -
5800 State Program Revenues	-	-	-
5900 Federal Program Revenues	658,377	768,188	20,668
5020 Total Revenues	<u>658,377</u>	<u>768,188</u>	<u>20,668</u>
EXPENDITURES:			
Current:			
0011 Instruction	500,352	718,183	20,668
0012 Instructional Resources and Media Services	-	-	-
0013 Curriculum and Instructional Staff Development	92,365	1,477	-
0021 Instructional Leadership	-	48,528	-
0023 School Leadership	-	-	-
0031 Guidance, Counseling and Evaluation Services	81	-	-
0032 Social Work Services	65,579	-	-
0035 Food Services	-	-	-
0036 Extracurricular Activities	-	-	-
0041 General Administration	-	-	-
0051 Facilities Maintenance and Operations	-	-	-
0053 Data Processing Services	-	-	-
6030 Total Expenditures	<u>658,377</u>	<u>768,188</u>	<u>20,668</u>
1200 Net Change in Fund Balance	-	-	-
0100 Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

240 National Breakfast and Lunch Program	244 Career and Technical - Basic Grant	255 ESEA II, A Training and Recruiting	263 Title III, A English Lang. Acquisition	289 Other Federal Special Revenue Funds	410 State Textbook Fund	429 Other State Special Revenue Funds	461 Campus Activity Funds
\$ 506,152	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 233,656
10,550	-	-	-	-	235,313	4,591	-
1,457,238	32,835	93,346	41,718	15,509	-	-	-
<u>1,973,940</u>	<u>32,835</u>	<u>93,346</u>	<u>41,718</u>	<u>15,509</u>	<u>235,313</u>	<u>4,591</u>	<u>233,656</u>
-	-	93,346	41,718	15,509	180,174	4,117	126,030
-	-	-	-	-	-	-	16,548
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	1,724
-	-	-	-	-	-	-	278
-	32,835	-	-	-	-	-	2,550
-	-	-	-	-	-	-	-
1,951,870	-	-	-	-	-	-	-
-	-	-	-	-	-	-	99,985
-	-	-	-	-	-	-	8,708
-	-	-	-	-	-	-	1,091
-	-	-	-	-	-	-	3,041
<u>1,951,870</u>	<u>32,835</u>	<u>93,346</u>	<u>41,718</u>	<u>15,509</u>	<u>180,174</u>	<u>4,117</u>	<u>259,955</u>
22,070	-	-	-	-	55,139	474	(26,299)
509,471	-	-	-	4,290	14,630	471	310,493
<u>\$ 531,541</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,290</u>	<u>\$ 69,769</u>	<u>\$ 945</u>	<u>\$ 284,194</u>

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

Data Control Codes	499 Other Local Special Revenue Funds	Total Nonmajor Governmental Funds
REVENUES:		
5700 Total Local and Intermediate Sources	\$ -	\$ 739,808
5800 State Program Revenues	-	250,454
5900 Federal Program Revenues	-	3,087,879
5020 Total Revenues	-	4,078,141
EXPENDITURES:		
Current:		
0011 Instruction	-	1,700,097
0012 Instructional Resources and Media Services	-	16,548
0013 Curriculum and Instructional Staff Development	-	93,842
0021 Instructional Leadership	-	50,252
0023 School Leadership	-	278
0031 Guidance, Counseling and Evaluation Services	-	35,466
0032 Social Work Services	-	65,579
0035 Food Services	-	1,951,870
0036 Extracurricular Activities	-	99,985
0041 General Administration	-	8,708
0051 Facilities Maintenance and Operations	-	1,091
0053 Data Processing Services	-	3,041
6030 Total Expenditures	-	4,026,757
1200 Net Change in Fund Balance	-	51,384
0100 Fund Balance - September 1 (Beginning)	8,000	847,355
3000 Fund Balance - August 31 (Ending)	\$ 8,000	\$ 898,739

REQUIRED T.E.A SCHEDULES

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

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2009 and prior years	Various	Various	\$ 4,152,717,465
2010	1.040000	0.240000	1,724,573,672
2011	1.040000	0.276000	1,536,401,672
2012	1.040000	0.276000	1,446,320,973
2013	1.040000	0.276000	1,429,434,574
2014	1.040000	0.421000	1,329,290,064
2015	1.040000	0.421000	1,455,158,554
2016	1.040000	0.421000	1,436,276,906
2017	1.040000	0.421000	1,279,754,327
2018 (School year under audit)	1.040000	0.421000	1,215,157,455
1000 TOTALS			

(10) Beginning Balance 9/1/2017	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2018
\$ 664,607	\$ -	\$ 9,387	\$ 2,418	\$ (2,486)	\$ 650,316
99,006	-	2,679	618	(1,353)	94,356
99,222	-	3,069	814	(1,980)	93,359
101,509	-	4,787	1,271	(2,081)	93,370
128,612	-	8,343	2,214	(1,242)	116,813
154,014	-	12,263	4,964	1,302	138,089
169,606	-	25,292	10,239	1,443	135,518
185,930	-	33,848	13,702	(172)	138,208
452,492	-	158,259	64,064	(23,298)	206,871
-	17,753,450	12,304,779	4,981,067	(81,058)	386,546
<u>\$ 2,054,998</u>	<u>\$ 17,753,450</u>	<u>\$ 12,562,706</u>	<u>\$ 5,081,371</u>	<u>\$ (110,925)</u>	<u>\$ 2,053,446</u>

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

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 461,329	\$ 815,477	\$ 506,152	\$ (309,325)
5800	State Program Revenues	9,842	9,842	10,550	708
5900	Federal Program Revenues	1,422,625	1,402,477	1,457,238	54,761
5020	Total Revenues	1,893,796	2,227,796	1,973,940	(253,856)
EXPENDITURES:					
0035	Food Services	1,893,796	2,227,796	1,951,870	275,926
6030	Total Expenditures	1,893,796	2,227,796	1,951,870	275,926
1200	Net Change in Fund Balances	-	-	22,070	22,070
0100	Fund Balance - September 1 (Beginning)	509,471	509,471	509,471	-
3000	Fund Balance - August 31 (Ending)	\$ 509,471	\$ 509,471	\$ 531,541	\$ 22,070

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

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 5,634,268	\$ 5,634,268	\$ 5,173,548	\$ (460,720)
5800	State Program Revenues	-	-	116,911	116,911
5020	Total Revenues	5,634,268	5,634,268	5,290,459	(343,809)
EXPENDITURES:					
Debt Service:					
0071	Principal on Long-Term Debt	2,883,000	2,883,000	2,883,000	-
0072	Interest on Long-Term Debt	2,741,544	2,741,544	2,741,544	-
0073	Bond Issuance Cost and Fees	9,724	9,724	3,900	5,824
6030	Total Expenditures	5,634,268	5,634,268	5,628,444	5,824
1200	Net Change in Fund Balances	-	-	(337,985)	(337,985)
0100	Fund Balance - September 1 (Beginning)	1,470,665	1,470,665	1,470,665	-
3000	Fund Balance - August 31 (Ending)	\$ 1,470,665	\$ 1,470,665	\$ 1,132,680	\$ (337,985)

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FEDERAL AWARDS SECTION

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Trustees
Alvarado Independent School District
P.O. Box 387
Alvarado, Texas 76009

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Alvarado Independent School District (the District), as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 17, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance & Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Evans & Knauth, PLLC". The signature is written in a cursive, slightly slanted style.

Evans & Knauth, PLLC
Frisco, TX
December 17, 2018



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
THE UNIFORM GUIDANCE**

Board of Trustees
Alvarado Independent School District
P.O. Box 387
Alvarado, Texas 76009

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed no instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance. Our opinion on each major federal program is unmodified with respect to these matters.

Report on Internal Control Over Compliance

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

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

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

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

Evans & Knauth, PLLC

Evans & Knauth, PLLC
Frisco, TX
December 17, 2018

ALAVARADO INDEPENDENT SCHOOL DISTRICT

Schedule of Status of Prior Findings
For the Year Ended August 31, 2018

Program	Status of Prior Year's Finding/Noncompliance
-NONE-	

ALAVARADO INDEPENDENT SCHOOL DISTRICT

Corrective Action Plan

For the Year Ended August 31, 2018

Program

Corrective Action Plan

-NONE-

Contact Person: Mr. Rodney Toon
Chief Financial Officer

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

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	610118	\$ 670,331
IDEA - Part B, Formula	84.027A	660018	779,487
IDEA - Part B, Preschool	84.173A	661018	21,009
Total Special Education Cluster (IDEA)			800,496
Career and Technical - Basic Grant	84.048	420018	32,835
Title III, Part A - English Language Acquisition	84.365A	671018	42,523
ESEA, Title II, Part A, Supporting Effective Instr	84.367A	694518	93,346
Title IV, Student Support and Academic Enrichment	84.424	680118	9,573
Summer School LEP	84.369A	695517	5,936
Total Passed Through State Department of Education			1,655,040
TOTAL U.S. DEPARTMENT OF EDUCATION			1,655,040
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<u>Passed Through Texas Dept of Human Services</u>			
Medicaid Administrative Claiming Program - MAC	93.778		11,948
Total Passed Through Texas Dept of Human Services			11,948
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			11,948
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
*School Breakfast Program	10.553	714017	32,229
*School Breakfast Program	10.553	714018	240,249
Total CFDA Number 10.553			272,478
*National School Lunch Program	10.555	713017	118,535
*National School Lunch Program	10.555	713018	933,086
*National School Lunch - Donated Commodities	10.555		133,139
Total CFDA Number 10.555			1,184,760
Total Child Nutrition Cluster			1,457,238
Total Passed Through the State Department of Agriculture			1,457,238
TOTAL U.S. DEPARTMENT OF AGRICULTURE			1,457,238
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 3,124,226

*Denotes Major Program.

Note: School Health & Related Services reimbursements of \$725,642 are recorded as federal program revenue in the general fund, but are not considered federal awards for the purpose of this schedule

ALAVARADO INDEPENDENT SCHOOL DISTRICT

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2018

1. For all federal programs, the District uses the fund types specified in Texas Education Agency's "Financial Accountability System Resource Guide". Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance is generally accounted for in a Special Revenue Fund.
2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in a Special Revenue Fund that is a Governmental Fund type. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting is used for the Governmental Fund types. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred.

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

3. The District participates in numerous Federal grant programs that 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, in any, refunds of any money received may be required and the collectability of any related receivable at August 31, 2018 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provisions have been recorded in the accompanying financial statements for such contingencies.

Financial Advisory Services
Provided By:

