

Ratings: S&P: "AAA" (A Underlying)
(See "Rating" and "The Permanent School Fund
Guarantee Program" herein)

OFFICIAL STATEMENT

Dated June 27, 2019

NEW ISSUE: BOOK-ENTRY-ONLY

In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "Tax Matters" herein.

\$6,515,000

LINGLEVILLE INDEPENDENT SCHOOL DISTRICT

(Erath, Eastland & Comanche Counties, Texas)

UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2019

(The District designated the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions)

Dated Date: July 1, 2019

Due: August 15, as shown on inside cover

The \$6,515,000 Lingleville Independent School District Unlimited Tax School Building Bonds, Series 2019 are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, an election held in the District on May 4, 2019 and an order authorizing the Bonds adopted by the Board of Trustees (the "Board") of the District. The Bonds are payable as to principal and interest from the proceeds of an annual ad valorem tax levied, without legal limitation as to rate or amount, against all taxable property located within the Lingleville Independent School District (the "District"). The Bonds will be secured by the corpus of the Permanent School Fund of the State of Texas. (See "The Permanent School Fund Guarantee Program").

Interest on the Bonds will accrue from the dated date set forth above and be payable February 15 and August 15 of each year, commencing February 15, 2020, until maturity or prior redemption. The Bonds will be issued in fully registered form in principal denominations of \$5,000 or any integral multiple thereof within a maturity. Principal of the Bonds will be payable by the Paying Agent/Registrar (the "Paying Agent/Registrar") which initially is UMB Bank, Dallas, Texas, upon presentation and surrender of the Bonds for payment. Interest on the Bonds is payable by check or draft dated as of the interest payment date and mailed by the Paying Agent/Registrar to the registered owners as shown on the records of the Paying Agent/Registrar on the close of business as of the last business day of the month next preceding each interest payment date (the "Record Date"), or by such other customary banking arrangement, acceptable to the Paying Agent/Registrar, requested by and at the risk and expense of the registered owner.

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

Proceeds from the sale of the will be used to pay for (1) acquiring, constructing and equipping school facilities within the District and the purchase of necessary sites for school buildings, and the purchase of school buses and (2) paying the costs of issuance of the Bonds.

The Bonds maturing August 15, 2028 and thereafter may be redeemed prior to their stated maturities at the option of the District, on August 15, 2027 or any date thereafter at the principal amount thereof plus accrued interest to the date of redemption. Additionally, the Bonds maturing in the years 2030, 2032, 2034, 2041, 2043, 2046 and 2049 are subject to mandatory sinking fund redemption as described herein (See "The Bonds – Redemption Provisions").

The Bonds are offered when, as and if issued, and accepted by the Underwriter listed below (the "Underwriter"), subject to the approval of legality by the Attorney General of the State of Texas and McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by Kelly Hart & Hallman LLP, Fort Worth, Texas, counsel to the Underwriter. The Bonds are expected to be available for delivery on or about July 23, 2019.

SAMCO CAPITAL MARKETS

MATURITY SCHEDULE

CUSIP Base Number: 535743

\$6,515,000 Current Interest Bonds

	<u>Maturity Date</u> <u>8/15</u>	<u>Principal Amount</u> <u>\$</u>	<u>Interest Rate</u> <u>%</u>	<u>Initial Yield</u> <u>%</u>		<u>CUSIP Suffix</u> ⁽¹⁾
	2020	105,000	4.000	1.460		BG2
	2021	125,000	4.000	1.490		BH0
	2022	130,000	4.000	1.520		BJ6
	2023	135,000	4.000	1.540		BK3
	2024	140,000	4.000	1.560		BL1
	2025	145,000	4.000	1.610		BM9
	2026	150,000	4.000	1.670		BN7
	2027	155,000	4.000	1.740		BP2
	2028	160,000	4.000	1.810	(2)	BQ0
Term Bond 2030	2029	170,000	4.000	2.040	(2)	BS6
345,000	2030	175,000	4.000	2.040	(2)	BS6
Term Bond 2032	2031	185,000	4.000	2.200	(2)	BU1
375,000	2032	190,000	4.000	2.200	(2)	BU1
Term Bond 2034	2033	200,000	4.000	2.290	(2)	BW7
405,000	2034	205,000	4.000	2.290	(2)	BW7
	2035	215,000	4.000	2.350	(2)	BX5
	2036	225,000	4.000	2.420	(2)	BY3
	2037	230,000	4.000	2.480	(2)	BZ0
	2038	240,000	4.000	2.520	(2)	CA4
	2039	250,000	4.000	2.560	(2)	CB2
Term Bond 2041	2040	260,000	3.000	3.040		CD8
530,000	2041	270,000	3.000	3.040		CD8
Term Bond 2043	2042	275,000	3.000	3.060		CF3
560,000	2043	285,000	3.000	3.060		CF3
Term Bond 2046	2044	295,000	3.000	3.080		CG1
905,000	2045	300,000	3.000	3.080		CG1
	2046	310,000	3.000	3.080		CG1
Term Bond 2049	2047	320,000	3.000	3.110		CH9
990,000	2048	330,000	3.000	3.110		CH9
	2049	340,000	3.000	3.110		CH9

(Interest to accrue from the Dated Date)

(1) CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the Underwriter, the District nor the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

(2) Yield shown to the first optional redemption date of August 15, 2027

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
21261 N. FM 219 ROAD
LINGLEVILLE, TEXAS 76461-0134**

ELECTED OFFICIALS

BOARD OF TRUSTEES

<u>Name</u>	<u>Place</u>	<u>Date Elected</u>	<u>Term Expires</u>	<u>Occupation</u>
Larry Griffin, President	3	2001	2020	Feed Company Representative
Brent Hallmark, Vice President	4	2008	2020	Heavy Equipment Operator
Jay Proctor, Secretary	6	2003	2022	Custom Harvester
Monty Williams, Member	7	2006	2022	Cowboy Septic Service
Richard Boeve, Member	5	2008	2022	Self Employed
Sonya Koke, Member	1	2016	2020	Dairy Owner Operator
Justin Wilson, Member	2	2018	2020	Self Employed

CERTAIN APPOINTED OFFICIALS

Name	Position	Years of Service
Curtis Haley	Superintendent	10
Paula Hibbits	Business Manager	5

CONSULTANTS AND ADVISORS

Bond Counsel.....McCall, Parkhust & Horton L.L.P., Dallas, Texas
 Financial Advisor.....George K. Baum & Company, Dallas, Texas
 Property Appraised by.....Erath, Eastland and Comanche CAD
 Chief Appraisers.....Jerry Lee, Randy Clark and Jo Ann Hohertz

FOR ADDITIONAL INFORMATION PLEASE CONTACT

Leon Johnson
 Sr. Vice President
 George K. Baum & Company
 8115 Preston Rd., Suite 650
 Dallas, Texas 75225
 (214) 365-8205

USE OF INFORMATION IN OFFICIAL STATEMENT

No dealer, broker, salesman or other 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 or the Underwriter.

This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

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

Certain information set forth herein has been obtained from the District, the Texas Education Agency (the "TEA"), and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriter. Any information and expressions of opinion herein contained 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, the TEA or other matters described herein since the date hereof. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – PSF CONTINUING DISCLOSURE UNDERTAKING" AND "CONTINUING DISCLOSURE OF INFORMATION" for a description of the undertakings of the TEA and the District, respectively, to provide certain information on a continuing basis.

This official statement contains "forward-looking" statements within the meaning of section 21E of the securities exchange act of 1934, as amended. such statements may involve known and unknown risks uncertainties and other factors which may cause the actual results, performance and achievements to be different from the future results, performance and achievements expressed or implied by such forward-looking statements. investors are cautioned that the actual results could differ materially from those set forth in the forward-looking statements.

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

This Official Statement includes descriptions and summaries of certain events, matters and documents. Such descriptions and summaries do not purport to be complete and all such descriptions, summaries and references thereto are qualified in their entirety by reference to this Official Statement in its entirety and to each such document, copies of which may be obtained from the District. Any statements made in this Official Statement or the appendices hereto involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of such opinions or estimates will be realized.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACT. THE REGISTRATION OR QUALIFICATION OF THE BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAW OF THE STATES IN WHICH THE BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. THE BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

TABLE OF CONTENTS

<p>INTRODUCTORY STATEMENT2</p> <p>THE BONDS2</p> <p style="padding-left: 20px;">AUTHORIZATION AND PURPOSE2</p> <p style="padding-left: 20px;">GENERAL DESCRIPTION2</p> <p style="padding-left: 20px;">REDEMPTION PROVISIONS2</p> <p style="padding-left: 20px;">SECURITY3</p> <p style="padding-left: 20px;">PERMANENT SCHOOL FUND GUARANTEE3</p> <p style="padding-left: 20px;">LEGALITY3</p> <p style="padding-left: 20px;">PAYMENT RECORD3</p> <p style="padding-left: 20px;">SOURCES AND USES OF FUNDS3</p> <p style="padding-left: 20px;">AMENDMENTS4</p> <p style="padding-left: 20px;">DEFEASANCE OF BONDS4</p> <p>REGISTERED OWNERS' REMEDIES4</p> <p>BOOK-ENTRY-ONLY SYSTEM5</p> <p style="padding-left: 20px;">EFFECT OF TERMINATION OF BOOK-ENTRY-ONLY SYSTEM6</p> <p style="padding-left: 20px;">USE OF CERTAIN TERMS IN OTHER SECTIONS OF THIS OFFICIAL STATEMENT6</p> <p>REGISTRATION, TRANSFER AND EXCHANGE6</p> <p style="padding-left: 20px;">PAYING AGENT/REGISTRAR6</p> <p style="padding-left: 20px;">SUCCESSOR PAYING AGENT/REGISTRAR6</p> <p style="padding-left: 20px;">FUTURE REGISTRATION7</p> <p style="padding-left: 20px;">LIMITATION ON TRANSFER OF BONDS7</p> <p style="padding-left: 20px;">REPLACEMENT BONDS7</p> <p>AD VALOREM TAX PROCEDURES7</p> <p style="padding-left: 20px;">PROPERTY TAX CODE AND COUNTY-WIDE APPRAISAL DISTRICT7</p> <p style="padding-left: 20px;">PROPERTY SUBJECT TO TAXATION BY THE DISTRICT7</p> <p style="padding-left: 20px;">VALUATION OF PROPERTY FOR TAXATION8</p> <p style="padding-left: 20px;">RESIDENTIAL HOMESTEAD EXEMPTION9</p> <p style="padding-left: 20px;">DISTRICT AND TAXPAYER REMEDIES9</p> <p style="padding-left: 20px;">PUBLIC HEARING AND ROLLBACK TAX RATE9</p> <p style="padding-left: 20px;">LEVY AND COLLECTION OF TAXES9</p> <p style="padding-left: 20px;">DISTRICT'S RIGHTS IN THE EVENT OF TAX DELINQUENCIES10</p> <p>THE PROPERTY TAX CODE AS APPLIED TO THE LINGLEVILLE INDEPENDENT SCHOOL DISTRICT10</p> <p>STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS11</p> <p style="padding-left: 20px;">LITIGATION RELATING TO THE TEXAS PUBLIC SCHOOL FINANCE SYSTEM11</p> <p style="padding-left: 20px;">POSSIBLE EFFECTS OF LITIGATION AND CHANGES IN LAW ON DISTRICT BONDS11</p> <p>CURRENT PUBLIC SCHOOL FINANCE SYSTEM12</p> <p style="padding-left: 20px;">OVERVIEW12</p> <p style="padding-left: 20px;">LOCAL FUNDING FOR SCHOOL DISTRICTS12</p> <p style="padding-left: 20px;">STATE FUNDING FOR LOCAL SCHOOL DISTRICTS12</p> <p style="padding-left: 20px;">2006 LEGISLATION14</p> <p style="padding-left: 20px;">2017 LEGISLATION14</p> <p style="padding-left: 20px;">2019 LEGISLATION13</p> <p style="padding-left: 20px;">WEALTH TRANSFER PROVISIONS14</p> <p style="padding-left: 20px;">POSSIBLE EFFECTS OF WEALTH TRANSFER PROVISIONS ON THE DISTRICT'S FINANCIAL CONDITION13</p> <p>TAX RATE LIMITATIONS15</p> <p>DEBT LIMITATIONS16</p> <p>EMPLOYEES RETIREMENT PLAN16</p>	<p>RATINGS 16</p> <p>LEGAL MATTERS 16</p> <p>TAX MATTERS 17</p> <p style="padding-left: 20px;">OPINION17</p> <p style="padding-left: 20px;">FEDERAL INCOME TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT18</p> <p style="padding-left: 20px;">COLLATERAL FEDERAL INCOME TAX CONSEQUENCES18</p> <p style="padding-left: 20px;">STATE, LOCAL AND FOREIGN TAXES19</p> <p style="padding-left: 20px;">INFORMATION REPORTING AND BACKUP WITHHOLDING19</p> <p style="padding-left: 20px;">FUTURE AND PROPOSED LEGISLATION19</p> <p style="padding-left: 20px;">QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS19</p> <p>REGISTRATION AND QUALIFICATION OF BONDS FOR SALE 19</p> <p>LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS 20</p> <p>INVESTMENT AUTHORITY AND PRACTICES OF THE DISTRICT 20</p> <p>THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM 21</p> <p style="padding-left: 20px;">HISTORY AND PURPOSE 21</p> <p style="padding-left: 20px;">2019 TEXAS LEGISLATIVE SESSION 21</p> <p style="padding-left: 20px;">THE TOTAL RETURN CONSTITUTIONAL AMENDMENT 21</p> <p style="padding-left: 20px;">MANAGEMENT AND ADMINISTRATION OF THE FUND 21</p> <p style="padding-left: 20px;">CAPACITY LIMITS FOR THE GUARANTEE PROGRAM 21</p> <p style="padding-left: 20px;">THE SCHOOL DISTRICT BOND GUARANTEE PROGRAM 21</p> <p style="padding-left: 20px;">THE CHARTER DISTRICT BOND GUARANTEE PROGRAM 21</p> <p style="padding-left: 20px;">CHARTER DISTRICT RISK FACTORS 21</p> <p style="padding-left: 20px;">POTENTIAL IMPACT OF HURRICANE HARVEY ON THE PSF 21</p> <p style="padding-left: 20px;">RATINGS OF BONDS GUARANTEED UNDER THE GUARANTEE PROGRAM 21</p> <p style="padding-left: 20px;">VALUATION OF THE PSF AND GUARANTEED BONDS 21</p> <p style="padding-left: 20px;">PERMANENT SCHOOL FUND VALUATIONS 21</p> <p style="padding-left: 20px;">DISCUSSION AND ANALYSIS PERTAINING TO FISCAL YEAR ENDED AUGUST 31, 2018 21</p> <p style="padding-left: 20px;">2011 CONSTITUTIONAL AMENDMENT 21</p> <p style="padding-left: 20px;">OTHER EVENTS AND DISCLOSURES 21</p> <p style="padding-left: 20px;">PSF CONTINUING DISCLOSURE UNDERTAKING 21</p> <p style="padding-left: 20px;">ANNUAL REPORTS 21</p> <p style="padding-left: 20px;">EVENT NOTICES 21</p> <p style="padding-left: 20px;">AVAILABILITY OF INFORMATION 21</p> <p style="padding-left: 20px;">LIMITATIONS AND AMENDMENTS 21</p> <p style="padding-left: 20px;">COMPLIANCE WITH PRIOR UNDERTAKINGS 21</p> <p style="padding-left: 20px;">SEC EXEMPTIVE RELIEF 21</p> <p>FINANCIAL ADVISOR 36</p> <p>AUTHENTICITY OF FINANCIAL INFORMATION 36</p> <p>USE OF AUDITED FINANCIAL STATEMENTS 36</p> <p>LITIGATION 36</p> <p>CONTINUING DISCLOSURE OF INFORMATION 37</p> <p style="padding-left: 20px;">ANNUAL REPORTS 37</p> <p style="padding-left: 20px;">NOTICES OF CERTAIN EVENTS 37</p> <p style="padding-left: 20px;">AVAILABILITY OF INFORMATION FROM MSRB 38</p> <p style="padding-left: 20px;">LIMITATIONS AND AMENDMENTS 38</p> <p style="padding-left: 20px;">COMPLIANCE WITH PRIOR UNDERTAKINGS 38</p> <p>UNDERWRITING 38</p> <p>FORWARD LOOKING STATEMENTS 38</p> <p>CONCLUDING STATEMENT 39</p>
--	--

Financial Information of the District Subject to Continuing Disclosure.....	Appendix A
Additional Information Regarding Lingleville Independent School District and Erath, Eastland & Comanche Counties, Texas	Appendix B
Form of Legal Opinion of Bond Counsel	Appendix C
District Annual Financial Report for the Year Ended August 31, 2018.....	Appendix D

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

SELECTED DATA FROM THE OFFICIAL STATEMENT

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

The Issuer	Lingleville Independent School District (the "District") is a political subdivision located in Erath, Eastland, and Comanche, Counties Texas. The District is governed by a seven-member Board of Trustees (the "Board"). Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors.
The Bonds	The Bonds are being issued in the principal amount of \$6,515,000 pursuant to the Constitution and general laws of the State of Texas particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, an election held in the District on May 4, 2019 (the "Election"), and an order authorizing the sale and issuance of the Bonds adopted by the Board of Trustees of the District (the "Order"). Proceeds from the sale of the will be used to pay for (1) acquiring, constructing and equipping school facilities within the District and the purchase of necessary sites for school buildings, and the purchase of school buses and (2) paying costs of issuance of the Bonds.
Paying Agent/Registrar	The initial Paying Agent/Registrar is UMB Bank, Dallas, Texas. The District intends to use the Book-Entry-Only System of The Depository Trust Company.
Security	The Bonds will constitute direct obligations of the District, payable as to the principal and interest from ad valorem taxes levied annually against all taxable property located within the District, without legal limitation as to rate or amount. (See "THE BONDS - Security"). The Bonds will be additionally secured by the corpus of the Permanent School Fund of the State of Texas. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").
Redemption Provisions	<p>The Bonds maturing on or after August 15, 2028 are callable, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2027 or any date thereafter at a price of par, plus accrued interest to the date of redemption. (see "THE BONDS – Redemption Provisions – <i>Optional Redemption</i>").</p> <p>The Bonds scheduled to mature on August 15 in each of the years 2030, 2032, 2034, 2041, 2043, 2046 and 2049 (the "Term Bonds") are subject to scheduled mandatory sinking fund redemption at a price equal to the principal amount thereof, plus accrued interest to the redemption date, out of moneys available for such purpose under the terms of the Order, on the dates and in the respective principal amounts as described herein. (See "THE BONDS – Redemption Provisions – <i>Mandatory Redemption</i>").</p>
Tax Exemption	In the opinion of Bond Counsel for the District, interest on the Bonds is excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein.
Payment Record	The District has never defaulted on the payment of its bonded indebtedness.
Legal Opinion	Delivery of the Bonds is subject to approval by the Attorney General of the State of Texas and the rendering of an opinion on certain legal matters by McCall Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel.
Delivery	When issued on or about July 23, 2019.

INTRODUCTORY STATEMENT

This Official Statement, including Appendices A, B and D, has been prepared by the Lingleville Independent School District, in Erath, Eastland and Comanche Counties, Texas (the "District"), in connection with the offering by the District of its Unlimited Tax School Building Bonds, Series 2019 (the "Bonds") identified on the cover page hereof.

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

THE BONDS

Authorization And Purpose

The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, an election held in the District on May 4, 2019 (the "Election"), and an order authorizing the Bonds adopted by the Board of Trustees of the District (the "Order"). Proceeds from the sale of the will be used to pay for (1) acquiring, constructing and equipping school facilities within the District and the purchase of necessary sites for school buildings, and the purchase of school buses and (2) paying costs of issuance of the Bonds.

General Description

The Bonds will be dated July 1, 2019. The Bonds will bear interest from the Dated Date. The Bonds will mature on the dates and in the principal amounts set forth on the page i of this Official Statement. Interest on the Bonds is payable each February 15 and August 15, commencing February 15, 2020, until maturity or prior redemption.

The Bonds will be issued only as fully registered bonds. The Bonds will be issued in principal denominations of \$5,000 or any integral multiple thereof within a maturity. The Bonds shall be transferable only on the bond register kept by the Paying Agent/Registrar upon surrender and reissuance. The Bonds are exchangeable for an equal principal amount in any authorized denomination upon surrender of the Bonds to be exchanged at the designated corporate trust office of the Paying Agent/Registrar.

Redemption Provisions

Optional Redemption: The Bonds maturing on or after August 15, 2028 are callable, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2027 or any date thereafter at a price of par, plus accrued interest to the date of redemption.

Mandatory Redemption: The Bonds maturing on August 15 in 2030, 2032, 2034, 2041, 2043, 2046 and 2049 (the "Term Bonds") are subject to mandatory sinking fund redemption, by lot, on August 15 in the years and the principal amounts as follows:

2030 Term Bonds		2032 Term Bonds	
<u>Date</u>	<u>Amount</u>	<u>Date</u>	<u>Amount</u>
2029	\$170,000	2031	\$185,000
2030 ⁽¹⁾	175,000	2032 ⁽¹⁾	190,000

2034 Term Bonds		2041 Term Bonds	
<u>Date</u>	<u>Amount</u>	<u>Date</u>	<u>Amount</u>
2033	\$200,000	2040	\$260,000
2034 ⁽¹⁾	205,000	2041 ⁽¹⁾	270,000

2043 Term Bonds		2046 Term Bonds		2049 Term Bonds	
<u>Date</u>	<u>Amount</u>	<u>Date</u>	<u>Amount</u>		
2042	\$275,000	2044	\$ 295,000	2047	\$320,000
2043 ⁽¹⁾	285,000	2045	300,000	2048	330,000
		2046 ⁽¹⁾	310,000	2049 ⁽¹⁾	340,000

(1) Stated Maturity

The principal amount of the Term Bonds required to be redeemed pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the option of the District by the principal amount of the Term Bonds of the stated maturity which, at least 50 days prior to a mandatory redemption date, (1) shall have been acquired by the District at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of the purchase thereof, and delivered to the Paying Agent/ Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent Registrar at the request of the District at a price not exceeding the principal amount of the Term Bonds plus accrued interest to the date of purchase, or (3) shall have been redeemed pursuant to the optional redemption provisions and not therefore credited against a mandatory sinking fund redemption requirement.

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

Security

The Bonds are direct obligations of the District and are payable as to both principal and interest from annual ad valorem taxes to be levied on all taxable property within the District, without legal limitation as to rate or amount. (See "State and Local Funding of School Districts In Texas"). The Bonds are expected to be additionally secured by the corpus of the Permanent School Fund of the State of Texas. (See "The Permanent School Fund Guarantee Program").

Permanent School Fund Guarantee

In connection with the sale of the Bonds, the District received conditional approval from the Commissioner of Education for guarantee of the Bonds under the Guarantee Program for School District Bonds (Chapter 45, Subchapter C, of the Texas Education Code). As discussed under the heading "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein, the Bonds will be guaranteed by the corpus of the Permanent School Fund of the State of Texas. In the event of default, registered owners will receive all payments due from the Permanent School Fund.

Legality

The Bonds are offered when, as and if issued, subject to the approval of legality by the Attorney General of the State of Texas and McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel. The legal opinion will be printed on or attached to the Bonds. (See "LEGAL MATTERS"). Certain legal matters will be passed upon for the Underwriter by Kelly Hart & Hallman LLP, Fort Worth, Texas.

Payment Record

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

Sources And Uses Of Funds

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

Sources		
Par Amount	\$	6,515,000.00
Original Issue Premium		379,696.65
Accrued Interest		14,101.39
Total Sources of Funds	\$	6,908,798.04
Uses		
Project Fund	\$	6,750,000.00
Accrued Interest		14,101.39
Underwriter's Discount		51,211.92
Costs of Issuance		90,000.00
Additional Proceeds		3,484.73
Total Uses of Funds	\$	6,908,798.04

Amendments

The District may amend the Order without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency or formal defect or omission therein. In addition, the District may, with the written consent of the registered owners of a majority in aggregate principal amount of the Bonds then outstanding and affected thereby, amend, add to or rescind any of the provisions of the Order; except that, without the consent of the registered owners of all of the Bonds affected, no such amendment, addition or rescission may (1) make any change in the maturity of any of the outstanding Bonds; (2) reduce the rate of interest borne by any of the outstanding Bonds; (3) reduce the amount of the principal of, or redemption premium, if any, payable on any outstanding Bonds; (4) modify the terms of payment of principal of or interest, or redemption premium on outstanding Bonds or any of them or impose any condition with respect to such payment; or (5) change the minimum percentage of the principal amount of the Bonds necessary for consent to such amendment.

Defeasance of Bonds

The Order provides for the defeasance of the Bonds when the payment of the principal of, and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent (or other financial institution permitted by applicable state law), in trust (1) money sufficient to make such payment and/or (2) Defeasance Securities, that mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, and thereafter the District will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased bonds, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The District has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance. The Order provides that "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Bonds. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of the purchase thereof, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (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 District purchases such securities have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Order does not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used for defeasance purposes or that for any other Defeasance Security will be maintained at any particular rating category.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of Bonds have been made as described above, all rights of the District to initiate proceedings to call such Bonds for redemption or take any other action amending the terms of such Bonds are extinguished; provided, however, that the right to call such Bonds for redemption is not extinguished if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call such Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the respective Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes. Furthermore, the Permanent School Fund Guarantee will terminate with respect to the Bonds defeased in the manner described above.

REGISTERED OWNERS' REMEDIES

The Order establishes specific events of default with respect to the Bonds, and provides that if the District defaults in the payment of principal or interest on the Bonds when due, or if it fails to make payments into any fund or funds created in the Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order and the continuation thereof for a period of sixty days after notice of default is given by the District by any owner, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or the Order covenants and the District's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3rd 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, Bondholders may not be

able to bring such a suit against the District for breach of the Bonds or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, principles of government immunity, and by general principles of equity which permit the exercise of judicial discretion.

See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due. Initially, the only registered owner of the Bonds will be Cede & Co., as DTC's nominee. See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the duties of DTC with regard to ownership of Bonds.

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on the the 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 on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

Effect of Termination of Book-Entry-Only System

In the event that the Book-Entry-Only System is discontinued, printed certificates will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Order and summarized under "REGISTRATION, TRANSFER AND EXCHANGE" below.

Use of Certain Terms in Other Sections of this Official Statement

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

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is UMB Bank, Dallas, Texas. The Bonds are being issued in fully registered form in integral multiples of \$5,000 of principal amount within a stated maturity.

Successor Paying Agent/Registrar

Provision is made in the Order for replacing the Paying Agent/Registrar. If the District replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor

Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District shall be a commercial bank, a trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds.

Future Registration

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

Limitation On Transfer Of Bonds

The Paying Agent/Registrar shall not be required to make any transfer or exchange with respect to Bonds (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date, provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

Replacement Bonds

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

AD VALOREM TAX PROCEDURES

Property Tax Code and County-Wide Appraisal District

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

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real and certain tangible personal property with a tax situs in the District is subject to taxation by the District. Principal categories of exempt property (including certain exemptions which are subject to local option by the board of trustees) include property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law, certain improvements to real property and certain tangible personal property located in designated reinvestment zones on which the District has agreed to abate ad valorem taxes, so-called "freeport property" including property detained in the district for up to 175 days for purpose of assembly or other processing, certain household goods, family supplies and personal effects; farm products owned by the producers; certain property of a nonprofit corporation used in scientific research and educational activities benefiting a college or university, and designated historic sites. Other principal categories of exempt property include tangible personal property not held or used for production of income; solar and wind-powered energy devices; most individually owned automobiles; \$10,000 exemption to residential homesteads of disabled persons or persons ages 65 or over; up to \$12,000 exemption for real or personal property of disabled veterans or the surviving spouses or children of a deceased veteran who died while on active duty in the armed forces; \$25,000 in market value for all residential homesteads; and certain classes of intangible property. In addition, except for increases attributable to certain improvements, the District is prohibited by state law from increasing the total ad valorem tax on the residence homestead of persons 65 years of age or older

above the amount of tax imposed in the year such residence qualified for an exemption based on age of the owner. The freeze on ad valorem taxes on the homesteads of person 65 years of age or older is also transferable to a different residence homestead. Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as the property is the homestead of the surviving spouse and the spouse is at least 55 years of age at the time of the death of the individual's spouse. Pursuant to a constitutional amendment approved by the voters on May 12, 2007, legislation was enacted to reduce the school property tax limitation imposed by the freeze on taxes paid on residence homesteads of persons 65 years of age or over or of disabled persons to correspond to reductions in local school district tax rates from the 2005 tax year to the 2006 tax year and from the 2006 tax year to the 2007 tax year (See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - General" herein). The school property tax limitation provided by the constitutional amendment and enabling legislation apply to the 2007 and subsequent tax years.

Owners of agricultural and open space land, under certain circumstances, may request valuation of such land on the basis of productive capacity rather than market value. See "Appendix A - Financial Information of the District - Assessed Valuation" for a schedule of the exemptions allowed by the District.

The District may elect to participate in a tax increment reinvestment zone if such a zone is created covering an area within the boundaries of the District. Depending on the level of the District's participation in such a zone, if any, the District's ability to retain ad valorem taxes collected on the increased valuation of real property in the tax increment reinvestment zone in excess of the tax increment base value established for the zone would be limited by the provisions of its participation in the zone. The District may also enter into tax abatement agreements to encourage economic development. Under such agreements, a property owner agrees to construct certain improvements on its property. The District in turn agrees not to levy a tax on all or a part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years. Credit will not be given by the Commissioner of Education in determining a district's wealth per student for (1) the appraised value, in excess of the "frozen" value, or property that is located in a tax increment financing zone created after May 31, 1999 (except in certain limited circumstances where the municipality creating the tax increment financing zone gave notice prior to May 31, 1999 to all other taxing units that the levy of ad valorem taxes in the zone and the zone was and had its final project and financing plan approved by the municipality prior to August 31, 1999), or (2) for the loss of value of abated property under any abatement agreement entered into after May 31, 1993. Notwithstanding the foregoing, in 2001 the Legislature enacted legislation known as the Texas Economic Development Act, which provides incentives for certain school districts to grant tax abatements on certain eligible property to encourage development in their tax base and provides additional State funding for each year of such tax abatement in the amount of the tax credit provided to the taxpayer by the district (See "Current Public School Finance System – State Funding for Local School Districts") for a more detailed discussion of such tax abatements).

Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit" is defined by a provision of the Tax Code, which is effective for tax years 2008 and thereafter, as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. The Tax Code provision permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods-in-transit during the following tax year. A taxpayer may receive only one of the freeport exemptions or the goods- in-transit exemptions for items of personal property.

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. In determining the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income of appraisal and market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are based on one hundred percent (100%) of market value, except as described below, and no assessment ratio can be applied.

The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. Landowners wishing to avail themselves of the agricultural use designation must apply for the designation, and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. If a claimant receives the designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes for previous years based on the new value, including three years for agricultural use and five years for agricultural open-space land and timberland prior to the loss of the designation.

State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the market value of the property or (2) the sum of (a) 10% of the appraised value of the property for the last year in which the property was appraised for taxation times the number of years since the property was last appraised, plus (b) the appraised value of the property for the last year in which the property was appraised plus (c) the market value of all new improvements to the property.

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

Residential Homestead Exemption

The Texas Constitution permits the exemption of certain percentages of the market value of residential homesteads from ad valorem taxation. The Constitution authorizes the governing body of each political subdivision in the state to exempt up to twenty percent (20%) of the market value of all residential homesteads from ad valorem taxation, and permits an additional optional homestead exemption for taxpayers 65 years of age or older.

District and Taxpayer Remedies

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

Public Hearing and Rollback Tax Rate

In setting its annual tax rate, the governing body of a school district generally cannot adopt a tax rate exceeding the district's "rollback tax rate" without approval by a majority of the voters voting at an election approving the higher rate. The tax rate consists of two components: (1) rate for funding of maintenance and operation expenditures and (2) a rate for debt service. For the 2007-08 fiscal year and thereafter, the rollback tax rate for a school district is the lesser of (A) the sum of (1) the product of the district's "state compression percentage" for that year multiplied by \$1.50, (2) the rate of \$0.04, (3) any rate increase above the rollback tax rate in prior years that were approved by voters, and (4) the district's current debt rate, or (B) the sum of (1) the district's effective maintenance and operations tax rate, (2) the product of the district's state compression percentage for that year multiplied by \$0.06; and (3) the district's current debt rate (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - General" for a description of the "state compression percentage"). If for the preceding tax year a district adopted an M&O Tax rate that was less than its effective M&O Tax rate for that preceding tax year, the district's rollback tax for the current year is calculated as if the district had adopted an M&O Tax rate for the preceding tax year equal to its effective M&O Tax rate for that preceding tax year.

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

Section 26.05 of the Property Tax Code provides that the governing body of a taxing unit is required to adopt the annual tax rate for the unit before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the taxing unit, and a failure to adopt a tax rate by such required date will result in the tax rate for the taxing unit for the tax year to be the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the taxing unit for the preceding tax year. Before adopting its annual tax rate, a public meeting must be held for the purpose of adopting a budget for the succeeding year. A notice of public meeting to discuss budget and proposed tax rate must be published in the time, format and manner prescribed in Section 44.004 of the Texas Education Code. Section 44.004(e) of the Texas Education Code provides that a person who owns taxable property in a school district is entitled to an injunction restraining the collection of taxes by the district if the district has not complied with such notice requirements or the language and format requirements of such notice as set forth in Section 44.004(b), (c) and (d) and if such failure to comply was not in good faith. Section 44.004(e) further provides the action to enjoin the collection of taxes must be filed before the date the district delivers substantially all of its tax bills. Beginning September 1, 2009, a district may adopt its budget after adopting a tax rate for the tax year in which the fiscal year covered by the budget begins if the district elects to adopt its tax rate before receiving the certified appraisal roll. A district that adopts a tax rate before adopting its budget must hold a public hearing on the proposed tax rate followed by another public hearing on the proposed budget rather than holding a single hearing on the two items.

Levy and Collection of Taxes

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. Split payments are not permitted. Discounts are not permitted.

The District is responsible for the collections of its taxes, unless it elects to transfer such functions to another governmental entity. Before September 1 of each year, or as soon thereafter as practicable, the rate of taxation is set by the Board of Trustees of the District based upon the valuation of property within the District as of the preceding January 1. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty from six percent (6%) to twelve percent (12%) of the amount of the tax, depending on the time of payment, and accrued interest at the rate of

one percent (1%) per month. If the tax is not paid by the following July 1, an additional penalty of up to twenty percent (20%) may under certain circumstances be imposed by the District. The 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 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. The District has no lien for unpaid taxes on personal property but does have a lien for unpaid taxes upon real property, which lien is discharged upon payment. On January 1 of each year, such tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on the property. The District's tax lien is on a parity with the tax liens of other such taxing units. A tax lien on real property taxes takes priority over the claims of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

Except with respect to taxpayers who are 65 years of age or older, at any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights, or by bankruptcy proceedings which restrict the collection of taxpayer debts

PENDING LEGISLATION AFFECTING AD VALOREM

The 86th Texas Legislature convened on January 8, 2019 and adjourned on May 27, 2019. The Governor may call one or more additional special sessions, which may last no more than 30 days, and for which the Governor sets the agenda. The Governor may call one or more additional special sessions, which may last no more than 30 days, and for which the Governor sets the agenda.

During the 86th Regular Legislative Session, the Texas Legislature passed Senate Bill 2 ("SB 2"), a law that materially changes ad valorem tax matters, including rollback elections for maintenance tax increases, and other matters which may have an adverse impact on the District's operations and financial condition. SB 2 was signed into law by the Governor on June 12, 2019.

SB 2 includes provisions that address the following goals as described by the Texas Senate Research Center: (1) lowering the rollback rate for maintenance and operations taxes from the existing 8.0% for the largest taxing units in the State (but this provision does not apply to school districts); (2) requiring a tax ratification election if the rollback rate is exceeded, eliminating the petition requirement in current statute; (3) making information about the tax rates proposed by local taxing units more accessible to property owners and more timely; and (4) making it easier for property owners to express their opinions about proposed tax rates to local elected officials before tax rates are adopted.

At this time, the District cannot predict how the District would be affected by the provisions of SB 2. In addition, the District cannot predict whether the Governor will call one or more special sessions to address other property tax reforms not included in SB 2.

The Legislature meets in regular session in odd-numbered years, for 140 days. When the Legislature is not in session, the Governor may call one or more special sessions, at the Governor's discretion, each lasting no more than 30 days, and for which the Governor sets the agenda. The District can make no representations or predictions regarding legislation that may pass during future sessions of the Legislature

THE PROPERTY TAX CODE AS APPLIED TO THE LINGLEVILLE INDEPENDENT SCHOOL DISTRICT

The Appraisal District has the responsibility for appraising property in the District as well as other taxing units in the respective counties. The Appraisal District is governed by a board of five directors appointed by voters of the governing bodies of the various County political subdivisions of the applicable County.

Split payments are not permitted.

Discounts are not permitted.

The District has granted two tax abatements: Silver Star I Power Partners LLC (#68); Silver Star II Power Partners, LLC (#138). Both entities are affiliates of BP. The limitation has been applied to M&O values only (not a true abatement). In total, during the 8 years of limitation, the company did not pay M&O taxes on \$386,951,176 in taxable value.

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.

<u>Date</u>	<u>Cumulative Penalty</u>	<u>Cumulative Interest</u> ^(b)	<u>Total</u>
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	27 ^(a)	6	33

(a) Includes additional penalty of 20% assessed after July 1 in order to defray attorney collection expenses.

(b) Interest continues to accrue after July 1 at the rate of 1% per month until paid.

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 and Student Fairness Coalition*, 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 Litigation and Changes in Law on District Bonds

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

Overview

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

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

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

Local Funding for School Districts

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

State Funding for Local School Districts

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

Tier One and Tier Two allotments represent the State's share of the cost of M&O expenses of school districts, with local M&O taxes representing the district's local share. EDA and IFA allotments supplement a school district's local I&S taxes levied for debt service on eligible bonds issued to construct, acquire and improve facilities. Tier One and Tier Two allotments and existing EDA and IFA allotments

are generally required to be funded each year by the Texas Legislature. Since future-year IFA awards were not funded by the Texas Legislature for the 2018-19 State fiscal biennium and debt service assistance on school district bonds that are not yet eligible for EDA is not available, debt service on new bonds issued by districts to construct, acquire and improve facilities must be funded solely from local I&S taxes.

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

As described above, the cost of the basic program is based on an allotment per student known as the "Basic Allotment." For the 201819 State fiscal biennium, the Basic Allotment is \$5,140 for each student in average daily attendance. The Basic Allotment is then adjusted for all districts by several different weights to account for inherent differences between school districts. These weights consist of (i) a cost adjustment factor intended to address varying economic conditions that affect teacher hiring known as the "cost of education index," (ii) district-size adjustments for small and mid-size districts, and (iii) an adjustment for the sparsity of the district's student population. The cost of education index, district-size and population sparsity adjustments, as applied to the Basic Allotment, create what is referred to as the "Adjusted Allotment." The Adjusted Allotment is used to compute a "regular program allotment," as well as various other allotments associated with educating students with other specified educational needs.

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

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

In addition to the operations funding components of the Foundation School Program discussed above, the Foundation School Program provides a facilities funding component consisting of the Instructional Facilities Allotment (IFA) program and the Existing Debt Allotment (EDA) program. These programs assist school districts in funding facilities by, generally, equalizing a district's I&S tax effort. The IFA guarantees each awarded school district a specified amount per student (the "IFA Guaranteed Yield") in State and local funds for each cent of tax effort to pay the principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. The guaranteed yield per cent of local tax effort per student in ADA has been \$35 since this program first began in 1997. New awards of IFA are only available if appropriated funds are allocated for such purpose by the State Legislature. To receive an IFA award, in years where the State Legislature allocates appropriated funds for new IFA awards, a school district must apply to the Commissioner in accordance with rules adopted by the Commissioner before issuing the bonds to be paid with IFA state assistance. The total amount of debt service assistance over a biennium for which a district may be awarded is limited to the lesser of (1) the actual debt service payments made by the district in the biennium in which the bonds are issued; or (2) the greater of (a) \$100,000 or (b) \$250 multiplied by the number of students in ADA. The IFA is also available for lease-purchase agreements and refunding bonds meeting certain prescribed conditions. Once a district receives an IFA award for bonds, it is entitled to continue receiving State assistance for such bonds without reapplying to the Commissioner. The guaranteed level of State and local funds per student per cent of local tax effort applicable to the bonds may not be reduced below the level provided for the year in which the bonds were issued. The 85th State Legislature did not appropriate any funds for new IFA awards for the 2018-2019 State fiscal biennium; however, awards previously granted in years the State Legislature did appropriate funds for new IFA awards will continue to be funded. State financial assistance is provided for certain existing eligible debt issued by school districts through the EDA program. The EDA guaranteed yield (the "EDA Yield") was the same as the IFA Guaranteed Yield (\$35 per cent of local tax effort per student in ADA). The 85th Texas Legislature changed the EDA Yield to the lesser of (i) \$40 or a greater amount for any year provided by appropriation; or (ii) the amount that would result in a total additional EDA of \$60 million more than the EDA to which districts would have been entitled to if the EDA Yield were \$35. The yield for the 2017-2018 fiscal year is approximately \$37. The portion of a district's local debt service rate that qualifies for EDA assistance is limited to the first 29 cents of debt service tax (or a greater amount for any year provided by appropriation by the Texas Legislature). In general, a district's bonds are eligible for EDA assistance if (i) the district made payments on the bonds during the final fiscal year of the preceding State fiscal biennium, or (ii) the district levied taxes to pay the principal of and interest on the bonds for that fiscal year. Each biennium, access to EDA funding is determined by the debt service taxes collected in the final year of the preceding biennium. A district may not receive EDA funding for the principal and interest on a series of otherwise eligible bonds for which the district receives IFA funding.

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

2006 Legislation

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

2017 Legislation

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

2019 Legislation

The 86th Texas Legislature convened on January 8, 2019 and adjourned May 27, 2019. Among other bills, the Legislature adopted House Bill 3 (“HB 3”), providing for changes to financing public schools. HB3 includes an increase in the State’s share of public school funding from 38% to 45% for the next biennium (September 1, 2019 through August 21, 2021). The bill provides \$4.5 billion for school finance reform, \$5 billion for school property tax relief and \$2 billion for teacher compensation. HB 3 provides for an increase in the basic allotment from the current level of \$5,140 to \$6,160 per student. It is estimated that HB3 would compress school district property tax rates State-wide by an average of 8 cents in 2020 and 13 cents in 2021. Additionally, beginning in fiscal year 2021, HB 3 creates a mechanism by which school districts’ maximum compressed tax rates are compressed for property value growth exceeding 2.5%. The District is currently reviewing the impact of HB 3 on the District’s tax rate, operations, budgets, and recapture obligations (if any). HB 3 was signed into law by the Governor on June 11, 2019.

The Legislature meets in regular session in odd-numbered years, for 140 days. When the Legislature is not in session, the Governor may call one or more special sessions, at the Governor’s discretion, each lasting no more than 30 days, and for which the Governor sets the agenda. The District can make no representations or predictions regarding legislation that may pass during future sessions of the Legislature.

Wealth Transfer Provisions

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

The equalized wealth levels that subject Chapter 41 districts to recapture for the 2018-2019 State fiscal biennium are set at (i) \$514,000 per student in WADA with respect to that portion of a district’s M&O tax effort that does not exceed its compressed tax rate (for most districts, the first \$1.00 per \$100 of taxable value) and (ii) \$319,500 per WADA with respect to that portion of a district’s M&O tax effort that is beyond its compressed rate plus \$0.06 (for most districts, M&O taxes levied above \$1.06 per \$100 in taxable value). So long as the State’s equalization program under Chapter 42 of the Texas Education Code is funded to provide tax revenue equivalent to that raised by the Austin Independent School District on the first six pennies of tax effort that exceed the compressed tax rate, then M&O taxes levied above \$1.00 but at or below \$1.06 per \$100 of taxable value (“Golden Pennies”) are not subject to the wealth equalization

provisions of Chapter 41. Because funding at the Austin Independent School District level is currently being provided to school districts under Chapter 42 of the Texas Education Code, no recapture is currently associated with the Golden Pennies. Chapter 41 districts with a wealth per student above the lower equalized wealth level but below the higher equalized wealth level must equalize their wealth only with respect to the portion of their M&O tax rate, if any, in excess of \$1.06 per \$100 of taxable value. Under Chapter 41, a district has five options to reduce its wealth per student so that it does not exceed the equalized wealth levels: (1) a district may consolidate by agreement with one or more districts to form a consolidated district; all property and debt of the consolidating districts vest in the consolidated district; (2) a district may detach property from its territory for annexation by a property-poor district; (3) a district may purchase attendance credits from the State; (4) a district may contract to educate nonresident students from a property-poor district by sending money directly to one or more property-poor districts; or (5) a district may consolidate by agreement with one or more districts to form a consolidated taxing district solely to levy and distribute either M&O taxes or both M&O taxes and I&S taxes. A Chapter 41 district may also exercise any combination of these remedies. Options (3), (4) and (5) require prior approval by the Chapter 41 district's voters.

A district may not adopt a tax rate until its effective wealth per student is at or below the equalized wealth level. If a district fails to exercise a permitted option, the Commissioner must reduce the district's property wealth per student to the equalized wealth level by detaching certain types of property from the district and annexing the property to a property-poor district or, if necessary, consolidate the district with a property-poor district. Provisions governing detachment and annexation of taxable property by the Commissioner do not provide for assumption of any of the transferring district's existing debt. The Commissioner has not been required to detach property in the absence of a district failing to select another wealth-equalization option.

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

The District's wealth per student for the 2018-19 school year is less than the equalized wealth value. Accordingly, the District has not been required to exercise one of the permitted wealth equalization options. As a district with wealth per student less than the equalized wealth value, the District may benefit in the future by agreeing to accept taxable property or funding assistance from or agreeing to consolidate with a property-rich district to enable such district to reduce its wealth per student to the permitted level. A district's wealth per student must be tested for each future school year and, if it exceeds the maximum permitted level, must be reduced by exercise of one of the permitted wealth equalization options. Accordingly, if the District's wealth per student should continue to exceed the maximum permitted level in future school years, it will be required each year to exercise one or more of the wealth reduction options. If the District were to consolidate (or consolidate its tax base for all purposes) with a property-poor district, the outstanding debt of each district could become payable from the consolidated district's combined property tax base, and the District's ratio of taxable property to debt could become diluted. If the District were to detach property voluntarily, a portion of its outstanding debt (including the Bonds) could be assumed by the district to which the property is annexed, in which case timely payment of the Bonds could become dependent in part on the financial performance of the annexing district.

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 February 22, 1964 under Article 2784e-1, Texas Revised Civil Statutes.

Article 2784e-1 further limited the District's annual, local maintenance and operations tax levy based upon a comparison between the District's outstanding bonded indebtedness and the District's taxable assessed valuation per \$100 of assessed valuation. Article 2784e-1 provides for a reduction of \$0.10 for each one percent (1 %) or major fraction thereof increase in bonded indebtedness beyond seven percent (7%) of assessed value of property in the District. This limitation is capped when the District's bonded indebtedness is ten percent (10%) (or greater) of the District's assessed valuation which would result in an annual maintenance and operations tax levy not to exceed \$1.20. Lastly, the Texas Attorney General in reviewing the District's transcript of proceedings will allow the District to reduce the amount of its outstanding bonded indebtedness by the amount of funds (on a percentage basis) that the District receives in State assistance for the repayment of this bonded indebtedness (for example, if the District anticipates that it will pay 75% of its bonded indebtedness from State assistance, for the purposes of Article 2784e-1, the Texas Attorney General will assume that only 25% of the District's bonded indebtedness is outstanding and payable from local ad valorem taxes).

HB3 established the following maximum maintenance 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 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 product of the state compressions 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 district's maximum compressed tax rate (as determined under Section 48.2441 of the Texas Education Code, as amended by HB3), subject to certain exceptions provided by Section 48.2553 of the Texas Education Code, as added by HB3. The District's maximum compressed tax rate 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, the highest possible maximum compressed tax rate for the District is \$0.93.

As noted under the sub-caption "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2019 Legislation," HB3 is a complex bill that is subject to interpretation, implementation and administration by the Commissioner of Education and other state agencies, and in certain

circumstances the Commissioner of Education is given authority to effect changes in order to correct unintended consequences. The foregoing summary of certain provisions of HB 3 relating to the voter-approval tax rate remain subject to interpretation by the Commissioner of Education and implementation by the Texas Education Agency.

A school district is also authorized to issue bonds and levy taxes for payment of bonds subject to voter approval of a proposition 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 school district bonded indebtedness (see "THE BONDS – Sources and Uses of Funds").

Chapter 45 of the Texas Education Code, as amended, requires a district to demonstrate to the Texas Attorney General that it has the prospective ability to pay debt service on a proposed issue of bonds, together with debt service on other outstanding "new debt" of the district, from a tax levied at a rate of \$0.50 per \$100 of assessed valuation before bonds may be issued. In demonstrating the ability to pay debt service at a rate of \$0.50, a district may take into account State allotments to the district which effectively reduces the district's local share of debt service. Once the prospective ability to pay such tax has been shown and the bonds are issued, a district may levy an unlimited tax to pay debt service. Taxes levied to pay debt service on bonds approved by district voters at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds) are not subject to the foregoing threshold tax rate test. In addition, taxes levied to pay refunding bonds issued pursuant to Chapter 1207, Texas Government Code, are not subject to the \$0.50 tax rate test; however, taxes levied to pay debt service on such bonds are included in the calculation of the \$0.50 tax rate test as applied to subsequent issues of "new debt." The Bonds are issued as "new debt" pursuant to Chapter 45, Texas Education Code, and are subject to the \$0.50 threshold tax rate test. Under current law, a district may demonstrate its ability to comply with the \$0.50 threshold tax rate test by applying the \$0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a district uses projected future taxable values to meet the \$0.50 threshold tax rate test and subsequently imposes a tax at a rate greater than \$0.50 per \$100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Attorney General must find that the district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the \$0.50 threshold tax rate test from a tax rate of \$0.45 per \$100 of valuation. The District has not used projected property values to satisfy this threshold test.

DEBT LIMITATIONS

Under State law, there is no explicit bonded indebtedness limitation, although the tax rate tests described above under "Tax Rate Limitations" effectively impose a limit on the incurrence of debt. Such tax rate tests require school districts to demonstrate the ability to pay new debt secured by the district's debt service tax from a tax rate of \$0.50, and to pay all debt and operating expenses which must be paid from receipts of the district's maintenance tax from a tax not to exceed the lesser of \$1.50 or the voted maintenance tax limit. In demonstrating compliance with these requirements, a district may take into account State equalization payments. The State Attorney General reviews a district's calculations showing the compliance with these tests as a condition to the legal approval of the debt.

EMPLOYEES RETIREMENT PLAN

The District's employees participate in a retirement plan with the State of Texas; the Plan is administered by the Teacher Retirement System of Texas. The District has no pension fund expenditures or liabilities.

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.

RATINGS

Standard & Poor's Ratings Service, a Standard & Poor's Financial Services LLC business ("S&P"), assigned their municipal rating of "AAA" to the Bonds based upon the Permanent School Fund Guarantee. S&P generally rates all bond issues guaranteed by the Permanent School Fund of the State of Texas "AAA". An explanation of the significance of any rating may be obtained from the rating agency. The District's current underlying, unenhanced rating is "A" by S&P. The District makes no representation as to the appropriateness of such ratings.

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

LEGAL MATTERS

The District will furnish to the Underwriter a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Bonds

are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel. A form of such opinion is attached hereto as Appendix C.

The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provisions made for their payment or security, or in any manner questioning the validity of said Bonds will also be furnished. Though it represents the Financial Advisor and the Underwriter from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the District in the issuance of the Bonds. Bond Counsel also advises the TEA in connection with its disclosure obligations under the federal securities laws, but Bond Counsel has not passed upon any TEA disclosures contained in this Official Statement. Bond Counsel also advises the TEA in connection with its disclosure obligations under the federal securities laws, but Bond Counsel has not passed upon any TEA disclosures contained in this Official Statement. Except as noted below, Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under captions or sub captions "THE BONDS" (except under the subcaptions "Payment Record", "Permanent School Fund Guarantee", and "Sources and Uses of Funds"), "REGISTERED OWNERS' REMEDIES", "REGISTRATION, TRANSFER AND EXCHANGE", "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" (except under the sub caption "The School Finance System as Applied to the District"), "TAX RATE LIMITATIONS" (first paragraph only), "LEGAL MATTERS" (except the last sentence of the second paragraph), "TAX MATTERS", "REGISTRATION AND QUALIFICATIONS OF BONDS FOR SALE," "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS" and "CONTINUING DISCLOSURE OF INFORMATION" (except under the sub caption "Compliance with Prior Undertakings") and such firm is of the opinion that the information relating to the Bonds and legal matters contained under such captions and sub captions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriter by Kelly Hart & Hallman LLP, Fort Worth, Texas, Counsel for the Underwriter, whose fee is contingent upon the sale and delivery of the Bonds.

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

TAX MATTERS

Opinion

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel to the District, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds (see "Appendix C – FORM OF LEGAL OPINION OF BOND COUNSEL").

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the District, including information and representations contained in the District's federal tax certificate, (b) covenants of the District contained in the Bond documents relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed or refinanced therewith, and (c) the certificate with respect to arbitrage by the Commissioner of Education regarding the allocation and investment of certain investments in the Permanent School Fund. Failure by the District to observe the aforementioned representations or covenants could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel is conditioned on compliance by the District with the covenants and requirements described in the preceding paragraph, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the property financed with proceeds of the Bonds. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment of Original Issue Discount

The initial public offering price to be paid for one or more maturities of the Bonds may be less than the principal amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Bonds"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see the discussion set forth below.

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

Under Existing Law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with Subchapter C earnings and profits, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM RECENTLY ENACTED LEGISLATION OR THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market

discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

State, Local and Foreign Taxes

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

Information Reporting and Backup Withholding

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the IRS. Payments of interest and principal may be subject to withholding under sections 1471 through 1474 or backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

Future and Proposed Legislation

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law and could affect the market price or marketability of the Bonds. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

Qualified Tax-Exempt Obligations for Financial Institutions

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-behalf of" and "subordinate" issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by section 265(b) of the Code, section 291 of the Code provides that the allowable deduction to a "bank," as defined in section 585(a) (2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

The District designated the Bonds as "qualified tax-exempt obligations" within the meaning of section 265(b) of the Code. In furtherance of that designation, the District covenants to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Bonds as "qualified tax-exempt obligations." Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded; however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the \$10,000,000 limitation and the Bonds would not be "qualified tax-exempt."

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code, as amended) provides that the Bonds are negotiable instruments, investment securities 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 and other political subdivisions and public agencies of the State of Texas. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital and savings and loan associations. In accordance with the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended (the "PFIA"), the Bonds must be rated at least "A" or its equivalent as to investment quality by a national rating agency in order for most municipalities or other political subdivisions or public agencies of the State of Texas to invest in the Bonds, except for purchases for interest and sinking funds of such entities. (See "RATINGS" herein). Moreover, municipalities or other political subdivisions or public agencies of the State of Texas that have adopted investment policies and guidelines in accordance with the Public Funds Investment Act may have other, more stringent requirements for purchasing securities, including the Bonds. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

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

INVESTMENT AUTHORITY AND PRACTICES OF THE DISTRICT

Available District funds are invested as authorized by Texas law and in accordance with investment policies approved by the Board of Trustees. Both state law and the District's investment policies are subject to change. Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit meeting the requirements of the PFIA (i) that are issued by an institution that has its main office or a branch office in the State of Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (5) and clause (13) or in any other manner and amount provided by law for District deposits or (ii) that are invested by the District through a depository institution that has its main office or a branch office in the State of Texas and otherwise meet the requirements of the PFIA; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State, (9) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (11) through (13) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less, (10) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (11) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (12) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, and (13) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

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

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

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

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

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

History and Purpose

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

(But see "2019 Texas Legislative Session" for a description of legislation that is expected to change the composition of the SLB). As of August 31, 2018, the General Land Office (the "GLO") managed approximately 23% of the PSF, as reflected in the fund balance of the PSF at that date.

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

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

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

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

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

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

Audited financial information for the PSF is provided annually through the PSF Comprehensive Annual Financial Report (the "Annual Report"), which is filed with the Municipal Securities Rulemaking Board ("MSRB"). The Annual Report includes the Message of the Executive Administrator of the Fund (the "Message") and the Management's Discussion and Analysis ("MD&A"). The Annual Report for

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

2019 Texas Legislative Session

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

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

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

The Total Return Constitutional Amendment

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

the Ten Year Total Return, is not prohibited by State law, provided that such contingency plan applies only within a fiscal year time basis, not on a biennium basis, and (iii) that the amount distributed from the Fund in a fiscal year may not exceed 6% of the average of the market value of the Fund or the Ten Year Total Return. In accordance with GA-0707, in the event that the Ten Year Total Return is exceeded during a fiscal year, transfers to the ASF will be halted. However, if the Ten Year Total Return subsequently increases during that biennium, transfers may be resumed, if the SBOE has provided for that contingency, and made in full during the remaining period of the biennium, subject to the limit of 6% in any one fiscal year. Any shortfall in the transfer that results from such events from one biennium may not be paid over to the ASF in a subsequent biennium as the SBOE would make a separate payout determination for that subsequent biennium.

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

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

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

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

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

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

In accordance with the Texas Constitution, the SBOE views the PSF as a perpetual institution, and the Fund is managed as an endowment fund with a long-term investment horizon. Under the total-return investment objective, the Investment Policy provides that the PSF shall be managed consistently with respect to the following: generating income for the benefit of the public free schools of Texas, the real growth of the corpus of the PSF, protecting capital, and balancing the needs of present and future generations of Texas school children. As described above, the Total Return Constitutional Amendment restricts the annual pay-out from the Fund to the total-return on all investment

assets of the Fund over a rolling ten-year period. State law provides that each transfer of funds from the PSF to the ASF is made monthly, with each transfer to be in the amount of one-twelfth of the annual distribution. The heavier weighting of equity securities and alternative assets relative to fixed income investments has resulted in greater volatility of the value of the Fund. Given the greater weighting in the overall portfolio of passively managed investments, it is expected that the Fund will reflect the general performance returns of the markets in which the Fund is invested.

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

Management and Administration of the Fund

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

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

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

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

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

Capacity Limits for the Guarantee Program

The capacity of the Fund to guarantee bonds under the Guarantee Program is limited in two ways: by State law (the "State Capacity Limit") and by regulations and a notice issued by the IRS (the "IRS Limit"). Prior to May 20, 2003, the State Capacity Limit was equal to two times the lower of cost or fair market value of the Fund's assets, exclusive of real estate. During the 78th Regular Session of the Legislature in

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

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

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

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

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

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

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

credit quality of those districts, the implementation of the Charter District Bond Guarantee Program, or an increase in the calculation base of the Fund for purposes of making transfers to the ASF. It is anticipated that the issuance of the IRS Notice and the Proposed IRS Regulations will likely result in a substantial increase in the amount of bonds guaranteed under the Guarantee Program. The implementation of the Charter School Bond Guarantee Program is also expected to increase the amount of guaranteed bonds.

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

The School District Bond Guarantee Program

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

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

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

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

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

The Charter District Bond Guarantee Program

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

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

As of February 27, 2019 (the most recent date for which data is available), the percentage of students enrolled in open-enrollment charter schools (excluding charter schools authorized by school districts) to the total State scholastic census was approximately 5.85%. As of June 10, 2019, there were 181 active open-enrollment charter schools in the State and there were 764 charter school campuses operating

under such charters (though as of such date, 15 of such campuses have not begun serving students for various reasons). Section 12.101, Texas Education Code, as amended by the Legislature in 2013, limits the number of charters that the Commissioner may grant to 215 charters as of the end of fiscal year 2014, with the number increasing in each fiscal year thereafter through 2019 to a total number of 305 charters. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see "Capacity Limits for the Guarantee Program." The Act provides that the Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

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

The Charter District Bond Guarantee Program does not apply to the payment of principal and interest upon redemption of bonds, except upon mandatory sinking fund redemption, and does not apply to the obligation, if any, of a charter district to pay a redemption premium on its guaranteed bonds. The guarantee applies to all matured interest on guaranteed charter district bonds, whether the bonds were issued with a fixed or variable interest rate and whether the interest rate changes as a result of an interest reset provision or other bond resolution provision requiring an interest rate change. The guarantee does not extend to any obligation of a charter district under any agreement with

a third party relating to guaranteed bonds that is defined or described in State law as a "bond enhancement agreement" or a "credit agreement," unless the right to payment of such third party is directly as a result of such third party being a bondholder.

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

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

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

From time to time, TEA has limited new guarantees under the Charter District Bond Guarantee Program to conform to capacity limits specified by the Act. Legislation enacted during the Legislature's 2017 regular session modified the manner of calculating the capacity of the Charter District Bond Guarantee Program (the "CDBGP Capacity"), which further increased the amount of the CDBGP Capacity, beginning with State fiscal year 2018, but that provision of the law does not increase overall Program capacity, it merely allocates capacity between the School District Bond Guarantee Program and the Charter District Bond Guarantee Program. See "Capacity Limits for the Guarantee Program" and "2017 Legislative Changes to the Charter District Bond Guarantee Program." Other factors that could increase

the CDBG Capacity include Fund investment performance, future increases in the Guarantee Program multiplier, changes in State law that govern the calculation of the CDBG Capacity, as described below, growth in the relative percentage of students enrolled in open-enrollment charter schools to the total State scholastic census, legislative and administrative changes in funding for charter districts, changes in level of school district or charter district participation in the Program, or a combination of such circumstances.

2017 Legislative Changes to the Charter District Bond Guarantee Program

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

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

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

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

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the "Charter District Reserve Fund"). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10 percent of the savings to the charter district that is a result of the lower interest rate on its bonds due to the guarantee by the PSF. SB 1480 modified the Act insofar as it pertains to the Charter District Reserve Fund. Effective September 1, 2017, the Act provides that a charter district that has a bond guaranteed must remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 20 percent of the savings to the charter district that is a result of the lower interest rate on the bond due to the guarantee by the PSF. The amount due shall be paid on receipt by the charter district of the bond proceeds. However, the deposit requirement will not apply if the balance of the Charter District Reserve Fund is at least equal to three percent (3.00%) of the total amount of outstanding guaranteed bonds issued by charter

districts. As of April 30, 2019, the Charter District Reserve Fund represented approximately 0.87% of the guaranteed charter district bonds. SB 1480 also authorized the SBOE to manage the Charter District Reserve Fund in the same manner as it manages the PSF. Previously, the Charter District Reserve Fund was held by the Comptroller, but effective April 1 2018, the management of the Reserve Fund was transferred to the PSF division of TEA, where it will be held and invested as a non-commingled fund under the administration of the PSF staff.

Charter District Risk Factors

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

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

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

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

Potential Impact of Hurricane Harvey on the PSF

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

Legislation was approved during the 86th Session that provides supplemental appropriations to the TEA in amounts of \$535,200,000 and \$636,000,000 for the fiscal biennia ending August 31, 2019 and August 31, 2021, respectively. Those appropriations are designated for use as an adjustment to school district property values and reimbursement for disaster remediation costs as a result of Hurricane Harvey. That legislation also included a reimbursement to the TEA in the amount of \$271,300,000 for costs previously incurred by the TEA for increased student costs, the reduction in school district property values and other disaster remediation costs stemming from Hurricane Harvey. For fiscal year 2018, TEA initiated programs designed to hold school districts and charter districts harmless for the loss of State funding associated with declines in average daily attendance. In the past, storm damage has caused multiple year impacts to affected schools with respect to both attendance figures and tax base (for school districts). In June 2018 TEA received results of a survey of tax

appraisal districts in the area affected by the hurricane with respect to the impact of the hurricane on the tax rolls of affected school districts. In aggregate, the tax rolls of affected districts appear to have increased slightly for fiscal 2018 over 2017, but the increases were at a lower rate than had been anticipated in the State's general appropriation act for the biennium. TEA notes that as of June 2018 the negative effect of the hurricane on the average daily attendance of districts in the affected area appears to have been less than TEA had initially anticipated.

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

Ratings of Bonds Guaranteed Under the Guarantee Program

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

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations

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

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

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

Permanent School Fund Guaranteed Bonds

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

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

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

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

Fiscal Year Ended_	School District Bonds		Charter District Bonds		Totals	
	No. of Issues	Principal Amount	No. of Issues	Principal Amount	No. of Issues	Principal Amount
8/31						
2014 ⁽²⁾	2,869	\$ 58,061,805,783	10	\$ 302,545,000	2,879	\$ 58,364,350,783
2015	3,089	63,197,514,047	28	757,935,000	3,117	63,955,449,047
2016	3,244	67,342,303,445	35	961,025,000	3,279	68,303,328,445
2017	3,253	72,884,480,023	40	1,381,610,000	3,293	74,266,090,023
2018 ⁽³⁾	3,249	77,647,966,069	44	1,432,935,000	3,293	79,080,901,069

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

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

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

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

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

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

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

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

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

The PSF(SBOE)'s investment in domestic large cap, domestic small/mid cap, international large cap, and emerging market equity securities experienced returns of 19.83%, 23.95%, 3.51%, and -1.07%, respectively, during the fiscal year ended August 31, 2018. The PSF(SBOE)'s

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

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

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

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

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

2011 Constitutional Amendment

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

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

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

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

Changes in the Distribution Rate for each biennial period has been based on a number of financial and political reasons, as well as commitments made by the SLB in some years to transfer certain sums to the ASF. The new calculation base described above has been used to determine all payments to the ASF from the Fund beginning with the 2012-13 biennium. The broader base for the Distribution

Rate calculation could increase transfers from the PSF to the ASF, although the effect of the broader calculation base has been somewhat offset since the 2014-2015 biennium by the establishment by the SBOE of somewhat lower Distribution Rates than for the 2012-2013 biennium. In addition, the changes made by the amendment that increased the calculation base that could affect the corpus of the Fund include the decisions that are made by the SLB or others that are, or may in the future be, authorized to make transfers of funds from the PSF to the ASF.

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

Other Events and Disclosures

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

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

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

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

PSF Continuing Disclosure Undertaking

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

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

Annual Reports

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

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

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

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

Event Notices

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

Availability of Information

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

Limitations and Amendments

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

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

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

Compliance with Prior Undertakings

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

SEC Exemptive Relief

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

FINANCIAL ADVISOR

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

AUTHENTICITY OF FINANCIAL INFORMATION

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

USE OF AUDITED FINANCIAL STATEMENTS

William A. Coombes, CPA, Fort Worth, Texas the District's independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. William A. Coombes, CPA, Fort Worth, Texas, also has not performed any procedures relating to this Official Statement.

LITIGATION

The District is not a party to any litigation or other proceeding pending or to its knowledge, threatened, in any court, agency or other administrative body (either state or federal) which, if decided adversely to the District, would have a material adverse effect on the financial condition or operations of the District.

CONTINUING DISCLOSURE OF INFORMATION

The District is exempt from certain of the continuing disclosure obligations set forth in the United States Securities and Exchange Commission Rule 15c2-12, as amended (the "Rule"), pursuant to the exemption under subsection (d)(2), which applies to certain small issuers such as the District who are not an "obligated person" (as defined in the Rule) responsible for the repayment of municipal securities outstanding (including the Bonds) in an aggregate principal amount exceeding \$10,000,000. This exception allows the District to not file annual updates to all financial and operating data that is included in this Official Statement.

In the Order, the District has made the following agreement for the benefit of the holders and Beneficial Owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to annually provide certain updated financial information and operating data that is customarily prepared by the District and that is publicly available; such information to be provided is the District's comprehensive annual financial report. The District will also file timely notice of specified events to the Municipal Securities Rulemaking Board (the "MSRB"). The information provided to the MSRB will be available to the public free of charge via the Electronic Municipal Markets Access system ("EMMA") through an internet website accessible at www.emma.msrb.org. Such information may also be obtained from the District at Lingleville ISD, Attn: Superintendent 21261 N. FM 219, Lingleville, TX 76461, Phone: 254-968-2596, Fax: 254-965-5821.

Annual Reports

The District will provide certain updated financial information and operating data to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in APPENDIX D to this official statement, which is customarily prepared by the District and publicly available. The District will update and provide this information within six months after the end of each fiscal year ending in and after 2019.

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 updated information will include audited financial statements for the District, if the District commissions an audit and it is completed by the required time. If audited financial statements are not provided by that time, the District will provide unaudited financial statements for the applicable fiscal year to the MSRB with the financial information and operating data and will file the annual audit report when and if the same becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the District's annual financial statements or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation. The District's current fiscal year end is August 31. Accordingly, it must provide updated information by the end of February in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change, substitution, or sale of property securing repayment of the Bonds.

Notices of Certain Events

The District will also provide timely notices of certain events to the MSRB. The District will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District, any of which reflect financial difficulties. In addition, the District will provide timely notice of any failure by the District to provide annual financial information in accordance with their agreement described above under "Annual Reports."

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

For the events listed in clause (15) and (16) above, the term "financial obligation" means a: (A) debt obligation; (B) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) a

guarantee of either (A) or (B). The term “financial obligation” shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

Availability of Information from MSRB

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

Limitations and Amendments

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

The District may amend its disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the registered owners of a majority in aggregate principal amount of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the District (such as nationally recognized bond counsel) determined that such amendment will not materially impair the interest of the registered owners and beneficial owners of the Bonds. The District may also amend or repeal the provisions of its continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District amends the agreement, it has agreed to include with any financial information or 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 financial information and operating data so provided.

Compliance with Prior Undertakings

The District has not been subject to a continuing disclosure agreement pursuant to the Rule during the last five years.

UNDERWRITING

The Underwriter has agreed, subject to certain customary conditions, to purchase the Bonds at a price equal to the initial offering prices to the public, as shown on the inside cover page, less an Underwriters’ Discount of \$51,211.92. The Underwriter’s obligation is subject to certain conditions precedent, and the Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriter.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, the Underwriter’s responsibility to investors under the Federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

FORWARD LOOKING STATEMENTS

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

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

CONCLUDING STATEMENT

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

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

/S/ Larry Griffin
President, Board of Trustees

/S/ Larry Proctor
Secretary, Board of Trustees

[This page is intentionally left blank.]

APPENDIX A

**FINANCIAL INFORMATION OF THE DISTRICT
LINGLEVILLE INDEPENDENT SCHOOL DISTRICT**

[This page is intentionally left blank.]

FINANCIAL INFORMATION FOR THE DISTRICT

ASSESSED VALUATION

2018 Actual Total Valuation.....	\$	360,388,374
2018 Net Taxable Valuation.....	\$	107,456,060

* Net of the following deductions provided under Article VII of the State Constitution and Tax Abatement

<u>Exemption/Deduction (Tax Year 2018)</u>		<u>Total</u>
Residential Homestead (\$25,000)	\$	6,272,450
Residential Homestead Over-Age 65/Disabled (\$10,000)		1,030,080
Disabled Vets/Survivors (up to \$3,000)		674,060
Agricultural Use/Productivity		241,370,510
Freeport Exemption		0
Pollution Control		261,650
Cap Value Loss		105,560
Freeze Value Loss		3,218,004
Total value lost to partial low income housing exemptions		0
Prorations/Solar/Wind		0
Value lost to prorations		0
Total.....	\$	252,932,314

VOTED GENERAL OBLIGATION BOND DEBT

Unlimited Tax Bonds		
Current Interest Bonds Outstanding	\$	926,000
This Issue Dated July 1, 2019		6,515,000
Total Unlimited Tax Bonds Outstanding.....	\$	7,441,000
Less: Bonds to be refunded.....		0
Less: Interest & Sinking Fund Balance (as of 05/06/2019).....		190,898
Net General Obligation Debt	\$	7,250,102

Ratio Net G.O. Debt to Net Taxable Valuation - 6.75%

2018 Population Estimate	1,689	Per Capita Net Valuation	\$	63,621
2018 Enrollment	278	Per Capita Actual Valuation	\$	213,374
Area (square miles)	121.28	Per Capita Net G.O. Debt	\$	4,293

PROPERTY TAX RATES AND COLLECTIONS

<u>Tax Year</u>	<u>Net Taxable Valuation</u> ^{(a)(b)}	<u>Tax Rate</u>	<u>% Collections</u>		<u>F/Y Ended</u>	<u>Source</u>
			<u>Current</u>	<u>Total</u> ^(c)		
2013	\$ 154,062,559	1.1076	98.91	99.78	08/31/14	(2)
2014	136,496,120	1.1189	98.98	98.98	08/31/15	(2)
2015	116,305,961	1.1212	98.36	98.51	08/31/16	(2)
2016	115,098,672	1.1183	97.70	99.38	08/31/17	(2)
2017	109,339,533	1.1142	<u>99.82</u>	<u>100.90</u>	08/31/18	(2)
	Five Year Average.....		98.75	99.51		
2018	\$ 107,456,060	\$1.1142			08/31/19	(2)

(a)Fluctuation in Assessed Value due to the valuation of a wind farm.

(b)Reflects assessed valuation for Debt Service tax rate only. The assessed valuation for M&O purposes are limited pursuant to Chapter 313 of the tax code for economic development. As a result, the District, in effect, has two tax values, one for Debt Service taxes and one for M&O taxes.

(c) Delinquent tax collections are allocated to the respective years in which the taxes are levied.

TAX RATE DISTRIBUTION

	<u>Tax Year</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Local Maintenance		\$1.0400	\$1.0400	\$1.0400	\$1.0400	\$1.0400
Interest & Sinking		<u>0.0742</u>	<u>0.0742</u>	<u>0.0783</u>	<u>0.0812</u>	<u>0.0789</u>
Total		\$1.1142	\$1.1142	\$1.1183	\$1.1212	\$1.1189

2018

PRINCIPAL TAXPAYERS & THEIR ASSESSED VALUATIONS

<u>Name of Taxpayer</u>	<u>Type of Property</u>	<u>Assessed Valuation</u>	<u>% A.V.</u>
Silver Star Power Partners LLC*	Wind Farm	\$21,232,000	19.76%
Enbridge Gathering	Oil and Gas	3,900,730	3.63%
Atmos Energy	Oil and Gas	2,954,350	2.75%
Bob C. & Trudy E. Ladd	Residential	2,244,530	2.09%
Classic Oilfield Services	Oil and Gas	2,243,880	2.09%
Oncor Electric Delivery Company	Electric	1,892,550	1.76%
Stephen B. & Joan F. Smith	Residential	1,378,820	1.28%
Joseph A. & Debra Schouten	Residential	1,130,990	1.05%
Foci Corp		940,020	0.87%
Elmer J. & Norma B. Parks	Residential	818,860	0.76%
Total.....		\$38,736,730	36.05%

2017

PRINCIPAL TAXPAYERS & THEIR ASSESSED VALUATIONS

<u>Name of Taxpayer</u>	<u>Type of Property</u>	<u>Assessed Valuation</u>	<u>% A.V.</u>
Silver Star Power Partners LLC*	Wind Farm	\$19,733,330	18.05%
Enbridge Gathering	Oil and Gas	3,813,650	3.49%
Atmos Energy	Oil and Gas	2,960,140	2.71%
Oncor Electric Delivery Company	Electric	2,193,550	2.01%
Bob C. & Trudy E. Ladd	Residential	2,177,150	1.99%
Classic Oilfield Services	Oil and Gas	1,344,980	1.23%
Stephen B. & Joan F. Smith	Residential	1,337,760	1.22%
Joseph A. & Debra Schouten	Residential	1,110,430	1.02%
United Electric Cooperative Services	Electric	979,110	0.90%
Jacque J. Tanton	Residential	861,210	0.79%
Total.....		\$36,511,310	33.39%

2016

PRINCIPAL TAXPAYERS & THEIR ASSESSED VALUATIONS

<u>Name of Taxpayer</u>	<u>Type of Property</u>	<u>Assessed Valuation</u>	<u>% A.V.</u>
Silver Star Power Partners LLC*	Wind Farm	\$24,107,360	20.94%
Enbridge Gathering	Oil and Gas	4,485,610	3.90%
Atmos Energy	Oil and Gas	3,140,830	2.73%
Bob C. & Trudy E. Ladd	Residential	2,149,430	1.87%
Oncor Electric Delivery Company	Electric	1,976,600	1.72%
Classic Oilfield Services	Oil and Gas	1,120,820	0.97%
Stephen B. & Joan F. Smith	Residential	1,070,060	0.93%
Joseph A. & Debra Schouten	Residential	1,060,790	0.92%
Elmer J. & Norma B. Parks	Residential	779,690	0.68%
Jacque J. Tanton	Residential	757,710	0.66%
Total.....		\$40,648,900	35.32%

* TAX VALUE CONCENTRATION: As shown in the table above, in 2016-2018, the top ten taxpayers in the District accounted for approximately 35 percent of the District's tax base. The top taxpayer, which accounted for approximately 20 percent of the District's tax base, is engaged in wind farm energy generation and related business activities. Adverse developments in economic conditions, especially those affecting wind farms, could adversely impact the businesses that own such property and the tax values in the District. If a 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 to fund debt service payments from other resources, if available. See "REGISTERED OWNERS' REMEDIES".

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
COMBINED GENERAL FUND BALANCE SHEET**

	Fiscal Years Ending August 31,				
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
ASSETS					
Cash and Cash Equivalents	\$1,659,177	\$1,060,522	\$973,826	\$1,929,584	\$1,971,482
Property Taxes - Delinquent	20,920	19,874	22,320	23,451	25,572
Allowance for uncollectible taxes	(12,778)	(13,713)	(16,517)	(17,119)	(16,877)
Due from other governments	260,760	0	0	0	0
Due from other funds	0	0	0	0	0
Receivables from Other Receivables	0	563,952	439,589	30,963	87,010
Total Assets	<u>\$1,928,079</u>	<u>\$1,630,635</u>	<u>\$1,419,218</u>	<u>\$1,966,879</u>	<u>\$2,067,187</u>
Deferred inflows of resources					
Deferred revenue- property taxes	\$ 8,142	\$ 6,161	\$ 5,803	\$ 6,332	\$ 8,694
LIABILITIES					
Accounts Payable	\$0	\$0	\$89	\$88	\$12,603
Payroll ded. and withholdings payable	8,405	5,680	7,436	14,079	1,581
Other Payable - Insurance	0	0	0	14,667	11,246
Accrued wages payable	83,360	51,319	73,534	74,109	73,146
Due to other funds	0	0	0	2,043	2,043
Accrued Expenditures	1,764	1,105	1,367	1,454	1,408
Short Term Debt Payable - Current	15,815	14,240	12,108	0	0
Total Liabilities	<u>\$109,344</u>	<u>\$72,344</u>	<u>\$94,534</u>	<u>\$106,440</u>	<u>\$102,027</u>
FUND BALANCES					
Reserved Fund Balance	\$0	\$0	\$0	\$0	\$0
Self Insurance	15,815	0	0	14,667	11,246
Retirement or Long -Term Debt	0	0	0	0	0
Construction	0	0	0	0	0
Other Assigned Fund Balance	0	0	0	0	0
Unassigned Fund Balance	1,794,778	1,552,130	1,318,881	1,839,440	1,945,220
Total Fund Balances	<u>\$1,810,593</u>	<u>\$1,552,130</u>	<u>\$1,318,881</u>	<u>\$1,854,107</u>	<u>\$1,956,466</u>
Total Liabilities & Fund Balances	<u>\$1,928,079</u>	<u>\$1,630,635</u>	<u>\$1,419,218</u>	<u>\$1,966,879</u>	<u>\$2,067,187</u>

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
COMPARATIVE STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES**

	Fiscal Years Ending August 31,				
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Beginning Fund Balance	<u>\$1,552,129</u>	<u>\$1,318,881</u>	<u>\$1,854,107</u>	<u>\$1,956,466</u>	<u>\$1,937,765</u>
REVENUES					
Total Local and Intermediate Sources	\$951,705	\$884,650	\$863,916	\$856,574	\$930,238
State Program Revenue	1,970,127	1,944,386	1,831,193	1,312,246	1,252,416
Federal Program Revenues	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Revenues	<u>\$2,921,832</u>	<u>\$2,829,036</u>	<u>\$2,695,109</u>	<u>\$2,168,820</u>	<u>\$2,182,654</u>
EXPENDITURES					
Instruction	\$1,392,593	\$1,271,259	\$1,193,469	\$1,238,462	\$1,123,690
Instructional Resources & Media	21,621	16,285	18,125	17,346	16,274
Curriculum & Instructional Staff Dev.	6,741	6,495	5,248	5,823	10,384
Instructional Leadership	0	0	0	0	0
School Leadership	169,439	157,802	163,442	149,769	158,458
Guidance & Counseling	37,770	30,176	30,507	19,533	24,247
Health Services	41,000	39,375	22,163	12,126	20,745
Student Transportation	153,125	206,041	183,006	79,629	93,979
Food Services	0	0	3,076	2,867	0
Extracurricular Activities	110,271	98,700	84,377	78,380	72,578
General Administration	188,569	194,334	177,033	205,241	250,392
Facilities Maintenance & Operations	346,408	316,151	262,932	293,073	294,218
Security and Monitoring Services	15,900	70,462	0	0	0
Data Processing	75,678	0	56,929	42,574	42,084
Facilities Acquisition and Construction	0	106,936	971,715	59,248	0
Principal on Long-Term Debt	0	0	0	0	0
Interest on Long Term Debt	0	0	0	0	0
Other Intergovernmental Charges	26,270	26,431	25,571	24,570	23,654
Payments to Fiscal Agent/Member Districts of S	<u>27,983</u>	<u>20,340</u>	<u>10,280</u>	<u>22,538</u>	<u>18,250</u>
Total Expenditures	<u>\$2,613,368</u>	<u>\$2,560,787</u>	<u>\$3,207,873</u>	<u>\$2,251,179</u>	<u>\$2,148,953</u>
Excess (Deficiency) of Revenues over (Under) Expenditures	<u>\$308,464</u>	<u>\$268,249</u>	<u>(\$512,764)</u>	<u>(\$82,359)</u>	<u>\$33,701</u>
OTHER FINANCING SOURCES (USES)					
Transfers In	\$0	\$0	\$7,538	\$0	\$0
Transfers Out	<u>(\$50,000)</u>	<u>(\$35,000)</u>	<u>(\$30,000)</u>	<u>(\$20,000)</u>	<u>(\$15,000)</u>
	<u>(\$50,000)</u>	<u>(\$35,000)</u>	<u>(\$22,462)</u>	<u>(\$20,000)</u>	<u>(\$15,000)</u>
Net change in fund balances	<u>258,464</u>	<u>233,249</u>	<u>(535,226)</u>	<u>(102,359)</u>	<u>18,701</u>
Ending Fund Balance - August 31	<u>\$1,810,593</u>	<u>\$1,552,130</u>	<u>\$1,318,881</u>	<u>\$1,854,107</u>	<u>\$1,956,466</u>

APPENDIX B

**ADDITIONAL INFORMATION REGARDING
LINGLEVILLE INDEPENDENT SCHOOL DISTRICT**

[This page is intentionally left blank.]

**ADDITIONAL INFORMATION REGARDING
LINGLEVILLE INDEPENDENT SCHOOL DISTRICT**

Lingleville ISD is a rural school district located mainly in Erath County with portions extending into Eastland and Comanche Counties. The district is located approximately 80 miles Southwest of Dallas and approximately 10 miles from Stephenville, home to Tarleton State University. The district consists of one school, Lingleville School, that serves students in grades pre-kindergarten through twelve. The districts mission is to provide students with the problem-solving tools that enable them to reach their highest potential as responsible, productive citizens who are prepared to be self-motivated, lifelong learners in an ever-changing world.

Lingleville ISD offers a variety of athletics, including football, track and field, basketball, power lifting, cross country, golf, tennis and volleyball. The district also offers several different clubs that involve both parents and students. Lingleville ISD Booster Club serves as a way for students and parents to be involved with the community and raise extra funds for the district through fundraisers and selling a variety of food, drinks and candy at athletic events. Lingleville ISD also values and encourages its Parent Teacher Organization, or PTO, to promote open communication and understanding between parents or guardians and teachers and staff. The goal of the organization is to become independent with no state or national affiliation or support of specific political platforms, in order to retain all funds raised for the school. PTO strives to take an active role in fundraising, such as assisting with the box tops for education program, raising money for educational class trips and teacher appreciation gift. This organization would also support the school and local community, such as assisting with scholastic book fairs and supporting those in need in the community by helping with school supplies, clothing and food drives.

According to the most recent Texas Academic Performance Report for the 2017-2018 school year, Lingleville ISD had 274 students and received an accountability rating of “met standard.” In addition, 42.7% of students were considered “at risk” of dropping out of school as defined by the Texas Education Agency and 19% of students were enrolled in bilingual and English language learning programs. In 2017, Lingleville ISD had 100% of students graduate, surpassing the statewide average of 89.7%.

Water provided by: Lingleville School Water- Septic Systems

Electricity provided by: United Cooperative Services

Natural Gas provided by: Fulfur Propane

Telephone service provided by: Nextlink VoIP

Universities and Colleges: Tarleton State University, Ranger College

ENROLLMENT STATISTICS

<u>Year Ending 8-31</u>	<u>Enrollment</u>
2009	213
2010	227
2011	236
2012	237
2013	239
2014	222
2015	226
2016	257
2017	272
2018	274
2019	278

As of 05/08/2019

FACILITIES

<u>School</u>	<u>Campus Size (acres)</u>	<u>Grades</u>	<u>Enrollment</u>
Lingleville School	22	PK-12	278

PORTABLE CLASSROOMS OWNED BY THE DISTRICT

<u>Campus Location</u>	<u>Number of Classrooms</u>	<u>Will Construction Allow Removal</u>
Lingleville School	4	Yes

As of 05/08/2019

EMPLOYMENT OF THE DISTRICT

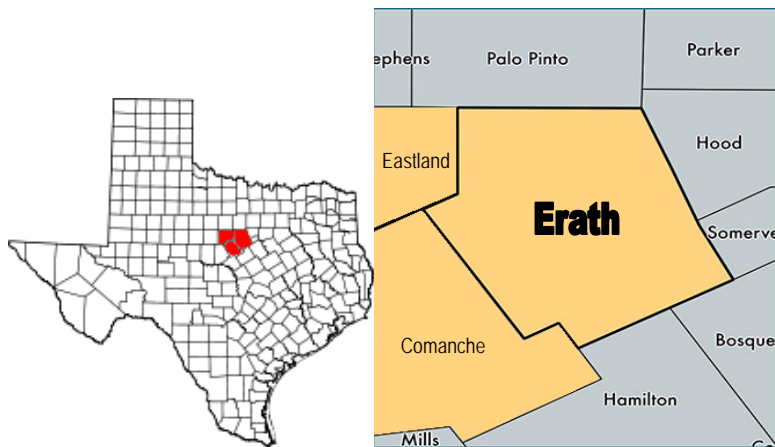
Teachers.....	28
Administrators.....	2
Teacher Aides & Secretaries	8
Auxiliary Employees.....	<u>11</u>
Total Number of Employees	49

PRINCIPAL EMPLOYERS WITHIN THE DISTRICT

Name of Company	Product	# of Employees
Lingleville Country Store	Coffee, Convenience Store	3-4
Procter Farms	Custom silage harvesting	10-15
Dairy Farms	Milk production	NA
Private Airport	Luxury jet charters	NA

ADDITIONAL INFORMATION REGARDING

ERATH, EASTLAND AND COMANCHE COUNTIES, TEXAS



Erath County, established in 1856, was marked off from Bosque and Coryell counties and named after George B. Erath, the original surveyor of the area. The county consists of 1,983 square miles and transportation is provided by Interstate Highway 20, which crosses the northwest corner and U.S. highways 67,281 and 377. The Fort Worth and Western Railroad crosses the southwestern and central parts of Erath county. The county seat lies in Stephenville, located near the center of the county, eighty miles outside of Dallas. Early settlers arrived from the Southern states but in 1857, the county's population began to decline as incidents with the Native American tribes of the Caddos, Anadarkos and Comanches began, the Civil War and as raids on settlers by outlaw bands became more prevalent. Around 1873, the population began to expand again and hit its peak in 1910, with 32,095 people. Today, the county is home to 42,435 people.

Erath county is divided into two distinct regions. The Western Cross Timbers is comprised of hardwoods, such as post oak with a red clay and sandy soil surface, while the Grand Prairie, has dark limey soils with live oak groves. The Northern part of the county is known for its deposits of bituminous coal, fireclay, oil and natural gas. In early years, the economy relied on agriculture but from 1888-1921, mining and manufacturing played a large role in the economy with Texas Pacific Coal Company mining in the Northwest of the county. In 1918, Erath county was home to Thurber Brick Company, which manufactured tile, sewer pipes, bricks and stoneware. In 1893, Stephenville College was established and in 1899, renamed to Tarleton College, after being saved from financial difficulty by a local rancher, John Tarleton. In 1916, the college was affiliated with what is now Texas A&M University and in 1917, it was recognized as a state college.

Today, the economy of Erath county is supported by education and hospitals, restaurants and agriculture, mostly livestock production. The median household income is \$47,000, \$10,600 below the national median household income. As of 2018, the regions population increased by 6.4% since 2013 and is expected to increase by 4.2% in the next 5 years and 18.2% of residents possess a bachelor's degree.

Eastland County, established in 1858, is a North Central Texas county with an economy based on mineral production and agriculture. The Texas Almanac designates cattle, turkeys, hay, peanuts, and sorghum as principal sources of agriculture. Eastland County is one of the states leading peanut production counties. The county seat is in the city of Eastland.

Comanche County is a central Texas county, created in 1856 from Bosque and Coryell Counties, and named after the Native American tribe that inhabited the region. The county is transversed by the Sabana and Leon Rivers, which connect to Procter lake. The county was the tenth largest producing county of oats in Texas in 2016.

EMPLOYMENT STATISTICS

The Texas Work Force Commission reports the following employment statistics for the County and the State of Texas.

TEXAS AND U.S. CIVILIAN LABOR FORCE ESTIMATES

<u>STATE OF TEXAS</u>		
As of:	<u>March 2019</u>	<u>December 2018</u>
Total Civilian Labor Force	14,010.5	13,920.8
Total Employment	13,484.4	13,404.4
Total Unemployment	526.1	516.4

Source: U.S. Bureau of Labor Statistics

<u>UNEMPLOYMENT RATES</u>		
	<u>2017</u>	<u>2018</u>
Erath County	3.4%	3.1%
Eastland County	4.3%	3.4%
Comanche County	3.7%	3.6%
State of Texas	4.3%	3.9%
United States of America	4.4%	3.9%

Sources:

Texas Workforce Commission. Labor Force Statistics for Texas Counties 2000-2018

RI Department of Labor and Training, Labor Market Information

PENSION FUND LIABILITY

The District has no direct liability for pensions. A mandatory contribution of a percentage of gross salary is made by all employees to the Texas Retirement System of Texas. The District is required to deduct and forward the contributions to the State Administered System.

MAINTENANCE TAX RATE LIMITATIONS

The maximum voted maintenance ("M&O") tax rate for the District is \$1.50 per \$100 assessed valuation as approved by the voters at an election held in the District on 02/22/1964 pursuant to the provisions of Art. 2784e-1, Texas Revised Civil Statutes annotated, as amended. Article 2784e-1 provides for a reduction to the District's maximum M&O tax rate of \$0.10 for each one percent (1%) or major fraction thereof increase in bonded indebtedness beyond seven percent (7%) of assessed valuation of property in the District. This limitation is capped when the District's bonded indebtedness is ten percent (10%) (or greater) of the District's assessed valuation, which would result in an annual maximum M&O tax rate of \$1.20. For any fiscal year beginning with the 2006-2007 fiscal year, the maximum M&O tax rate per \$100 of assessed valuation that may be adopted by the District may not exceed the lesser of (A) \$1.50, or such lower maximum rate as described in the preceding sentence, and (B) the sum of (1) the rate of \$0.17, and (2) the product of the "state compression percentage" multiplied by \$1.50.

ESTIMATED OVERLAPPING DEBT STATEMENT

<u>Taxing Body</u>	<u>Amount</u>	<u>As Of</u>	<u>% Overlap</u>	<u>\$ Overlap</u>
Comanche County	\$ -	04/30/19	0.02%	\$ 0
Comanche County Consolidated	7,276,000.00 *	04/30/19	0.02%	1,455
Eastland County	-	04/30/19	1.72%	0
Erath County	2,797,000.00 *	04/30/19	4.88%	<u>136,494</u>
Total Net Overlapping Debt			\$	<u>137,949</u>
Lingleville ISD	\$ 7,250,101.83	06/27/19	100.00%	<u>7,250,102</u>
Total Direct and Overlapping Debt.....			\$	<u>7,388,051</u>
* Gross Debt				
Direct and Overlapping Debt to Net Taxable Valuation				6.88%
Direct and Overlapping Debt to Actual Total Valuation				2.05%
Per Capita Direct and Overlapping Debt				\$4,374

2018 TOTAL TAX RATES OF OVERLAPPING POLITICAL ENTITIES

Comanche County	\$ 0.630000
Comanche County Consolidated	\$ 0.328100
Eastland County	\$ 0.475400
Erath County	\$ 0.445800

CAPITAL LEASES

NONE

NOTES PAYABLE

NONE

CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY

Property Use Category	Total Tax Roll for Tax Years - Per Comptroller's Report				
	2018	2017	2016	2015	2014
Single-Family Residential	\$ 8,523,350	\$ 8,267,780	\$ 7,729,770	\$ 7,548,220	\$ 7,533,190
Multi-Family Residential	904,630	897,930	797,750	819,750	989,210
Vacant Lots/Tracts	182,970	176,830	158,850	209,090	194,140
Acreage (Land Only)	252,595,370	213,680,280	185,930,920	185,531,850	174,165,080
Farm and Ranch Improvements	56,891,680	53,919,510	51,750,590	48,334,610	46,619,000
Commercial and Industrial	14,884,020	19,524,230	24,037,990	29,890,300	33,423,580
Non producing minerals & vehicles	137,754	133,941	145,437	272,078	769,195
Residential Inventory	-	-	-	-	-
Business, Tangible	4,471,130	2,619,880	2,393,790	1,951,260	17,789,940
Other, Tangible	-	-	-	-	-
Mobile Homes	2,135,810	2,136,990	2,123,490	1,915,660	1,711,170
Special/Real Inventory	15,180	33,260	38,680	57,510	40,410
Utilities	19,646,480	22,308,420	26,664,660	24,993,510	26,205,660
Total Assessed Valuation	\$ 360,388,374	\$ 323,699,051	\$ 301,771,927	\$ 301,523,838	\$ 309,440,575
Less Exemptions:					
Residential Homestead	\$ 6,272,450	\$ 6,215,190	\$ 6,215,660	\$ 6,199,620	\$ 3,714,230
Disabled/Deceased Veterans	674,060	534,050	509,590	473,220	402,700
Over-65 and/or disabled	1,030,080	1,028,660	1,008,270	989,170	901,620
Freeport Loss	-	-	-	-	-
Cap Value Loss	105,560	200,780	183,220	260,400	371,670
Freeze Value Loss	3,218,004	3,274,008	3,129,125	2,915,627	2,977,835
Exempt	-	-	-	-	-
Pollution Control	261,650	263,660	265,490	32,510	32,710
Agriculture Use/Productivity	241,370,510	202,843,170	175,361,900	174,347,330	164,543,690
Total Exemptions	\$ 252,932,314	\$ 214,359,518	\$ 186,673,255	\$ 185,217,877	\$ 172,944,455
Taxable Assessed Valuation ⁽¹⁾	\$ 107,456,060	\$ 109,339,533	\$ 115,098,672	\$ 116,305,961	\$ 136,496,120

⁽¹⁾ Includes Frozen values

PERCENTAGE TOTAL ASSESSED VALUATION BY CATEGORY

Property Use Category	Percent of Total Tax Roll for Tax Years				
	2018	2017	2016	2015	2014
Single-Family Residential	2.37%	2.55%	2.56%	2.50%	2.43%
Multi-Family Residential	0.25%	0.28%	0.26%	0.27%	0.32%
Vacant Lots/Tracts	0.05%	0.05%	0.05%	0.07%	0.06%
Acreage (Land Only)	70.09%	66.01%	61.61%	61.53%	56.28%
Farm and Ranch Improvements	15.79%	16.66%	17.15%	16.03%	15.07%
Commercial and Industrial	4.13%	6.03%	7.97%	9.91%	10.80%
Non producing minerals & vehicles	0.04%	0.04%	0.05%	0.09%	0.25%
Residential Inventory	0.00%	0.00%	0.00%	0.00%	0.00%
Business, Tangible	1.24%	0.81%	0.79%	0.65%	5.75%
Other, Tangible	0.00%	0.00%	0.00%	0.00%	0.00%
Mobile Homes	0.59%	0.66%	0.70%	0.64%	0.55%
Special/Real Inventory	0.00%	0.01%	0.01%	0.02%	0.01%
Utilities	5.45%	6.89%	7.39%	7.40%	8.47%
	<u>100.00%</u>	<u>100.00%</u>	<u>98.56%</u>	<u>99.11%</u>	<u>100.00%</u>

Note: Totals may not equal 100% due to rounding

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
OUTSTANDING AND NEW DEBT SERVICE REQUIREMENTS**

Fiscal Year Ended 8/31	Outstanding Debt Service Requirements	Debt Service Requirements of the Series 2019			Total Debt Service Requirements
		Principal	Interest	Total	
2019	\$ 89,851.00	\$ -	\$ -	\$ -	\$ 89,851.00
2020	90,926.00	105,000.00	258,952.78	363,952.78	454,878.78
2021	89,608.50	125,000.00	226,550.00	351,550.00	441,158.50
2022	91,375.50	130,000.00	221,550.00	351,550.00	442,925.50
2023	86,988.50	135,000.00	216,350.00	351,350.00	438,338.50
2024	89,678.50	140,000.00	210,950.00	350,950.00	440,628.50
2025	93,176.00	145,000.00	205,350.00	350,350.00	443,526.00
2026	94,442.50	150,000.00	199,550.00	349,550.00	443,992.50
2027	94,555.00	155,000.00	193,550.00	348,550.00	443,105.00
2028	95,552.00	160,000.00	187,350.00	347,350.00	442,902.00
2029	95,395.00	170,000.00	180,950.00	350,950.00	446,345.00
2030	97,122.50	175,000.00	174,150.00	349,150.00	446,272.50
2031	98,657.50	185,000.00	167,150.00	352,150.00	450,807.50
2032	-	190,000.00	159,750.00	349,750.00	349,750.00
2033	-	200,000.00	152,150.00	352,150.00	352,150.00
2034	-	205,000.00	144,150.00	349,150.00	349,150.00
2035	-	215,000.00	135,950.00	350,950.00	350,950.00
2036	-	225,000.00	127,350.00	352,350.00	352,350.00
2037	-	230,000.00	118,350.00	348,350.00	348,350.00
2038	-	240,000.00	109,150.00	349,150.00	349,150.00
2039	-	250,000.00	99,550.00	349,550.00	349,550.00
2040	-	260,000.00	89,550.00	349,550.00	349,550.00
2041	-	270,000.00	81,750.00	351,750.00	351,750.00
2042	-	275,000.00	73,650.00	348,650.00	348,650.00
2043	-	285,000.00	65,400.00	350,400.00	350,400.00
2044	-	295,000.00	56,850.00	351,850.00	351,850.00
2045	-	300,000.00	48,000.00	348,000.00	348,000.00
2046	-	310,000.00	39,000.00	349,000.00	349,000.00
2047	-	320,000.00	29,700.00	349,700.00	349,700.00
2048	-	330,000.00	20,100.00	350,100.00	350,100.00
2049	-	340,000.00	10,200.00	350,200.00	350,200.00
TOTAL	<u>\$1,207,328.50</u>	<u>\$6,515,000.00</u>	<u>\$4,003,002.78</u>	<u>\$10,518,002.78</u>	<u>\$11,725,331.28</u>

TAX ADEQUACY WITH RESPECT TO THE DISTRICT'S OUTSTANDING BONDS

Projected Maximum P & I Requirements for FYE	August 31, 2020	\$450,807.50
less: projected EDA and IFA payments from the State		<u>0.00</u>
District's Net Requirement		\$450,807.50
Based on 2018 Taxable Valuation of		\$107,456,060.00
\$0.4238	Tax rate w/ tax collections of 99.00%	\$450,807.50

AUTHORIZED BUT UNISSUED BONDS

After this sale, the District will have no authorized but unissued bonds.

[This page is intentionally left blank.]

APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

[This page is intentionally left blank.]

Proposed Form of Opinion of Bond Counsel

An opinion in substantially the following form will be delivered by McCall, Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the Bonds, assuming no material changes in facts or law.

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2019**

IN THE AGGREGATE PRINCIPAL AMOUNT OF \$6,515,000

AS BOND COUNSEL for the Lingleville Independent School District (the "*Issuer*"), the issuer of the Bonds described above (the "*Bonds*"), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds, at the rates and payable on the dates as stated in the text of the Bonds, maturing, unless redeemed prior to maturity in accordance with the terms of the Bonds, all in accordance with the terms and conditions stated in the text of the Bonds.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, and a transcript of certified proceedings of the Issuer, and other pertinent instruments authorizing and relating to the issuance of the Bonds, including executed Bond Numbered T-1.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Bonds have been authorized and issued and the Bonds delivered concurrently with this opinion have been duly delivered and that, assuming due authentication, Bonds issued in exchange therefore will have been duly delivered, in accordance with law, and that the Bonds, except as may be limited by laws applicable to the Issuer relating to bankruptcy, reorganization and other similar matters affecting creditors' rights generally, and by general principles of equity and sovereign immunity of political subdivisions which permit the exercise of judicial discretion, constitute valid and legally binding obligations of the Issuer, and ad valorem taxes sufficient to provide for the payment of the interest on and principal of the Bonds have been levied and pledged for such purpose, without limit as to rate or amount.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, we express no



opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Bonds.

IN EXPRESSING THE AFOREMENTIONED OPINIONS, we have relied on and assume continuing compliance with, certain representations contained in the federal tax certificate of the Issuer and covenants set forth in the order adopted by the Issuer to authorize the issuance of the Bonds, relating to, among other matters, the use of the project being financed and the investment and expenditure of the proceeds and certain other amounts used to pay or to secure the payment of debt service on the Bonds and the certificate with respect to arbitrage by the Commissioner of Education regarding the allocation and investment of certain investments in the Permanent School Fund, the accuracy of which we have not independently verified. We call your attention to the fact that if such representations are determined to be inaccurate or if the Issuer fails to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Bonds. We express no opinion as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.

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 (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the Issuer, and, in that capacity, we have been engaged by the Issuer for the sole purpose of rendering our opinions with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment



based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Issuer, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the Issuer as to the current outstanding indebtedness of, and assessed valuation of taxable property within the Issuer. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

Respectfully,

[This page is intentionally left blank.]

APPENDIX D

The information contained in this Appendix has been reproduced from the Lingleville Independent School District Annual Financial Report (the "Report") for the Fiscal Year Ended August 31, 2018.

THE INFORMATION PRESENTED REPRESENTS ONLY A PART OF THE REPORT AND DOES NOT PURPORT TO BE A COMPLETE STATEMENT OF THE DISTRICT'S FINANCIAL CONDITION. REFERENCE IS MADE TO THE COMPLETE REPORT FOR ADDITIONAL INFORMATION

[This page is intentionally left blank.]

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

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL AND COMPLIANCE REPORT
FOR THE YEAR ENDED AUGUST 31, 2017**

TABLE OF CONTENTS

<u>EXHIBIT</u>		<u>PAGE</u>
	CERTIFICATE OF BOARD	i
	Independent Auditor’s Report.....	ii
	Management’s Discussion and Analysis.....	iv
	<u>Basic Financial Statements</u>	
	Government-Wide Statements:	
A-1	Statement of Net Position.....	1
B-1	Statement of Activities.....	2
	Governmental Fund Financial Statements:	
C-1	Balance Sheet.....	3
C-2	Reconciliation for C-1.....	4
C-3	Statement of Revenues, Expenditures and Changes in Fund Balance.....	5
C-4	Reconciliation for C-3.....	6
	Fiduciary Fund Financial Statements:	
E-1	Statement of Fiduciary Net Position	7
	Notes to the Financial Statements	8
	<u>Required Supplementary Information</u>	
G-1	Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual – General Fund.....	41
G-6	Schedule of the District’s Proportionate Share of the Net Pension Liability Teacher Retirement System of Texas	42
G-7	Schedule of District Contributions – Teacher Retirement System of Texas	43
G-8	Schedule of the District’s Proportionate Share of the Net OPEB Liability.....	44
G-9	Schedule of the District’s Contributions for Other Post-Employment Benefits.....	45
	Notes to Required Supplementary Information.....	46
	<u>Combining Statements</u>	
	Non-major Governmental Funds	
H-1	Combining Balance Sheet.....	49
H-2	Combining Statement of Revenues, Expenditures and Changes in Fund Balances	51
	<u>Required TEA Schedules</u>	
J-1	Schedule of Delinquent Taxes Receivable	53
	<u>Other Information Required by GAO</u>	
	Report on Internal Control Over Financial Reporting and Compliance and On Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	55
	Schedule of Findings.....	57
	Corrective Action Plan.....	58

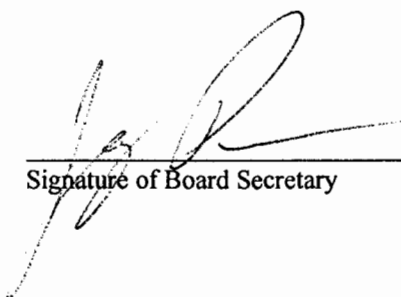
CERTIFICATE OF BOARD

LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
Name of School

ERATH
County

072-909
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) approved _____ disapproved for the year ended August 31, 2018 at a meeting of the Board of Trustees of such school district on the 17 day of January, 2019.



Signature of Board Secretary



Signature of Board President

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

WILLIAM A. COOMBES

CERTIFIED PUBLIC ACCOUNTANT

500 W 7th Street • Suite 900 • Fort Worth, Texas 76102 • (817) 632-2500

*Member
American Institute &
Texas Society of
Certified Public Accountants*

Independent Auditor's Report

Lingleville Independent School District
21261 North Highway 219
Lingleville, Texas 76461

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lingleville Independent School 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

My responsibility is to express opinions on these financial statements based on our audit. I conducted my 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 I 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, I 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.

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

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Lingleville Independent School 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 and budgetary comparison information*, on pages iv-xi and 41, 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 operations, economic, or historical context. I 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 I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lingleville Independent School District's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and other supplementary information is fairly stated in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated January 9, 2019 on my consideration of Lingleville Independent School District's internal control over financial reporting and on my 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 Lingleville Independent School District's internal control over financial reporting and compliance.

Very truly yours,



William A. Coombes, CPA
January 9, 2019

LINGLEVILLE INDEPENDENT SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Lingleville Independent School District's (the "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.

FINANCIAL HIGHLIGHTS

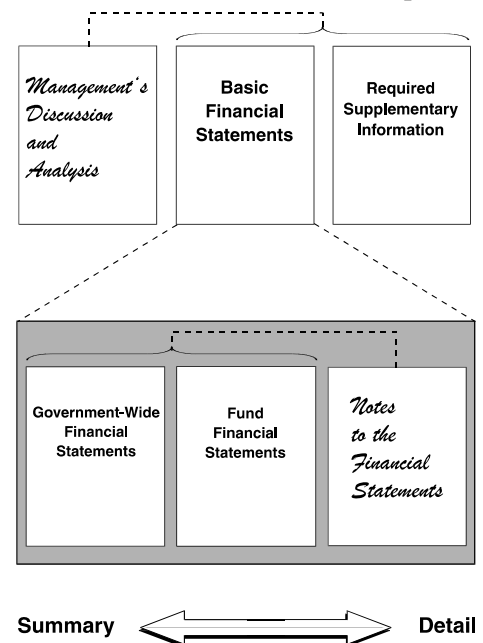
- The District's total combined Net Position was \$2.1 million at August 31, 2018.
- During the year, the District's expenses were \$500 thousand less than the \$2.8 million generated in taxes and other revenues for governmental activities.
- The total costs of the District's programs were \$2.2 million, a decrease of \$700 thousand from last year.
- The General Fund reported a fund balance this year of \$1.8 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are *government-wide financial statements* that provide both long-term and short-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the government, reporting the District's operations in more detail than the government-wide statements.
 - The *governmental funds* statements tell how general government services were financed in the short term as well as what remains for future spending.
 - *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

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



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

Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

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

Government-Wide Statements

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

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

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

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

Fund Financial Statements

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

- Some funds are required by State law and by bond covenants.
- The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has three types of funds:

- *Governmental funds*—Most of the District's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- *Fiduciary funds*—The District is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that—because of a trust arrangement—can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the District's Government-Wide Financial Statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position. The District's *combined* Net Position were approximately \$2.1 million at August 31, 2018. (See Table A-1)

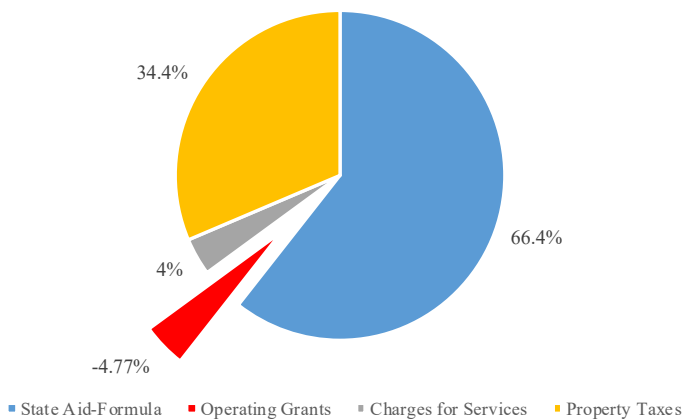
Table A-1

THE DISTRICT'S NET POSITION (in thousands of dollars)

	Governmental Activities		
	2018	2017	Change
Current and Other Assets	\$ 2,066	\$ 1,769	16.7%
Capital and Non-Current Assets	3,219	3,379	(4.7)%
Total Assets	<u>5,285</u>	<u>5,148</u>	2.7%
Deferred Resource Outflows	244	301	18.9%
Current Liabilities	106	79	34.1%
Long-term Liabilities	2,707	1,576	71.8%
Total Liabilities	<u>2,813</u>	<u>1,655</u>	69.9%
Deferred Resource Inflows	592	32	1750.0%
Net Assets			
Net Investment in Capital Assets	2,246	2,357	4.7%
Restricted	126	127	(0.7)%
Unrestricted	(248)	1,277	(1198.0)%
Total Net Position	<u>\$ 2,124</u>	<u>\$ 3,762</u>	43.5%

Changes in Net Position – The District's total revenues were \$2.8 million. A significant portion, 66%, of the District's revenue comes from state aid – formula grants. (See Figure A-3.) Approximately 34% comes from property taxes, (5)% comes from operating grants, while 2% percent relates to charges for services.

Figure A-3 District Sources of Revenue for Fiscal Year 2017



The total cost of all programs and services was \$2.2 million; ___% of these costs are for instructional and student services.

Governmental Activities

- Property tax rates decreased from \$1.11483 to \$1.11420. This decrease coupled with increasing property values netted an increase of tax revenues of \$43 thousand.

Table A-2

THE DISTRICT'S REVENUES AND EXPENSES
(in thousands of dollars)

	Governmental Activities		Change
	2018	2017	
Revenues			
Program Revenues:			
Charges for Services	\$ 55	\$ 43	27.90%
Operating Grants and Contributions	(133)	352	(137.70)%
General Revenues:			
Property Taxes	963	919	4.79%
State Aid—formula	1,856	1,837	1.03%
Investment Earnings	23	6	283.30%
Other Revenue	31	62	(50.00)%
Total Revenues	<u>2,795</u>	<u>3,219</u>	(13.17)%
Expenses			
Instruction and instructional related	1,130	1,647	(31.35)%
Instructional leadership/school administration	118	163	(27.60)%
Guidance, social work, health, transportation	174	190	(8.42)%
Food service	132	152	(13.15)%
Extracurricular activities	116	122	(4.92)%
General Administration	106	204	(48.03)%
Plant maintenance and data processing	376	379	(.79)%
Debt service	33	37	(10.81)%
Payments to fiscal agent	28	20	40.00%
Miscellaneous	26	26	0%
Total Expenses	<u>2,239</u>	<u>2,940</u>	(23.84)%
Increase (Decrease) in Net Position	556	279	99.28%
Beginning Net Position	3,761	3,482	8.01%
Prior Period Adjustment	(2,193)	-	
Ending Net Position	<u>\$ 2,124</u>	<u>\$ 3,761</u>	(43.52)%

Table A-3 presents the cost of each of the District’s largest functions as well as each function’s *net cost* (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.

- The cost of all *governmental* activities this year was \$2.2 million.
- However, the amount that our taxpayers paid for these activities through property taxes was \$962 thousand.
- Some of the cost was paid by those who directly benefited from the programs (\$55 thousand), or
- By grants and contributions (\$133 thousand).

Table A-3

NET COST OF SELECTED DISTRICT FUNCTIONS
(in thousands of dollars)

	Total Cost of Services		Net Cost of Services	
	2018	2017	2018	2017
Instruction	\$ 1,112	\$ 1,623	\$ 1,361	\$ 1,412
General administration	106	203	106	190
Plant maintenance and operations	305	306	305	298
Food service	132	152	12	37

FINANCIAL ANALYSIS OF THE DISTRICT’S FUNDS

Revenues from governmental fund types totaled \$3.2 million, an increase of 1.18% from the preceding year. The increase in fund balance was from a decrease in expenses and a decrease in operating grants.

General Fund Budgetary Highlights

Over the course of the year, the District revised its budget several times. With these adjustments, actual expenditures were \$52 thousand below final budget amounts. The most significant positive variance resulted from staffing and transportation. Staffing is budgeted for full employment throughout the full year. Budget amounts for vacant positions throughout the year are not eligible to budget revisions.

Resources available were \$223 thousand above the final budgeted amount due to an increase in state revenues.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2018, the District had invested \$3.2 million in a broad range of capital assets, including land, equipment, buildings, and vehicles. (See Table A-4.)

Table A-4

THE DISTRICT’S CAPITAL ASSETS
(in thousands of dollars)

	Governmental Activities	
	2018	2017
Land	\$ 98	\$ 98
Buildings and Improvements	5,238	5,238
Furniture and Equipment	834	889
Totals at historical cost	6,170	6,224
Total accumulated depreciation	(2,951)	(2,845)
Net capital assets	\$ 3,219	\$ 3,379

Long-Term Debt

Table A-5

THE DISTRICT’S LONG-TERM DEBT
(in thousands of dollars)

	Governmental Activities	
	2018	2017
Bonds payable	\$ 926	\$ 976
Premium on bonds	32	45
Compensated absences	16	1
Total long-term debt	\$ 974	\$ 1,022

Bond Ratings

The District’s bonds presently carry “AAA” ratings with Standard & Poor’s by virtue of the Permanent School Fund of the State of Texas. There are no underlying ratings.

At year-end the District had \$926 thousand in bonds outstanding as shown in Table A-5. More detailed information about the District’s debt is presented in the Notes to the Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Appraised value used for the 2019 budget preparation (CPTD values) increased \$9.2 million, due almost entirely to increases in property values and the ending of the Chapter 313 agreement.
- The District's 2018 refined average daily attendance is expected to increase to 257.

These indicators were taken into account when adopting the General Fund budget for 2019. Amounts available for appropriation in the General Fund budget are \$2.77 million, a decrease over the final 2018 budget of \$2.98 million. The expenditure budget increased from \$2.68 in 2017 to \$2.98 in 2018. Property taxes will increase slightly due to the increased values of the District property and the District's I & S tax rate remains relatively constant. State revenue will decrease due to the increased property valuation. The District will use these funds to finance programs we currently offer.

- All expenses related to plant operation and maintenance will remain consistent with the prior year.
- The District will maintain a 22:1 ratio.
- We will maintain one full-time counselor funded 50% by Title 1.
- We will consider the acquisition of buses from general operating funds or maintenance tax notes.

If these estimates are realized, the District's budgetary General Fund balance is expected to decrease at the close of 2019.

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 Business Services Office at 21261 North Highway 219, Lingleville, TX 76461.

BASIC FINANCIAL STATEMENTS

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

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 1,796,148
1220 Property Taxes - Delinquent	23,395
1230 Allowance for Uncollectible Taxes	(14,290)
1240 Due from Other Governments	260,760
Capital Assets:	
1510 Land	97,505
1520 Buildings, Net	2,772,052
1530 Furniture and Equipment, Net	349,790
1000 Total Assets	5,285,360
DEFERRED OUTFLOWS OF RESOURCES	
1705 Deferred Outflow Related to TRS Pension	229,738
1706 Deferred Outflow Related to TRS OPEB	14,383
1700 Total Deferred Outflows of Resources	244,121
LIABILITIES	
2110 Accounts Payable	(1)
2140 Interest Payable	1,771
2150 Payroll Deductions and Withholdings	8,405
2160 Accrued Wages Payable	93,146
2200 Accrued Expenses	2,566
Noncurrent Liabilities:	
2501 Due Within One Year	65,815
2502 Due in More Than One Year	908,496
2540 Net Pension Liability (District's Share)	481,841
2545 Net OPEB Liability (District's Share)	1,250,802
2000 Total Liabilities	2,812,841
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Resource Inflow Related to TRS Pension	68,689
2606 Deferred Resource Inflow Related to TRS OPEB	523,212
2600 Total Deferred Inflows of Resources	591,901
NET POSITION	
3200 Net Investment in Capital Assets	2,245,947
3820 Restricted for Federal and State Programs	724
3850 Restricted for Debt Service	125,660
3900 Unrestricted	(247,592)
3000 Total Net Position	\$ 2,124,739

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

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

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		3	4	6
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 1,112,470	\$ 2,349	\$ (251,078)	\$ (1,361,199)
12 Instructional Resources and Media Services	17,572	-	-	(17,572)
13 Curriculum and Instructional Staff Development	(1,929)	-	-	1,929
23 School Leadership	119,423	-	-	(119,423)
31 Guidance, Counseling and Evaluation Services	40,068	-	30,516	(9,552)
33 Health Services	28,422	-	-	(28,422)
34 Student (Pupil) Transportation	105,913	6,654	-	(99,259)
35 Food Services	131,560	32,878	87,013	(11,669)
36 Extracurricular Activities	115,976	13,672	-	(102,304)
41 General Administration	106,425	-	-	(106,425)
51 Facilities Maintenance and Operations	305,543	-	-	(305,543)
52 Security and Monitoring Services	15,900	-	-	(15,900)
53 Data Processing Services	54,642	-	-	(54,642)
72 Debt Service - Interest on Long-Term Debt	32,389	-	-	(32,389)
73 Debt Service - Bond Issuance Cost and Fees	500	-	-	(500)
93 Payments Related to Shared Services Arrangements	27,983	-	-	(27,983)
99 Other Intergovernmental Charges	26,270	-	-	(26,270)
[TP] TOTAL PRIMARY GOVERNMENT:	<u>\$ 2,239,127</u>	<u>\$ 55,553</u>	<u>\$ (133,549)</u>	<u>(2,317,123)</u>

Data Control Codes	General Revenues:	
	Taxes:	
MT	Property Taxes, Levied for General Purposes	889,477
DT	Property Taxes, Levied for Debt Service	73,343
SF	State Aid - Formula Grants	1,856,316
GC	Grants and Contributions not Restricted	12,155
IE	Investment Earnings	23,383
MI	Miscellaneous Local and Intermediate Revenue	18,623
TR	Total General Revenues	<u>2,873,297</u>
CN	Change in Net Position	556,174
NB	Net Position - Beginning	3,761,839
PA	Prior Period Adjustment	(2,193,274)
NE	Net Position--Ending	<u>\$ 2,124,739</u>

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

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

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
ASSETS			
1110 Cash and Cash Equivalents	\$ 1,659,177	\$ 136,971	\$ 1,796,148
1220 Property Taxes - Delinquent	20,920	2,475	23,395
1230 Allowance for Uncollectible Taxes	(12,778)	(1,512)	(14,290)
1240 Due from Other Governments	260,760	-	260,760
1000 Total Assets	<u>\$ 1,928,079</u>	<u>\$ 137,934</u>	<u>\$ 2,066,013</u>
LIABILITIES			
2110 Accounts Payable	\$ -	\$ (1)	(1)
2120 Short Term Debt Payable - Current	15,815	-	15,815
2150 Payroll Deductions and Withholdings Payable	8,405	-	8,405
2160 Accrued Wages Payable	83,360	9,786	93,146
2200 Accrued Expenditures	1,764	802	2,566
2000 Total Liabilities	<u>109,344</u>	<u>10,587</u>	<u>119,931</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	8,142	963	9,105
2600 Total Deferred Inflows of Resources	<u>8,142</u>	<u>963</u>	<u>9,105</u>
FUND BALANCES			
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	724	724
3480 Retirement of Long-Term Debt	-	125,660	125,660
Committed Fund Balance:			
3540 Self Insurance	15,815	-	15,815
3600 Unassigned Fund Balance	1,794,778	-	1,794,778
3000 Total Fund Balances	<u>1,810,593</u>	<u>126,384</u>	<u>1,936,977</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 1,928,079</u>	<u>\$ 137,934</u>	<u>\$ 2,066,013</u>

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

LINGLEVILLE 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	\$	1,936,977
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 \$6,224,474 and the accumulated depreciation was (\$2,844,780). In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position. Note: Beginning Balances related to TRS are NOT included in this amount.		2,357,058
2 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2018 capital outlays and debt principal payments is to increase net position.		124,631
3 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68. At the beginning of the year, the net position related to TRS was a Deferred Resource Outflow in the amount of \$300,588, a Deferred Resource Inflow in the amount of \$31,894 and a net pension liability in the amount of \$553,355. The impact of this on Net Position is (284,661). Changes from the current year reporting of the TRS plan resulted in a decrease in net position in the amount of (\$36,131). The combination of the beginning of the year amounts and the changes during the year resulted in a difference between the ending fund balance and the ending net position in the amount of (\$320,792).		(320,792)
4 The District implemented GASB 75 reporting requirements for the OPEB benefit plan through TRS. Since this is the first year of implementation, a prior period adjustment had to be made in the amount of (\$2,193,274). The District's share of the TRS plan resulted in a net OPEB liability of \$1,250,802, a deferred outflow of \$14383 and a deferred inflow of \$523,212. This resulted in a difference between the ending fund balance and the ending net position of (1,759,631).		(1,759,631)
5 The 2018 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(222,609)
6 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.		9,105
19 Net Position of Governmental Activities	\$	2,124,739

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

LINGLEVILLE 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	Other Funds	Total Governmental Funds
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 951,705	\$ 109,469	\$ 1,061,174
5800 State Program Revenues	1,970,127	21,189	1,991,316
5900 Federal Program Revenues	-	191,768	191,768
5020 Total Revenues	<u>2,921,832</u>	<u>322,426</u>	<u>3,244,258</u>
EXPENDITURES:			
Current:			
0011 Instruction	1,392,593	78,753	1,471,346
0012 Instructional Resources and Media Services	21,621	-	21,621
0013 Curriculum and Instructional Staff Development	6,741	-	6,741
0023 School Leadership	169,439	-	169,439
0031 Guidance, Counseling and Evaluation Services	37,770	30,516	68,286
0033 Health Services	41,000	-	41,000
0034 Student (Pupil) Transportation	153,125	-	153,125
0035 Food Services	-	169,935	169,935
0036 Extracurricular Activities	110,271	-	110,271
0041 General Administration	188,569	-	188,569
0051 Facilities Maintenance and Operations	346,408	-	346,408
0052 Security and Monitoring Services	15,900	-	15,900
0053 Data Processing Services	75,678	-	75,678
Debt Service:			
0071 Principal on Long-Term Debt	-	50,000	50,000
0072 Interest on Long-Term Debt	-	43,751	43,751
0073 Bond Issuance Cost and Fees	-	500	500
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	27,983	-	27,983
0099 Other Intergovernmental Charges	26,270	-	26,270
6030 Total Expenditures	<u>2,613,368</u>	<u>373,455</u>	<u>2,986,823</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>308,464</u>	<u>(51,029)</u>	<u>257,435</u>
OTHER FINANCING SOURCES (USES):			
7915 Transfers In	-	50,000	50,000
8911 Transfers Out (Use)	(50,000)	-	(50,000)
7080 Total Other Financing Sources (Uses)	<u>(50,000)</u>	<u>50,000</u>	<u>-</u>
1200 Net Change in Fund Balances	258,464	(1,029)	257,435
0100 Fund Balance - September 1 (Beginning)	<u>1,552,129</u>	<u>127,413</u>	<u>1,679,542</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 1,810,593</u>	<u>\$ 126,384</u>	<u>\$ 1,936,977</u>

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

LINGLEVILLE 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	\$	257,435
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2018 capital outlays and debt principal payments is to increase net position.		124,631
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.		(222,609)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net position.		(795)
Current year changes due to GASB 68 increased revenues in the amount of \$34,810 but also increased expenditures in the amount of \$1,321. The net effect on the change in the ending net position was a decrease in the amount of \$36,131.		(36,131)
The implementation of GASB 75 to report the District's share of the TRS OPEB plan resulted in a prior period adjustment in the amount of (\$2,193,274). The changes in the ending net position as a result of reporting the OPEB items was an increase in the change in net position in the amount of \$433,643.		433,643
 Change in Net Position of Governmental Activities	 \$	 <u>556,174</u>

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

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

	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 78,770
Total Assets	<u>\$ 78,770</u>
LIABILITIES	
Due to Student Groups	\$ 78,770
Total Liabilities	<u>\$ 78,770</u>

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

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2018**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

Lingleville Independent School District (the “District”) is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the “Board”) elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (the “GASB”) and other authoritative sources identified in *Statement on Auditing Standards No. 69* of the American Institute of Certified Public Accountants; and it complies with the requirements of the appropriate version of Texas Education Agency’s (the “TEA”) *Financial Accountability System Resource Guide* (the “Resource Guide”) and the requirements of contracts and grants of agencies from which it receives funds.

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

Defined Other Post-Employment Benefits. The fiduciary net position of the Teachers Retirement System of Texas (TAS) TRS-Care Plan has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purpose 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.

Lingleville Independent School District applies Governmental Accounting Standards Board (“GASB”) Statement No. 72, “*Fair Value Measurement and Application.*” GASB No.72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures to all fair value measurements. The District’s investments are accounted for using the cost amortization method.

The Board is elected by the public and it 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 the GASB in its Statement No. 14, “*The Financial Reporting Entity.*” There are no component units included within the reporting entity.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities are government-wide financial statements. Governmental activities include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues.

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2018**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS, continued

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

Interfund activities between governmental funds and fiduciary funds appear as due to/due froms on the governmental fund Balance Sheet and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due froms on the government-wide Statement of Activities.

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

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

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

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

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

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2018**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

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

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

The Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into invested in net investment in capital assets, restricted net position, and unrestricted net position.

D. FUND ACCOUNTING

The District reports the following major governmental funds:

- **The General Fund** – The General Fund is the District’s primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Additionally, the District reports the following fund types:

Governmental Funds:

- **Special Revenue Funds** – The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a special revenue fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.
- **Debt Service Fund** – The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

Fiduciary Funds:

- **Agency Funds** – The District accounts for resources held for others in a custodial capacity in an agency fund. Fiduciary funds are reported in the fiduciary fund financial statements; however, because these assets are not available to support District programs, these funds are not included in the government-wide statements. The District’s agency fund is a Student Activity Fund.

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2018**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

E. OTHER ACCOUNTING POLICIES

1. For purposes of the Statement of Cash Flows for proprietary and similar fund-types, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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

3. It is the District's policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. There is a liability for unpaid accumulated sick leave since the District has a policy to pay any amounts unused when employees separate from service upon retirement or death. Individuals employed after October 1, 1985 do not qualify to receive such lump sum payments. Compensated absences are accrued when incurred in the Government-Wide, and Fiduciary Fund Financial Statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.
4. Capital assets, which include land, buildings, furniture and equipment are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

<u>Assets</u>	<u>Years</u>
Buildings	15-30
Vehicles	10
Other Equipment	5-20

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2018**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

E. OTHER ACCOUNTING POLICIES, continued

5. All eligible employees of the District are covered by a fully insured health insurance plan with insurance premiums paid by the District. Employees may elect to pay for dependent coverage.

The District participates in a partially self-funded workers' compensation pool administered by Claims Administrative Services, Inc. The District accounts for this plan according to GASB Statement No. 10 whereby fixed costs are recognized as an insurance expenditure/expense. A liability for estimated claims is reflected in the Government-Wide financial statements. The liability includes claims that have been reported and claims that have been incurred but not reported ("IBNR"). IBNR is a projection based on the experience history of the District. The District pays a contribution for the fund year to cover the servicing cost of the program administration, claims handling, loss control and stop loss coverage.

6. The Data Control Codes refer to the account code structure prescribed by TEA in the *Resource Guide*. Texas Education Agency requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a Statewide data base for policy development and funding plans.
7. In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditure) until then.
8. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

F. FUND BALANCES AND NET POSITION

Net Position on the Statement of Net Position includes the following:

Net Investment in Capital Assets – the component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt net of premiums and discounts, excluding unspent proceeds, that is directly attributable to the acquisition, construction or improvement of these capital assets.

Restricted – the component of Net Position that reports the difference between assets and liabilities with constraints placed on their use by law.

Unrestricted – the difference between the assets and liabilities that is not reported in Net Investment in Capital Assets and Restricted Net Position.

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2018**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

F. FUND BALANCES AND NET POSITION, continued

The District has adopted the provisions of GASB Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions.*” The objective of the statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing government fund type definitions. The statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Fund balance classifications, under GASB 54 are *Nonspendable, Restricted, Committed, Assigned, and Unassigned*. These classifications reflect not only the nature of funds, but also provide clarity to the level of restriction placed upon fund balance. Fund balance can have different levels of constraint, such as external versus internal compliance requirements. **Unassigned fund balance** is a residual classification within the General Fund. The General Fund should be the only fund that reports a positive unassigned balance.

In accordance with GASB 54, the District classifies governmental fund balances as follows:

Nonspendable – includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes, inventories, prepaid items and long term receivables.

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts restricted due to constitutional provisions or enabling legislation. This classification includes the retirement of long term debt, construction programs and other federal and state grants.

Amounts restricted in the various governmental funds are as follows:

National Breakfast and Lunch	\$	724
Debt Service		125,660
 Total Restricted	 \$	 <u>126,384</u>

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the District through formal action of the highest level of decision making authority. Committed fund balance is reported pursuant to resolution passed by the District’s Board of Trustees. This classification includes campus activity funds, local special revenue funds and potential litigation, claims and judgments.

Assigned – includes fund balance amounts that are self-imposed by the District to be used for a particular purpose. Fund balance can be assigned by the District’s Board, or the Superintendent. This classification includes insurance deductibles, encumbrances, program start-up costs, projected budget deficit for subsequent years and other legal uses.

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2018**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

F. FUND BALANCES AND NET POSITION, continued

Unassigned – includes residual positive fund balance within the General Fund which has not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

When both restricted and unrestricted fund balances are available for use, it is the District’s policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts and the unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

<u>Capital Assets at the Beginning of the year</u>	<u>Historic Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Value at the Beginning of the Year</u>	<u>Change in Net Position</u>
Non-depreciable Assets				
Land	\$ 97,505	\$ -	\$ 97,505	
Total Non-depreciable Assets	<u>97,505</u>	<u>-</u>	<u>97,505</u>	
Depreciable Assets				
Buildings and Improvements	5,238,054	2,288,284	2,949,770	
Furniture and Equipment	<u>888,915</u>	<u>556,496</u>	<u>332,419</u>	
Total Depreciable Assets	<u>6,126,969</u>	<u>2,844,780</u>	<u>3,282,189</u>	
Total Capital Assets	<u>\$ 6,224,474</u>	<u>\$ 2,844,780</u>	<u>\$ 3,379,694</u>	
Change in Net Position				<u>\$ 3,379,694</u>

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2018**

**II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS,
continued**

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

Long-term Liabilities at the Beginning of the year	Payable at the Beginning of the Year	Change in Net Position
General Obligation Bonds	\$ 976,000	
Bond Premium	45,629	
Compensated Absences	1,007	
	<u>\$ 1,022,636</u>	
Change in Net Position		<u>1,022,636</u>
Net Adjustment to Net Position		<u>\$ 2,357,058</u>

Pension Related Liabilities at the End of the Year	Payable at the End of the Year	Change in Net Position
District's share Net pension Liability	\$ 481,841	
Deferred Inflow Related to TRS	68,689	
Deferred Outflow Related to TRS	(229,738)	
	<u>\$ 320,792</u>	
Change in Net Position		<u>\$ 320,792</u>

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2018**

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

Exhibits C-2 and C-4 provides a reconciliation between the net changes in fund balance as shown on the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Changes in Net Position of Governmental Activities as reported on the government-wide Statement of Activities. One element of those reconciliations explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net asset balance and the change in Net Position. The details of this adjustment are as follows:

	<u>Amount</u>	<u>Adjustments to Changes in Net Position</u>	<u>Adjustments to Net Position</u>
<hr/>			
Current Year Capital Outlay			
Furniture and Equipment	\$ 62,262		
Total Capital Outlay	<u>\$ 62,262</u>	\$ 62,262	\$ 62,262
<hr/>			
Debt Principal Payments			
General Obligation Bonds	\$ 50,000		
Premium Amortization	13,133		
Compensated Absences	1,007		
Accrued Interest	(1,771)		
Total Principal Payments	<u>\$ 62,369</u>	62,369	62,369
Total Adjustment to Net Position		<u>\$ 124,631</u>	<u>\$ 124,631</u>
<hr/>			
Changes to Pension Liability, Deferred Outflows and Inflows			
Decrease in Pension Liability	\$ 71,514		
Decrease in Deferred Outflow	(70,850)		
Decrease in Deferred Inflow	(36,795)		
	<u>\$ 36,131</u>	<u>\$ 36,131</u>	

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2018**

**II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS,
continued**

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

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

	<u>Amount</u>	<u>Adjustments to Changes in Net Position</u>	<u>Adjustments to Net Position</u>
<u>Adjustments to Revenue and Deferred Revenue</u>			
Taxes Collected from Prior Year Levies	\$ 19,612	\$ (19,612)	\$ -
Uncollected Taxes (assumed collectible) from Current Year Levy	4,516	4,516	4,516
Uncollected taxes (assumed collectible) from Prior Year Levy	4,589	-	4,589
Adjustment to Prior Year Estimate of Collectible Taxes	14,301	<u>14,301</u>	<u>-</u>
Total		<u>\$ (795)</u>	<u>\$ 9,105</u>

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY DATA

The Board of Trustees adopts an “appropriated budget” for the General Fund, Debt Service Fund and the Food Service Fund. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1 in RSI and the other two reports are in Exhibit J4 and J5.

The following procedures are followed in establishing the budgetary data reflected in the general-purpose financial statements:

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

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2018**

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY, continued

A. BUDGETARY DATA, continued

3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. However, none of these were significant.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end. A reconciliation of fund balances for both appropriated budget and nonappropriated budget special revenue funds is as follows:

August 31, 2018 Fund Balance	
Appropriated Budget Funds – Food Service Special Revenue Fund	\$ 724
Nonappropriated Budget Funds	125,660
All Special Revenue Funds	\$ 126,384

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

There were significant expenditures in excess of appropriations per Exhibit G-1, page 37.

Instruction
Guidance Counseling and Evaluation
Facilities Maintenance and Operations

C. DEFICIT FUND EQUITY

There were no deficits in any governmental funds.

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2018**

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and 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, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,507,160 and the bank balance was \$1,505,667.

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

The carrying value of investments (included in cash above) at August 31, 2018 was \$461,555 (Texas Local Government Investment Pool-TexPool). Local government investment pools operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Local government investment pools use amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in these pools is the same as the value of the shares in each pool.

TexPool is organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The Texas Comptroller of Public Accounts is the sole officer, director and shareholder of the Texas Treasury Safekeeping Trust Company, which is authorized to operate TexPool. In addition, the TexPool Advisory Board advises on TexPool's Investment Policy. This Board is composed equally of participants in TexPool and other persons who do not have a business relationship with TexPool who are qualified to advise TexPool. TexPool is subject to annual review by an independent auditor consistent with the Public Funds Investment Act. KPMG Peat Marwick, 111 Congress Avenue, Suite 1100, Austin, Texas 78701 performs the annual audit. In addition, TexPool is subject to review by the State Auditor's Office and by the Internal Auditor of the Comptroller's Office.

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2018**

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS, continued

A. DEPOSITS AND INVESTMENTS, continued

Policies Governing Deposits and Investments

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy. That policy does not address the following risks:

Custodial Credit Risk – Deposits: This is the risk that in the event of bank failure, the District’s deposits may not be returned to it. The District was not exposed to custodial credit risk since its deposits at year-end and during the year ended August 31, 2018 were covered by depository insurance or by pledged collateral held by the District’s agent bank in the District’s name.

Custodial Credit Risk – Investments: This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments are subject to custodial credit risk only if they are evidenced by securities that exist in physical or book entry form. Thus positions in external investment pools are not subject to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.

Other Credit Risk: There is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. To minimize credit risk, TexPool’s investment policy allows the portfolio’s investment manager to only invest in obligations of the U.S. Government, its agencies; repurchase agreements; and no-load AAAM money market mutual funds registered with the SEC. As of August 31, 2018, TexPool’s investments credit quality rating was AAAM (Standard & Poor’s).

As of August 31, 2018, the following are the District’s cash and cash equivalents with respective maturities and credit rating:

<u>Type of Deposit</u>	<u>Fair Value</u>	<u>Percent</u>	<u>Maturity in Less than 1 Year</u>	<u>Maturity in 1-10 Years</u>	<u>Maturity in Over 10 Years</u>	<u>Credit Rating</u>
Cash	\$ 1,334,593	74.3%	\$ 1,334,593	\$ -	\$ -	N/A
Money markets and FDIC Insured Accounts	-	0.0%	-	-	-	N/A
Investment Pools:						
TexPool	461,555	25.7%	461,555	-	-	AAA
Total Cash and Cash Equivalents	\$ 1,796,148	100.0%	\$ 1,796,148			

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2018**

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS, continued

B. PROPERTY TAXES

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

C. DELINQUENT TAXES RECEIVABLE

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

D. INTERFUND TRANSFERS

From General Fund to Food Service \$ 50,000

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2018, were as follows:

	Property Taxes	Due From Other Governments	Total Receivables
Governmental Activities			
General Fund	\$ 20,920	\$ 260,760	\$ 281,680
Non-major Governmental Funds	2,475	-	2,475
Total – Governmental Activities	\$ 23,395	\$ 260,760	\$ 284,155
Amounts not scheduled for collection during the subsequent year	\$ 14,290	\$ -	\$ 14,290

Payables at August 31, 2018, were as follows:

	Accounts Payable	Salaries and Benefits	Other Payables	Total Payables
Governmental Activities				
General Fund	\$ 8,405	\$ 83,360	\$ 17,579	\$ 109,344
Non-major Governmental Funds	(1)	9,786	802	10,587
Total – Governmental Activities	\$ 8,404	\$ 93,146	\$ 18,381	\$ 119,931
Amounts not scheduled for payment during the subsequent year	\$ -	\$ -	\$ -	\$ -

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2018**

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS, continued

F. CAPITAL ASSET ACTIVITY

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

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Non-depreciable Assets				
Land	\$ 97,505	\$ -	\$ -	\$ 97,505
Total Non-depreciable Assets	\$ 97,505	\$ -	\$ -	\$ 97,505
Depreciable Assets				
Buildings and Improvements	5,238,054	-	-	5,238,054
Furniture and Equipment	888,915	62,262	116,842	834,335
Total Depreciable Assets	6,126,969	62,262	116,842	6,072,389
Totals at Historic Cost	\$ 6,224,474	\$ 62,262	\$ 116,842	\$ 6,169,894
Less Accumulated Depreciation:				
Buildings and Improvements	2,288,284	177,718	-	2,466,002
Furniture and Equipment	556,496	44,891	116,842	484,545
Total Accumulated Depreciation	2,844,780	222,609	116,842	2,950,547
Governmental Activities Capital Assets, Net	\$ 3,379,694	\$ (160,347)	\$ -	\$ 3,219,347

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 170,996
Instructional Resources and Media Services	74
School Leadership	297
Guidance Counseling and Evaluation Services	1,914
Student (Pupil) Transportation	27,628
Food Service	-
Co-curricular/Extracurricular Activities	14,163
General Administration	2,210
Plant Maintenance and Operations	5,327
Data Processing	-
Total Depreciation Expense	<u>\$ 222,609</u>

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2018**

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS, continued

G. COMMITMENTS UNDER LEASES

Capital Leases

The District had no capital leases for the year ended August 31, 2018.

H. BONDS PAYABLE

On October 28, 2010 Lingleville Independent School District issued \$1,245,000 Unlimited School Refunding Bonds Series 2010 with interest rates ranging between 7.85% and 3.85%. The district issued the bonds to advance refund \$1,245,000 of the outstanding series 2001 Unlimited School Building Bonds with a 4.25% to 5.0% interest rates. The district used the net proceeds along with \$14,952 to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide all future debt service on the refunded portion of the 2001 series bonds. As a result, that portion of the 2001 series bonds is considered defeased, and the district has removed the liability from its accounts.

Debt service requirements are as follows:

Year Ended June 30	Principal	Interest	Total Requirements
2019	\$ 50,000	\$ 39,851	\$ 89,851
2020	55,000	35,926	90,926
2021	58,000	31,609	89,609
2022	62,000	29,375	91,375
2023	60,000	26,988	86,988
2024-2028	371,000	96,404	467,404
2029-2031	270,000	21,175	291,175
Total	<u>\$ 926,000</u>	<u>\$ 281,328</u>	<u>\$ 1,207,328</u>

I. COMPENSATED ABSENCES

Upon retirement or death of certain employees, the District pays any accrued sick leave in a lump cash payment to such employee or his/her estate. A summary of changes in the accumulated sick leave and vacation leave liability follows:

	Sick Leave
Balance September 1, 2017	\$ 1,007
Additions - New Entrants and Salary Increments	-
Deductions - Payments to Participants	<u>1,007</u>
Balance August 31, 2018	<u>\$ -</u>

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2018**

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS, continued

J. CHANGES IN LONG-TERM LIABILITIES

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds and Notes Payable:					
Refunding Bonds	\$ 976,000	\$ -	\$ 50,000	\$ 926,000	\$ 50,000
Other Liabilities:					
Bond Premium	45,629	-	13,133	32,496	-
Compensated Absences	1,007	15,815	1,007	15,815	-
Total Governmental Activities Long-term Liabilities	<u>\$ 1,022,636</u>	<u>\$ 15,815</u>	<u>\$ 64,140</u>	<u>\$ 974,311</u>	<u>\$ 50,000</u>

K. DEFINED BENEFIT PENSION PLAN

Plan Description. Lingleville Independent School 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.

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

Benefits Provided. TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2018**

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS, continued

K. DEFINED BENEFIT PENSION PLAN, continued

of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered, in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description above.

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017. Contribution rates can be found in the TRS 2017 CAFR, Note 12 on page 88.

Contribution Rates

	2017	2018
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Lingleville ISD 2018 Employer Contributions	\$	43,722
Lingleville ISD 2018 Member Contributions	\$	126,576
Lingleville ISD 2018 NECE On-Behalf Contributions	\$	98,179

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).

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2018**

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS, continued

K. DEFINED BENEFIT PENSION PLAN, continued

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

- On the portion of the member’s salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member’s first 90 days of employment.
- When any part or all of an employee’s salary is paid by federal funding source or a privately sponsored source.

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

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

Actuarial Assumptions. The total pension liability in the August 31, 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%
Long-term expected Investment Rate of Return*	8%
Inflation	2.5%
Payroll Growth Rate	2.5%
Benefit Changes During the Year	None
Ad-hoc Post Employment Benefit Changes	None
Salary Increases Including Inflation	3.5% to 9.5%

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

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2018**

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS, continued

K. DEFINED BENEFIT PENSION PLAN, continued

Discount Rate. The discount rate used to measure the total pension liability was 8.0%. The discount rate can be found in the 2017 TRS CAFR on page 90. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2017 (see page 62 of the TRS CAFR) are summarized below:

Asset Class	Target Allocation	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return*
Global Equity			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	.8%
Emerging Markets	9%	5.9%	.7%
Directional Hedge Funds	4%	3.2%	.1%
Private Equity	13%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11%	.7%	.1%
Absolute Return	0%	1.8%	0%
Stable Value Hedge Funds	4%	3.0%	.1%
Cash	1%	-.2%	0%
Real Return			
Global Inflation Linked Bonds	3%	.9%	0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	.2%
Commodities	0%	1.2%	0%
Risk Parity			
Risk Parity	5%	6.7%	.3%
Inflation Expectations	0%	0%	2.2%
Alpha	0%	0%	1.0%
Total	<u>100%</u>		<u>8.7%</u>

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

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2018**

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS, continued

K. DEFINED BENEFIT PENSION PLAN, continued

Discount Rate Sensitivity Analysis. The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2016 Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
Lingleville ISD's proportionate share of the net pension	\$ 812,289	\$ 481,841	\$ 206,690

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2018, Lingleville Independent School District reported a liability of \$481,841 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to Lingleville Independent School District. The amount recognized by Lingleville Independent School 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 Lingleville Independent School District were as follows:

District's Proportionate share of the collective net pension liability	\$ 481,841
State's proportionate share that is associated with the District	830,790
Total	\$ 1,312,631

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 .000015069492%, which was an increase of .00000042603% from its proportion measured as of August 31, 2016.

Changes Since the Prior Actuarial Valuation – There are no changes to the actuarial assumptions and other inputs that affected measurement of the total pension liability since the prior measurement period.

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2018**

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS, continued

K. DEFINED BENEFIT PENSION PLAN, continued

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

For the year ended August 31, 2018, Lingleville Independent School District recognized pension expense of \$63,369 and revenue of \$63,369 for support provided by the State, in the Government-Wide Statement of Activities.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 7,050	\$ 25,985
Changes in actuarial assumptions	21,949	12,565
Difference between projected and actual investment earnings	-	30,115
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	157,017	24
Contributions paid to TRS subsequent to the measurement date	43,722	-
Total	\$ 229,738	\$ 68,689

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

Year ended August 31:	Pension Expense Amount
2018	\$ 20,675
2019	51,432
2020	18,314
2021	8,890
2022	11,839
Thereafter	1,177
Total	\$ 112,327

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2018**

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS, continued

L. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS

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

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

Components of the net OPEB liability of the TRS-Care plan as of August 31, 2017 are as follows:

<u>Net OPEB Liability</u>	<u>Total</u>
Total OPEB Liability	\$ 43,885,784,621
Less: plan fiduciary net position	<u>399,535,986</u>
Net OPEB liability	<u>\$ 43,486,248,635</u>
Net position as a percentage of total OPEB liability	0.91%

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

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

The premium rates for the optional health insurance are based on years of service of the member. The schedule on the following page 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.

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2018**

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS, continued

L. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS, continued

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 or surviving spouse	28	62	82

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

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

<u>Contribution Rates</u>		
	2017	2018
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.00%	1.25%
Employers	0.55%	0.75%
Federal/private Funding Remitted by Employers	1.00%	1.25%
District’s 2018 FY Employer Contributions	\$	14,188
District’s 2018 FY Member Contributions	\$	10,185
Measurement Year NECE On-Behalf Contributions	\$	(393,354)

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. House Bill 21 was passed in special session and provided a supplemental appropriation in the amount of \$212 million in fiscal year 2018.

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2018**

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS, continued

L. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS, continued

The District's proportionate share of the \$212,000,000 received during the district's 2018 fiscal year is reported in the fund level financial statements as an on-behalf contribution as required by GASB 85 and GASB 24.

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

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

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

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

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.50%
Discount Rate	3.42%
Aging Factors	Based on Plan Specific Experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Payroll Growth Rate	2.50%
Projected Salary Increases	3.50% - 9.50%
Healthcare Trend Rates	4.50% - 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.*

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2018**

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS, continued

L. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS, continued

Discount Rate. A single discount rate of 3.42% was used to measure the total OPEB liability. There was a change of .44% in the discount rate since the previous year. The Discount Rate can be found in the 2017 TRS CAFR on page 83. Because the plan is essentially a “pay-as-you-go” plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability. The source of the municipal bond rate was Fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index’s “20-year Municipal GO AA Index” as of August 31, 2017.

Sensitivity of the Net OPEB Liability

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

	1% Decrease in Discount Rate (2.42%)	Discount Rate (3.42%)	1% Increase in Discount Rate (4.42%)
District’s proportionate share of the Net OPEB Liability	\$ 1,476,257	\$ 1,250,802	\$ 1,069,587

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

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District’s proportionate share of the Net OPEB Liability	\$ 1,401,418	\$ 1,250,802	\$ 1,525,541

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs. At August 31, 2018, Lingleville Independent School District reported a liability of \$1,250,802 for its proportionate share of the TRS’s Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with Lingleville Independent School District were as follows:

District’s Proportionate share of the collective net OPEB liability	\$ 1,250,802
State’s proportionate share that is associated with the District	1,175,501
Total	\$ 2,426,303

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2018**

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS, continued

L. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS, continued

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 .000028763162% which was the same proportion measured as of August 31, 2016.

Changes Since the Prior Actuarial Valuation – The following were changes to the actuarial assumptions or other inputs that affected measurement of the Total OPEB liability since the prior measurement period: (These can be found in the TRS CAFR on page 83.)

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

In this valuation the impact of the Cadillac Tax has been calculated as a portion of the trend assumption. Assumptions and methods used to determine the impact of the Cadillac Tax include:

- 2018 thresholds of \$850/\$2,292 were indexed annually by 2.50%.
- Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.
- There were no special adjustments to the dollar limit other than those permissible for non-Medicare retirees over 55.

Results indicate that the value of the excise tax would be reasonably represented by a 25 basis point addition to the long-term trend rate assumption.

Future actuarial measurements may differ significantly from the current measurements due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements; and changes in plan provisions or applicable law.

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, Lingleville Independent School District recognized OPEB expense of \$(393,354) and revenue of \$(393,354) for support provided by the State.

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2018**

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS, continued

L. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS, continued

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experience	\$ -	\$ 26,111
Changes in actuarial assumptions	-	497,101
Net difference between projected and actual investment earnings	190	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	5	-
Contributions paid to TRS subsequent to the measurement date [to be calculated by employer]	14,188	-
Total	\$ 14,383	\$ 523,212

The net amounts of the employer's balances of deferred outflows and inflows (not including the deferred contribution paid subsequent to the measurement date) of resources related to OPEBs will be recognized in OPEB expense as follows:

Year Ended August 31:	OPEB Expense Amount
2018	\$ (69,012)
2019	(69,012)
2020	(69,012)
2021	(69,012)
2022	(69,060)
Thereafter	(177,908)

Medicare Part D – On-behalf Payments. 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 Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. These on-behalf payments of \$4,899, \$7,334 and \$5,578 were recognized as equal revenues and expenditures for the years ended August 31, 2018, 2017 and 2016, respectively. The information for the year ended August 31, 2018 is an estimate provided by the Teacher Retirement System. These payments are recorded as equal revenues and expenditures in the governmental funds financial statement of the District.

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2018**

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS, continued

M. ACTIVE EMPLOYEE HEALTHCARE COVERAGE

Plan Description. The District participates in TRS Active Care sponsored by the Teacher Retirement System of Texas and administered Aetna and Caremark (pharmacy). TRS-Active Care provides health care coverage to employees (and their dependents) of participating public education entities. Optional life and long-term care insurance are also provided to active members and retirees. Authority for the plan can be found in the Texas Insurance Code, Title 8, Subtitle H, Chapter 1579 and in the Texas Administrative Code, Title 34, Part 3, Chapter 41. The plan began operations on September 1, 2002. This is a premium-based plan. Payments are made on a monthly basis for all covered employees.

N. WORKERS' COMPENSATION COVERAGE

The District participates in a partially self-funded workers' compensation pool administered by Claims Administrative Services, Inc. The District pays a contribution for the fund year to cover the servicing cost of program administration, claims handling, loss control and stop loss coverage. Provided the District remains in the pool, there are no additional fees for services. The loss fund maximum set aside in a separate account in the records of the plan sponsor for claims is \$19,170. The District's required contribution for the year ended August 31, 2018, was \$6,665 and was recorded as an insurance expenditure.

Changes in the balances of workers' compensation claims liabilities during the past two years are as follows:

	<u>Year Ended August 31, 2018</u>	<u>Year Ended August 31, 2017</u>
Unpaid Claims September 1,	\$ 14,240	\$ 12,108
Incurred claims	6,145	4,166
Claim Payments	<u>4,571</u>	<u>2,034</u>
Total Unpaid Claims June 30,	<u>\$ 15,815</u>	<u>\$ 14,240</u>

O. DEFERRED INFLOW

Deferred inflow at year-end as reported on Exhibit C-1 of the funds statements consisted of the following:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Unavailable Tax Revenue	<u>\$ 8,142</u>	<u>\$ 963</u>	<u>\$ 9,105</u>

Adjustments required for government-wide Statement of Net Position decreased deferred inflow by \$9,105.

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2018**

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS, continued

P. DUE FROM OTHER GOVERNMENTS

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

<u>Fund</u>	<u>State Entitlements</u>	<u>State/Federal Grants</u>	<u>Total</u>
General	\$ 260,760	\$ -	\$ 260,760
Special Revenue	-	-	-
Total	<u>\$ 260,760</u>	<u>\$ -</u>	<u>\$ 260,760</u>

Q. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

During the current year, revenues from local and intermediate sources as reported on Exhibit C-3 of the funds statements consisted of the following:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Property Taxes	\$ 901,229	\$ -	\$ 73,565	\$ 974,794
Penalties, Interest and Other Tax- related Income	6,948	-	496	7,444
Investment Income	20,853	-	2,530	23,383
Food Sales	-	32,878	-	32,878
Miscellaneous	9,786	-	-	9,786
Co-curricular Student Activities	12,889	-	-	12,889
Total	<u>\$ 951,705</u>	<u>\$ 32,878</u>	<u>\$ 76,591</u>	<u>\$ 1,061,174</u>

Adjustments required for the government-wide Statement of Activities decreased these revenues by \$795.

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2018**

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS, continued

R. JOINT VENTURE-SHARED SERVICE ARRANGEMENTS

The District participates in shared services arrangements with other school districts. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Dublin ISD, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. Presented below are the revenues and expenditures attributable to the District's participation in the year ended August 31, 2018.

	<u>IDEA Part B, Preschool</u>	<u>IDEA Part B, Formula</u>
Revenues	<u>\$ 62,482</u>	<u>\$ 828</u>
Expenditures:		
Payroll Costs	\$ 38,779	\$ -
Contract Services	8,333	366
Supplies and Materials	2,132	173
Other Costs	<u>3,358</u>	<u>-</u>
Total Expenditures	<u>\$ 52,602</u>	<u>\$ 539</u>
Percentage Attributable to District	13%	7%

S. PROJECT(S) UNDER CHAPTER 313 AGREEMENT

On December 13, 2007, the Lingleville ISD Board of Trustees approved an Agreement with Silver Star Wind for a Limitation on Appraised Value of Property for School District Maintenance and Operations Taxes pursuant to the Chapter 313 of the Texas Tax Code, i.e., the Texas Economic Development Act, as set forth in Chapter 313 of the Texas Tax Code, as amended. Silver Star Wind qualified for a tax limitation agreement under Texas Tax Code §313.024(b)(5), as a renewable energy electric generation project.

Value limitation agreements are a part of a state program, originally created in 2001 which allows school districts to limit the taxable value of an approved project for Maintenance and Operations (M&O) for a period of years specified in statute. The project(s) under the Chapter 313 agreement must be consistent with the state's goal to "encourage large scale capital investments in this state." Chapter 313 of the Tax Code grants eligibility to companies engaged in manufacturing, research and development, renewable electric energy production, clean coal projects, nuclear power generation and data centers.

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2018**

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS, continued

S. PROJECT(S) UNDER CHAPTER 313 AGREEMENT, continued

In order to qualify for a value limitation agreement, each applicant, including Silver Star Wind has been required to meet a series of capital investment, job creation, and wage requirements specified by state law. At the time of the application’s approval, the agreement was found to have done so by both the District’s Board of Trustees and the Texas Comptroller’s Office, which recommended approval of the project. The application, the agreements and state reporting requirement documentation can be viewed at the Texas Comptroller’s website: <https://www.comptroller.texas.gov/economy/local/ch313/agreement-docs.php>. The agreement and all supporting documentation was assigned Texas Comptroller Application No. 68.

After approval, the applicant company must maintain a viable presence in the district for the entire period of the value limitation plus a period of years thereafter. In addition, there are specific reporting requirements, which are monitored on an annual and biennial basis in order to ensure relevant job, wage, and operational requirements are being met.

In the event that Silver Star Wind terminates this Agreement without the consent of the District, or in the event that the company or its successor-in-interest fails to comply in any material respect with the terms of this Agreement or to meet any material obligation under this Agreement, then the District shall be entitled to the recapture of all ad valorem tax revenue lost as a result of this Agreement together with the payment of penalty and interest, on that recaptured ad valorem tax revenue. Penalties on said amounts shall be calculated in accordance with the methodology set forth in Texas Tax Code § 33.01(a), or its successor statute. Interest on said amounts shall be calculated in accordance with the methodology set forth in Texas Tax Code § 33.01(c), or its successor statute. The agreement provides an administrative procedure to determine any company liability. Ultimately, enforcement of any payment obligation is through the local state district court.

As of the date of this letter, the applicant company is in full compliance with all of its obligations under law and the agreement itself.

Below is the information that Moak, Casey and Associates believes is required by GASB 77 for M&O purposes. It includes the net benefit to the district but does not include any I&S impact.

Project: Silver Star Wind (Application # 68)
 First Year Value Limitation: 2010
 Fiscal Year: 2017

(A) Project Value 2018	(B) Project’s Value Limitation Amount 2018	(C) Amount of Applicant’s M&O Taxes Paid 2018	(D) Amount of Applicant’s M&O Taxes Reduced 2018	(B) Company Revenue Loss Payment to School District 2018	(F) Company Supplemental Payment To School District 2018	(G) Net Benefit (Loss) to the School District 2017 (C+E+F)
\$31,100,000	\$5,000,000	\$52,000	\$52,000	\$ -	\$124,168	\$176,168

Prepared by Moak, Casey & Associates. These statements were prepared for all Chapter 313 agreements adopted prior to October 31, 2016. Not all agreements are within the value limitation period.

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2018**

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS, continued

T. 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-be-half 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 TRS-care 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:

Function	Operating Grants and Contributions	Negative On-Behalf Accruals	Operating Grants and Contributions (Excluding On-Behalf Accruals)
11 Instruction	\$ (251,078)	\$ (393,354)	\$ 142,276
31 Guidance, Counseling and Evaluation Services	30,516	-	30,516
35 Food Services	87,013	-	87,013
Totals	<u>\$ (133,549)</u>	<u>\$ (393,354)</u>	<u>\$ 259,805</u>

**REQUIRED SUPPLEMENTARY
INFORMATION**

[This page is intentionally left blank.]

LINGLEVILLE 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	\$ 1,011,740	\$ 909,740	\$ 951,705	\$ 41,965
5800	State Program Revenues	1,619,730	1,820,741	1,970,127	149,386
5020	Total Revenues	2,631,470	2,730,481	2,921,832	191,351
EXPENDITURES:					
Current:					
0011	Instruction	1,306,281	1,358,281	1,392,593	(34,312)
0012	Instructional Resources and Media Services	22,527	22,527	21,621	906
0013	Curriculum and Instructional Staff Development	6,905	6,905	6,741	164
0023	School Leadership	163,115	169,315	169,439	(124)
0031	Guidance, Counseling and Evaluation Services	34,501	30,956	37,770	(6,814)
0033	Health Services	42,848	42,848	41,000	1,848
0034	Student (Pupil) Transportation	183,140	156,640	153,125	3,515
0035	Food Services	3,386	3,800	-	3,800
0036	Extracurricular Activities	113,263	113,263	110,271	2,992
0041	General Administration	213,974	214,974	188,569	26,405
0051	Facilities Maintenance and Operations	341,435	341,935	346,408	(4,473)
0052	Security and Monitoring Services	-	16,000	15,900	100
0053	Data Processing Services	49,865	77,865	75,678	2,187
Debt Service:					
0072	Interest on Long-Term Debt	94,751	-	-	-
Capital Outlay:					
0081	Facilities Acquisition and Construction	-	47,500	-	47,500
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	25,500	35,500	27,983	7,517
0099	Other Intergovernmental Charges	27,000	27,000	26,270	730
6030	Total Expenditures	2,628,491	2,665,309	2,613,368	51,941
1100	Excess of Revenues Over Expenditures	2,979	65,172	308,464	243,292
OTHER FINANCING SOURCES (USES):					
8911	Transfers Out (Use)	-	(30,000)	(50,000)	(20,000)
1200	Net Change in Fund Balances	2,979	35,172	258,464	223,292
0100	Fund Balance - September 1 (Beginning)	-	1,552,129	1,552,129	-
3000	Fund Balance - August 31 (Ending)	\$ 2,979	\$ 1,587,301	\$ 1,810,593	\$ 223,292

LINGLEVILLE 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)	0.000015069%	0.000014643%	0.00001287%	0.000007237%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 481,841	\$ 553,355	\$ 454,937	\$ 193,309
State's Proportionate Share of the Net Pension Liability (Asset) Associated with the District	830,790	962,528	995,250	842,586
Total	<u>\$ 1,312,631</u>	<u>\$ 1,515,883</u>	<u>\$ 1,450,187</u>	<u>\$ 1,035,895</u>
District's Covered Payroll	\$ 1,420,565	\$ 1,446,384	\$ 1,480,013	\$ 1,193,188
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	33.92%	38.26%	30.74%	16.20%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	82.17%	72.85%	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."

LINGLEVILLE 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	\$ 43,722	\$ 49,435	\$ 46,503	\$ 38,719
Contribution in Relation to the Contractually Required Contribution	(43,722)	(49,435)	(46,503)	(38,719)
Contribution Deficiency (Excess)	\$ -0-	\$ -0-	\$ -0-	\$ -0-
District's Covered Payroll	\$ 1,650,952	\$ 1,420,565	\$ 1,446,384	\$ 1,480,013
Contributions as a Percentage of Covered Payroll	2.65%	3.48%	3.21%	2.61%

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."

LINGLEVILLE 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	0.000028763%
District's Proportionate Share of Net Post Employment Benefit Liability (Asset)	\$ 1,250,802
State's Proportionate Share of the Net Post Employment Benefit Liability (Asset) Associated with the District	1,175,501
Total	<u>\$ 2,426,303</u>
District's Covered Payroll	\$ 1,420,565
District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	88.05%
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.

LINGLEVILLE 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	\$ 14,188
Contribution in Relation to the Contractually Required Contribution	(14,188)
	\$ -0-
Contribution Deficiency (Excess)	-0-
District's Covered Payroll	\$ 1,650,952
Contributions as a Percentage of Covered Payroll	0.86%

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.

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
AUGUST 31, 2018**

A. BUDGETARY DATA

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

The following procedures are followed in establishing the budgetary data reflected in the general-purpose financial statements:

1. Prior to August 20 the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days’ public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. After the budget for the above listed funds is approved, any amendment that causes an increase or decrease in a fund or functional spending category or total revenue or other resources object category requires Board approval prior to the fact. These amendments are presented to the Board at its regular monthly meeting and are reflected in the official minutes. Because the District has a policy of careful budgetary control, several budgetary amendments were necessary throughout the year. However, none of these were significant.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Expenditures did not exceed appropriations by more than 10% in the current year ended August 31, 2018.

C. CHANGES OF ASSUMPTIONS

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

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

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
AUGUST 31, 2018**

D. NOTES TO SCHEDULES FOR THE TRS PENSION

Changes of Benefit terms.

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

Changes of Assumptions.

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

E. NOTES TO SCHEDULES FOR THE TRS OPEB PLAN

Changes in Benefit.

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

Changes in Assumptions.

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

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

In this valuation the impact of the Cadillac Tax has been calculated as a portion of the trend assumption. Assumptions and methods used to determine the impact of the Cadillac Tax include:

- 2018 thresholds of \$850/\$2,292 were indexed annually by 2.50%.
- Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.
- There were no special adjustments to the dollar limit other than those permissible for non-Medicare retirees over 55.

Results indicate that the value of the excise tax would be reasonably represented by a 25-basis point addition to the long term trend rate assumption.

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
AUGUST 31, 2018**

E. NOTES TO SCHEDULES FOR THE TRS OPEB PLAN, continued

Future actuarial measurements may differ significantly from the current measurements due to such factors as the following:

- plan experience differing from that anticipated by the economic or demographic assumptions;
- changes in economic or demographic assumptions;
- increases or decreases expected as part of the natural operation of the methodology used for these measurements; and
- changes in plan provisions or applicable law.

COMBINING AND OTHER STATEMENTS

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

Data Control Codes	211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting	289 Other Federal Special Revenue Funds	
ASSETS					
1110	Cash and Cash Equivalents	\$ 6,842	\$ 3,927	\$ 542	\$ -
1220	Property Taxes - Delinquent	-	-	-	-
1230	Allowance for Uncollectible Taxes	-	-	-	-
1000	Total Assets	<u>\$ 6,842</u>	<u>\$ 3,927</u>	<u>\$ 542</u>	<u>\$ -</u>
LIABILITIES					
2110	Accounts Payable	\$ -	\$ (1)	\$ -	\$ -
2160	Accrued Wages Payable	6,148	3,146	492	-
2200	Accrued Expenditures	694	58	50	-
2000	Total Liabilities	<u>6,842</u>	<u>3,203</u>	<u>542</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES					
2601	Unavailable Revenue - Property Taxes	-	-	-	-
2600	Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES					
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	-	724	-	-
3480	Retirement of Long-Term Debt	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>724</u>	<u>-</u>	<u>-</u>
4000	Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 6,842</u>	<u>\$ 3,927</u>	<u>\$ 542</u>	<u>\$ -</u>

410 State Textbook Fund	429 Other State Special Revenue Funds	Total Nonmajor Special Revenue Funds	599 Debt Service Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 11,311	\$ 125,660	\$ 136,971
-	-	-	2,475	2,475
-	-	-	(1,512)	(1,512)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,311</u>	<u>\$ 126,623</u>	<u>\$ 137,934</u>
\$ -	\$ -	\$ (1)	\$ -	\$ (1)
-	-	9,786	-	9,786
-	-	802	-	802
<u>-</u>	<u>-</u>	<u>10,587</u>	<u>-</u>	<u>10,587</u>
-	-	-	963	963
<u>-</u>	<u>-</u>	<u>-</u>	<u>963</u>	<u>963</u>
-	-	724	-	724
-	-	-	125,660	125,660
<u>-</u>	<u>-</u>	<u>724</u>	<u>125,660</u>	<u>126,384</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,311</u>	<u>\$ 126,623</u>	<u>\$ 137,934</u>

LINGLEVILLE 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	240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting	289 Other Federal Special Revenue Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ 32,878	\$ -	\$ -
5800 State Program Revenues	-	4,426	-	-
5900 Federal Program Revenues	96,975	82,587	7,907	4,299
5020 Total Revenues	96,975	119,891	7,907	4,299
EXPENDITURES:				
Current:				
0011 Instruction	66,459	-	7,907	4,299
0031 Guidance, Counseling and Evaluation Services	30,516	-	-	-
0035 Food Services	-	169,935	-	-
Debt Service:				
0071 Principal on Long-Term Debt	-	-	-	-
0072 Interest on Long-Term Debt	-	-	-	-
0073 Bond Issuance Cost and Fees	-	-	-	-
6030 Total Expenditures	96,975	169,935	7,907	4,299
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(50,044)	-	-
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	50,000	-	-
1200 Net Change in Fund Balance	-	(44)	-	-
0100 Fund Balance - September 1 (Beginning)	-	768	-	-
3000 Fund Balance - August 31 (Ending)	\$ -	\$ 724	\$ -	\$ -

410 State Textbook Fund	429 Other State Special Revenue Funds	Total Nonmajor Special Revenue Funds	599 Debt Service Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 32,878	\$ 76,591	\$ 109,469
-	88	4,514	16,675	21,189
-	-	191,768	-	191,768
-	88	229,160	93,266	322,426
-	88	78,753	-	78,753
-	-	30,516	-	30,516
-	-	169,935	-	169,935
-	-	-	50,000	50,000
-	-	-	43,751	43,751
-	-	-	500	500
-	88	279,204	94,251	373,455
-	-	(50,044)	(985)	(51,029)
-	-	50,000	-	50,000
-	-	(44)	(985)	(1,029)
-	-	768	126,645	127,413
\$ -	\$ -	\$ 724	\$ 125,660	\$ 126,384

[This page is intentionally left blank.]

T.E.A. REQUIRED SCHEDULES

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

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2009 and prior years	Various	Various	\$ Various
2010	1.040000	0.047500	146,806,289
2011	1.040000	0.067900	76,139,790
2012	1.040000	0.069100	76,197,427
2013	1.040000	0.070000	77,577,182
2014	1.040000	0.067600	76,077,459
2015	1.040000	0.078900	82,333,765
2016	1.040000	0.081200	126,257,474
2017	1.040000	0.074830	87,878,497
2018 (School year under audit)	1.040000	0.074200	90,642,913
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
\$ 4,702	\$ -	\$ -	\$ -	\$ (355)	\$ 4,347
1,151	-	-	-	1	1,152
776	-	-	-	-	776
420	-	30	2	-	388
1,416	-	43	3	-	1,370
674	-	259	17	-	398
545	-	263	20	-	262
2,376	-	1,596	125	-	655
19,874	-	16,045	1,208	(202)	2,419
-	945,656	872,100	71,903	9,975	11,628
<u>\$ 31,934</u>	<u>\$ 945,656</u>	<u>\$ 890,336</u>	<u>\$ 73,278</u>	<u>\$ 9,419</u>	<u>\$ 23,395</u>

**REPORTS ON
INTERNAL CONTROLS, COMPLIANCE
AND
FEDERAL AWARDS**

*Member
American Institute &
Texas Society of
Certified Public Accountants*

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

Independent Auditor's Report

Lingleville Independent School District
21261 North Highway 219
Lingleville, Texas 76461

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lingleville Independent School 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 January 9, 2019.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Lingleville Independent School 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the district's internal control. Accordingly, I do not express an opinion on the effectiveness of the district's internal control.

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

My 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 and therefore material weaknesses may exist that have not been identified.

However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weakness and significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my 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.

Very truly yours,



William A. Coombes, CPA
January 9, 2019

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2018**

Type of Report on Financial Statements

Unqualified

Significant Deficiencies and Material Weakness

Item 2018-01 – Budgeting is a significant control over financial reporting and enables the responsible person to assure that expenditures are authorized by management. There are procedures to amend the operating budget throughout the year in response to changing circumstances. Some year end adjusting entries reclassified expenditures resulting in a balance over budget when it was not possible to amend the budget. Some expenditures were over budget but no by 10%. However, function 31 exceeded budget amount by more than 10% (See Schedule G-1).

Noncompliance Material to the Financial Statements

None

Type of Report on Compliance with Major Program

Unqualified Opinion

**LINGLEVILLE INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN**

Item 2018-01

The District will monitor the ongoing expenditures more closely in order to bring needed amendments to the board prior to expending funds.

SCHOOLS FIRST QUESTIONNAIRE

Lingleville Independent School District

Fiscal Year 2018

SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	Yes
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8	Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end.	0
SF11	Net Pension Assets (1920) at fiscal year-end.	0
SF12	Net Pension Liabilities (2540) at fiscal year-end.	481,841
SF13	Pension Expense (6147) at fiscal year-end.	

[This page is intentionally left blank.]



George K. Baum & Company

INVESTMENT BANKERS SINCE 1928