

**OFFICIAL STATEMENT**  
**Dated: September 17, 2019**

**NEW ISSUE: BOOK-ENTRY-ONLY**

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

*The District has designated the Notes as "Qualified Tax-Exempt Obligations" for financial institutions.*

**LIBERTY INDEPENDENT SCHOOL DISTRICT**  
**(A political subdivision of the State of Texas located in Liberty County, Texas)**

**\$4,795,000**  
**Maintenance Tax Notes,**  
**Series 2019**

**Dated Date: September 15, 2019**  
**Interest accrues from date of Initial Delivery (defined below)**

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

The Liberty Independent School District Maintenance Tax Notes, Series 2019 (the "Notes") are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Section 45.108 of the Texas Education Code, as amended, and a note resolution (the "Resolution") authorizing the issuance of the Notes adopted on September 17, 2019 by the Board of Trustees (the "Board") of the Liberty Independent School District (the "District" or the "Issuer"). The Notes constitute direct obligations of the District secured by and payable from a continuing, direct annual ad valorem tax levied for maintenance purposes by the District against all taxable property located within the District, within the limits prescribed by law, as provided in the Resolution. (See "THE NOTES – Security" and "TAX RATE LIMITATIONS").

Interest on the Notes will accrue from the date of initial delivery to the Underwriter (defined below), anticipated to occur on or about October 15, 2019 (the "Initial Delivery") and will be payable on February 15 and August 15 of each year, commencing February 15, 2020, until stated maturity or prior redemption. The Notes will be issued in fully registered form in principal denominations of \$5,000 or any integral multiple thereof. Principal of the Notes will be payable by the initial paying agent/registrar, UMB Bank, N.A., Austin, Texas (the "Paying Agent/Registrar"), upon presentation and surrender of the Notes for payment. Interest on the Notes is payable by check dated as of the interest payment date and mailed by the Paying Agent/Registrar to the registered owners as shown on the records of the Paying Agent/Registrar on the close of business as of the last business day of the month next preceding each interest payment date.

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

Proceeds from the sale of the Notes will be used for the payment of maintenance expenses of the District, including without limitation maintenance and renovations to the District's school buildings, including the purchase of HVAC equipment and other capital items, and paying the costs of issuance of the Notes. (See "THE NOTES - Authorization and Purpose").



The scheduled payment of principal of and interest on the Notes when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Notes by **Assured Guaranty Municipal Corp.** (See "Bond Insurance" herein.)

**MATURITY SCHEDULE**  
(On Inside Cover)

*The Notes are offered for delivery when, as and if issued, and received by the initial purchaser named below (the "Underwriter") subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, Houston, Texas. The Notes are expected to be available for Initial Delivery through the services of DTC on or about October 15, 2019.*

**HilltopSecurities**

**\$4,795,000**  
**LIBERTY INDEPENDENT SCHOOL DISTRICT**  
**(A political subdivision of the State of Texas located in Liberty County, Texas)**  
**MAINTENANCE TAX NOTES, SERIES 2019**

**MATURITY SCHEDULE**  
CUSIP Prefix No.: 531320 <sup>(1)</sup>

<b>Stated</b>				<b>CUSIP</b>	<b>Stated</b>				<b>CUSIP</b>
<b>Maturity</b>	<b>Principal</b>	<b>Interest</b>	<b>Initial</b>	<b>No.</b>	<b>Maturity</b>	<b>Principal</b>	<b>Interest</b>	<b>Initial</b>	<b>No.</b>
<b>8/15</b>	<b>Amount</b>	<b>Rate</b>	<b>Yield</b>	<b>Suffix <sup>(1)</sup></b>	<b>8/15</b>	<b>Amount</b>	<b>Rate</b>	<b>Yield</b>	<b>Suffix <sup>(1)</sup></b>
2020	\$ 230,000	4.000%	1.410%	LU1	2028	\$ 325,000	4.000%	1.830%	MCO
2021	265,000	4.000%	1.430%	LV9	2029	340,000	3.000%	2.050% <sup>(2)</sup>	MD8
2022	275,000	4.000%	1.480%	LW7	2030	350,000	3.000%	2.150% <sup>(2)</sup>	ME6
2023	285,000	4.000%	1.530%	LX5	2031	360,000	3.000%	2.300% <sup>(2)</sup>	MF3
2024	295,000	2.000%	1.570%	LY3	2032	370,000	3.000%	2.350% <sup>(2)</sup>	MG1
2025	300,000	2.000%	1.620%	LZ0	2033	380,000	3.000%	2.500% <sup>(2)</sup>	MH9
2026	310,000	2.000%	1.670%	MA4	2034	395,000	3.000%	2.600% <sup>(2)</sup>	MJ5
2027	315,000	4.000%	1.730%	MB2					

(Interest to accrue from the date of Initial Delivery)

The Notes maturing on or after August 15, 2029 are subject to redemption at the option of the District in whole or in part on August 15, 2028 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. (See "THE NOTES –Optional Redemption").

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

<sup>(2)</sup> Yield calculated based on the assumption that the Notes denoted and sold at premium will be redeemed on August 15, 2028, the first optional call date for the Notes, at a redemption price of par plus accrued interest to the date of redemption.

Assured Guaranty Municipal Corp. ("AGM") makes no representation regarding the Notes or the advisability of investing in the Notes. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "BOND INSURANCE" and "Appendix E - Specimen Municipal Bond Insurance Policy".

**LIBERTY INDEPENDENT SCHOOL DISTRICT**

**BOARD OF TRUSTEES**

<u>Name</u>	<u>Years Served</u>	<u>Current Term Expires</u>	<u>Occupation</u>
Bruce Bell President	10	2021	Production Manager
Lance Lawrence Vice President	7	2021	Financial Advisor
Patty Watson Board Secretary	5	2020	Retired Teacher
Debbie Beasley Board Member, Position 4	2	2022	Retired Teacher
D-Ann Berry Board Member, Position 5	2	2020	Retired Teacher
Rachel Odell Board Member, Position 6	4	2021	Financial Advisor
Malcom Goudeau Board Member, Position 7	3	2022	Hydro Carbon Fluid Day Supervisor

**APPOINTED OFFICIALS**

<u>Name</u>	<u>Position</u>	<u>Length of Service with District</u>
Dr. Cody Abshier	Superintendent of Schools	7
Ms. Ginger Ramer	Chief Financial Officer	1*

\*Previously worked 7 years with a different school district.

**CONSULTANTS AND ADVISORS**

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

For additional information, contact:

Ginger Ramer  
Chief Financial Officer  
Liberty Independent School District  
1600 Grand Avenue  
Liberty, Texas 77575  
(936) 336-7213  
gkramer@libertyisd.net

Mark McLiney, Senior Managing Director  
Andrew Friedman, Managing Director  
SAMCO Capital Markets, Inc.  
1020 Northeast Loop 410, Suite 640  
San Antonio, Texas 78209  
(210) 832-9760  
mmcliney@samcocapital.com  
afriedman@samcocapital.com

## USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

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

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

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the undertaking of the District to provide certain information on a continuing basis.

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

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

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

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

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

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not a part of, this official statement for any purpose.

### TABLE OF CONTENTS

SELECTED DATA FROM THE OFFICIAL STATEMENT .....	5	EMPLOYEE BENEFIT PLANS AND OTHER POST-EMPLOYMENT BENEFITS .....	24
INTRODUCTORY STATEMENT .....	6	RATING .....	24
THE NOTES .....	6	LEGAL MATTERS .....	24
REGISTERED OWNERS' REMEDIES.....	8	TAX MATTERS .....	25
BOOK-ENTRY-ONLY SYSTEM .....	9	INVESTMENTS .....	26
REGISTRATION, TRANSFER AND EXCHANGE .....	10	REGISTRATION AND QUALIFICATION OF NOTES FOR SALE.....	27
AD VALOREM PROPERTY TAXATION .....	11	FINANCIAL ADVISOR .....	28
THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT .....	14	LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS.....	28
STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS .....	15	CONTINUING DISCLOSURE OF INFORMATION .....	28
CURRENT PUBLIC SCHOOL FINANCE SYSTEM .....	15	LITIGATION .....	30
CURRENT PUBLIC SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT.....	19	FORWARD-LOOKING STATEMENTS .....	30
TAX RATE LIMITATIONS.....	20	UNDERWRITING .....	30
BOND INSURANCE.....	22	CONCLUDING STATEMENT .....	30
BOND INSURANCE GENERAL RISKS .....	23		
Financial Information of the District .....			Appendix A
General Information Regarding the District and Its Economy.....			Appendix B
Form of Legal Opinion of Bond Counsel.....			Appendix C
Audited Financial Report Fiscal Year Ended August 31, 2018.....			Appendix D

## SELECTED DATA FROM THE OFFICIAL STATEMENT

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

<b>The District</b>	The Liberty Independent School District (the "Issuer" or the "District") is an oil and gas producing area, business center and government center that includes the City of Liberty, the county seat and principal commercial center of Liberty County. Located on U.S. Highway 90, the District's western boundary is approximately 60 minutes from downtown Houston. The District's 2019 population is 12,206. Local manufacturers produce oil and gas. The Issuer was created under State statute and is governed by an elected seven-member Board of Trustees (the "Board") of which each member serves a staggered three-year term. (See "APPENDIX B - General Information Regarding The Liberty Independent School District and Liberty County, Texas" herein.)
<b>The Notes</b>	The Notes are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Section 45.108 of the Texas Education Code, as amended, and a note resolution (the "Resolution") authorizing the issuance of the Notes adopted on September 17, 2019 by the Board. (See "THE NOTES- Security" and "TAX RATE LIMITATIONS").
<b>Paying Agent/Registrar</b>	The initial paying agent/registrar is UMB Bank, N.A., Austin, Texas (the "Paying Agent/Registrar"). The District intends to use the Book-Entry-Only System of The Depository Trust Company. (See "BOOK-ENTRY-ONLY SYSTEM" herein).
<b>Security</b>	The Notes are direct obligations of the District payable as to principal and interest from and secured by the proceeds of a continuing, direct annual ad valorem tax levied for maintenance purposes by the District, against all taxable property located within the District, within the limits prescribed by law, as provided in the Resolution. (See "THE NOTES - Security" herein.) See "TAX RATE LIMITATIONS" herein for a discussion of applicable tax limitations pertaining to the District's limited maintenance tax.
<b>Redemption</b>	The Notes maturing on or after August 15, 2029 are subject to redemption at the option of the District in whole or in part on August 15, 2028 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. (See "THE NOTES - Optional Redemption").
<b>Rating</b>	S&P Global Ratings has assigned an enhanced municipal bond rating of "AA" to the Notes with the understanding that concurrently with the delivery of the Notes a municipal bond insurance policy will be issued by Assured Guaranty Municipal Corp. ("AGM"). (See "BOND INSURANCE" herein.) The District received an S&P unenhanced underlying rating of "A+" on the Notes. (See "OTHER PERTINENT INFORMATION - Ratings" herein.)
<b>Concurrent Issue</b>	Concurrently with the sale of the Notes, the District intends to sell through a private placement its \$140,630.05 Unlimited Tax School Building Bonds, Series 2019 to a local banking institution. This issuance is the final installment of the voter approved debt authorized at an election held in the District on May 9, 2015. This Official Statement describes only the Notes.
<b>Tax Matters</b>	In the opinion of Bond Counsel for the District, interest on the Notes is excludable from gross income for federal income tax purposes described under statutes, regulations, published rulings and court decisions on the date hereof, subject to the matters described under "TAX MATTERS" herein. (See "TAX MATTERS" and "Appendix C - Form of Legal Opinion of Bond Counsel.")
<b>Qualified Tax-Exempt Obligations</b>	The District has designated the Notes as "Qualified Tax-Exempt Obligations" for financial institutions. (See "TAX MATTERS - Qualified Tax-Exempt Obligations").
<b>Legal Opinion</b>	Delivery of the Notes is subject to the approval by the Attorney General of the State of Texas and the rendering of opinions as to legality by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel.
<b>Payment Record</b>	The District has never defaulted on the payment of its bonded indebtedness.
<b>Delivery</b>	When issued, anticipated to be on or about October 15, 2019.

## INTRODUCTORY STATEMENT

This Official Statement (the "Official Statement"), which includes the cover page and Appendices A, B and D attached hereto, has been prepared by the Liberty Independent School District (the "District"), a political subdivision of the State of Texas (the "State") located in Liberty County, Texas, in connection with the offering by the District of its Maintenance Tax Notes, Series 2019 (the "Notes") identified on the inside 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.

There follows in this Official Statement descriptions of the Notes and the Resolution (defined below) adopted by the Board of Trustees of the District (the "Board") on September 17, 2019 authorizing the issuance of the Notes and certain other information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained upon request by writing the Liberty Independent School District, 1600 Grand Avenue, Liberty, Texas 77575 and, during the offering period, from the Financial Advisor, SAMCO Capital Markets, Inc., 1020 Northeast Loop 410, Suite 640, San Antonio, Texas 78209 by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

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

## THE NOTES

### Authorization and Purpose

The Notes are being issued in the principal amount of \$4,795,000 pursuant to the Constitution and general laws of the State of Texas, particularly Section 45.108 of the Texas Education Code, as amended, and a resolution (the "Resolution") authorizing the issuance of the Notes adopted on September 17, 2019 by the Board.

Proceeds from the sale of the Notes will be used for the payment of maintenance expenses of the District, including without limitation maintenance and renovations to the district's school buildings, including the purchase of HVAC equipment and other capital items, and paying the costs of issuance of the Notes.

### General Description

The Notes are dated September 15, 2019 (the "Dated Date") but interest will accrue from the date of their initial delivery, on or about October 15, 2019 (the "Initial Delivery"). The Notes will mature on the dates and in the principal amounts set forth on page 2 of this Official Statement. Interest on the Notes will be computed on the basis of a 360-day year of twelve 30-day months, and is initially payable on February 15, 2020 and on each August 15 and February 15 thereafter until stated maturity or prior redemption.

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

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

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

### Optional Redemption

The Notes maturing on or after August 15, 2029, are subject to redemption, at the option of the District, in whole or in part, on August 15, 2028, or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. If less than all of the Notes are to be redeemed, the District shall determine the amounts and maturities thereof to be redeemed and shall direct the

Paying Agent/Registrar to select by lot the Notes, or portions thereof, to be redeemed. Not less than 30 days prior to a redemption date for the Notes, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to each registered owner of a Note to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice.

#### **Notice of Redemption and DTC Notices**

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

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

#### **Security**

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

#### **Legality**

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

#### **Payment Record**

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

#### **Amendments**

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

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

## Defeasance

The Resolution for the Notes provides for the defeasance of the Notes when payment of the principal amount of the Notes plus interest accrued on the Notes to their due date (whether such due date be by reason of stated maturity, redemption or otherwise), is provided by irrevocably depositing with a paying agent, or other authorized escrow agent, in trust (1) money in an amount sufficient to make such payment and/or (2) Defeasance Securities, that will mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Notes, 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 obligations, 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 Resolution for the Notes 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 Notes. 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 the governing body of the District authorizes the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, 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 governing body of the District adopts or approves the proceedings authorizing the defeasance 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 Notes. Because the Resolution 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 Notes shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment of the Notes have been made as described above, all rights of the District to initiate proceedings to call the Notes for redemption or take any other action amending the terms of the Notes are extinguished; provided, however, the District has reserved the option, to be exercised at the time of the defeasance of the Notes, to call for redemption at an earlier date those Notes which have been defeased to their maturity date, if the District (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Notes for redemption, (ii) gives notice of the reservation of that right to the owners of the Notes immediately following the making of the firm banking and financial arrangements, and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

## Sources and Uses of Funds

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

<b>Sources</b>	
Par Amount of Notes	\$ 4,795,000.00
Reoffering Premium	306,893.75
<b>Total Sources of Funds</b>	<b>\$ 5,101,893.75</b>
<b>Uses</b>	
Deposit to Project Fund	\$ 4,985,210.00
Costs of Issuance	72,759.55
Underwriter's Discount (Includes Bond Insurance Premium)	43,924.20
<b>Total Uses of Funds</b>	<b>\$ 5,101,893.75</b>

## REGISTERED OWNERS' REMEDIES

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



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

#### **BOOK-ENTRY-ONLY SYSTEM**

*This section describes how ownership of the Notes is to be transferred and how the principal of, premium, if any, and interest on the Notes are to be paid to and credited by DTC while the Notes are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District, the Financial Advisor and the Underwriter believe 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 Notes, or redemption or any other notices, to Direct Participants, (2) Direct Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Notes) or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with Direct Participants are on file with DTC.*

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

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

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

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

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

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

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

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

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

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

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

#### **Use of Certain Terms in Other Sections of this Official Statement**

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

### **REGISTRATION, TRANSFER AND EXCHANGE**

#### **Paying Agent/Registrar**

The initial Paying Agent/Registrar for the Notes is UMB Bank, N.A., Austin, Texas. In the Resolution the District covenants to maintain and provide a Paying Agent/Registrar until the Notes are duly paid.

#### **Successor Paying Agent/Registrar**

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

#### **Initial Registration**

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

## **Future Registration**

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

## **Record Date For Interest Payment**

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

## **Limitation on Transfer of Notes**

The Paying Agent/Registrar shall not be required to make any such transfer, conversion or exchange (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date or (ii) with respect to any Note or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date.

## **Replacement Notes**

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

## **AD VALOREM PROPERTY TAXATION**

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

## **Valuation of Taxable Property**

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

State law requires the appraised value of an owner's principal residence ("homestead" or "homesteads") to be based solely on the property's value as a homestead, regardless of whether residential use is considered to be the highest and best use of the property. State

law further limits the appraised value of a homestead to the lesser of (1) the market value of the property or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property.

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

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

### **State Mandated Homestead Exemptions**

State law grants, with respect to each school district in the State, (1) a \$25,000 exemption of the appraised value of all homesteads, (2) a \$10,000 exemption of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled, and (3) various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty.

### **Local Option Homestead Exemptions**

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

### **State Mandated Freeze on School District Taxes**

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

### **Personal Property**

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

### **Freeport and Goods-In-Transit Exemptions**

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

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

A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property.

## **Other Exempt Property**

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

## **Tax Increment Reinvestment Zones**

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

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

## **Tax Limitation Agreements**

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

For a discussion of how the various exemptions described above are applied by the District, see "THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT" herein.

## **District and Taxpayer Remedies**

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

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

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

## **Levy and Collection of Taxes**

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

## District's Rights in the Event of Tax Delinquencies

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

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

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

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

## THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT

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

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

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

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

On August 21, 2007, the Board adopted a resolution authorizing the continued taxation of goods-in-transit for the tax year 2008 and beyond.

The District does not collect its own taxes; the District's taxes are collected by Liberty County Tax Collector.

On December 16, 2008 the District rescinded its prior action taken on November 21, 1989 to tax freeport goods. The tax-exempt status of freeport goods became effective January 1, 2009.

The District does not allow split payments of taxes or give discounts for early payment of taxes.

The District grants a local exemption of \$15,000 of the market value of residence homesteads. The District also grants a local option homestead exemption of \$10,000 for taxpayers at least 65 years of age, and an additional homestead exemption of \$10,000 for the disabled.

The District is not currently a participant in any tax abatement agreements. However, the District is currently a participant in a tax limitation agreement with Boomerang Tube, LLC (entered into on December 18, 2008 and expiring by its terms on December 31, 2021). To promote economic development within a school district, Chapter 313, as amended, Texas Tax Code allows districts to enter into agreements to limit the assessed valuation of property of a particular taxpayer for purposes of levying the District's M&O tax (but not the interest and sinking fund tax). As stated above, the District has entered into such an agreement with Boomerang Tube, LLC. The District anticipates that additional State aid will offset any loss in local property tax revenue resultant from its entering into these agreements.

On June 9, 2015, Boomerang filed for bankruptcy reorganization under Chapter 11 of the United States Bankruptcy Code. Under the provisions of the Bankruptcy Code, Boomerang's 2015 tax bill to the District, as well as payments due under the Third Agreement, are subject to bankruptcy protection, but post-petition taxes assessed against an entity operating under Chapter 11 bankruptcy protection, including future taxes when levied, are considered administrative expenses that are generally required to be paid in the normal course of business. Until the Chapter 11 case is closed, or until the Boomerang properties in the District should be sold, the District will be unable to collect any delinquent taxes by foreclosing on its tax lien on the properties, or collecting from the buyer of the properties. It is the opinion of the District that the bankruptcy proceedings of Boomerang will not have a material adverse effect on the District or its ability to pay its ad valorem tax-backed debt obligations.

Boomerang had previously entered into separate agreements with the District in order to pay past due taxes for prior years in the amount of \$395,105 (due January 31, 2015) and \$220,983 (due July 1, 2015) pursuant to its tax limitation agreement. In response to Boomerang's request for additional time to make these payments, Boomerang and the District have entered into a third such agreement (the "Third Agreement"), effective April 7, 2015, through which Boomerang has agreed to pay the total due amount (\$616,088) in 12 installments of \$51,340.66, beginning April 2015. Upon execution of the Agreement, and provided Boomerang maintains compliance with the Third Agreement and similar agreements with other taxing entities within Liberty County, Boomerang will not be in default of its tax limitation agreement. As of March 13, 2017, Boomerang fulfilled the Third Agreement and has paid its taxes in full and fulfilled all current and previous obligations to the District.

## STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

### Litigation Relating to the Texas Public School Finance System

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

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

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

### Possible Effects of Changes in Law on District Obligations

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

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

### CURRENT PUBLIC SCHOOL FINANCE SYSTEM

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

### Overview

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

Local funding is derived from collections of ad valorem taxes levied on property located within each school district’s boundaries. School districts are authorized to levy two types of property taxes: a maintenance and operations (“M&O”) tax to pay current expenses and an interest and sinking fund (“I&S”) tax to pay debt service on bonds. School districts may not increase their M&O tax rate for the purpose of

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

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

### **Local Funding for School Districts**

During the 2019 Legislative Session, the State Legislature made several significant changes to the funding methodology for school districts (the “2019 Legislation”). The 2019 Legislation orders a school district’s M&O tax rate into two distinct parts: the “Tier One Tax Rate”, which is the local M&O tax rate required for a school district to receive any part of the basic level of State funding (referred to herein as “Tier One”) under the Foundation School Program, as further described below, and the “Enrichment Tax Rate”, which is any local M&O tax effort in excess of its Tier One Tax Rate. The 2019 Legislation amended formulas for the State Compression Percentage and Maximum Compressed Tax Rate (each as described below) to compress M&O tax rates in response to year-over-year increases in property values across the State and within a school district, respectively. The discussion in this subcaption “Local Funding For School Districts” is generally intended to describe funding provisions applicable to all school districts; however, there are distinctions in the funding formulas for school districts that generate local M&O tax revenues in excess of the school districts’ funding entitlements, as further discussed under the subcaption “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Revenue Level In Excess of Entitlement” herein.

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

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

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

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



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

### State Funding for School Districts

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

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

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

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

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

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

**Tier Two.** Tier Two supplements Tier One funding and provides two levels of enrichment with different guaranteed yields (i.e., Golden Pennies and Copper Pennies) depending on the school district’s Enrichment Tax Rate. Golden Pennies generate a guaranteed yield equal to the greater of (i) the local revenue per student in WADA per cent of tax effort available to a school district at the ninety-sixth (96<sup>th</sup>) percentile of wealth per student in WADA, or (ii) the Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.016. For the 2020-2021 State fiscal biennium, school districts are guaranteed a yield of \$98.56 per student in WADA for each Golden Penny levied. Copper Pennies generate a guaranteed yield per student in WADA equal to the school district’s Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.008. For the 2020-2021 State fiscal biennium, school districts are guaranteed

a yield of \$49.28 per student in WADA for each Copper Penny levied. For any school year in which the guaranteed yield of Copper Pennies per student in WADA exceeds the guaranteed yield of Copper Pennies per student in WADA for the preceding school year, a school district is required to reduce its Copper Pennies levied so as to generate no more revenue per student in WADA than was available to the school district for the preceding year. Accordingly, the increase in the guaranteed yield from \$31.95 per Copper Penny per student in WADA for the 2018-2019 school year to \$49.28 per Copper Penny per student in WADA for the 2019-2020 school year requires school districts to compress their levy of Copper Pennies by a factor of 0.64834. As such, school districts that levied an Enrichment Tax Rate of \$0.17 in school year 2018-2019 must reduce their Enrichment Tax Rate to approximately \$0.138 per \$100 taxable value for the 2019-2020 school year.

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

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

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

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

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

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

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

## Local Revenue Level in Excess of Entitlement

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

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

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

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

## CURRENT PUBLIC SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

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

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

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

## TAX RATE LIMITATIONS

### M&O Tax Rate Limitations

The District is authorized to levy an M&O tax rate pursuant to the approval of the voters of the District at an election held on May 5, 1960 in accordance with the provisions of Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended.

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

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

For the 2020 and subsequent tax years, the maximum M&O tax rate per \$100 of taxable value that may be adopted by a school district is the sum of \$0.17 and the school district's MCR. A school district's MCR is, generally, inversely proportional to the change in taxable property values both within the school district and the State, and is subject to recalculation annually. For any year, the highest possible MCR for a school district is \$0.93 (see "TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Funding for School Districts" herein).

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

### I&S Tax Rate Limitations

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

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

### Public Hearing and Voter-Approval Tax Rate

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

For the 2019 tax year, a school district is required to adopt its annual tax rate before the later of September 30 or the sixtieth (60<sup>th</sup>) day after the date the certified appraisal roll is received by the taxing unit, and a failure to adopt a tax rate by such required date will result in the tax rate for the taxing unit being the lower of the "effective tax rate" calculated for that tax year or the tax rate adopted by the taxing unit for the preceding tax year. "Effective tax rate" means the rate that will produce the prior year's total tax levy from the current year's

total taxable values, adjusted such that lost values are not included in the calculation of the prior year's taxable values and new values are not included in the current year's taxable values.

For the 2019 tax year, the Voter-Approval Tax Rate for a school district is the sum of (i) the State Compression Percentage, multiplied by \$1.00; (ii) the greater of (a) the school district's M&O tax rate for the 2018 tax year, less the sum of (1) \$1.00, and (2) any amount by which the school district is required to reduce its Enrichment Tax Rate for the 2019 tax year, or (b) \$0.04; and (iii) the school district's I&S tax rate. For the 2019 tax year, a school district's M&O tax rate may not exceed the rate equal to the sum of (i) \$0.17 and (ii) the product of the State Compression Percentage multiplied by \$1.00.

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

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

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

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

**The calculation of the Voter-Approval Tax Rate may limit or impact the District's ability to levy an M&O tax rate in each year sufficient to pay annual maintenance and operations expenses of the District, including debt service on the Notes.**

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

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

## BOND INSURANCE

### BOND INSURANCE POLICY

Concurrently with the issuance of the Notes, Assured Guaranty Municipal Corp. ("AGM" or the "Insurer") will issue its Municipal Bond Insurance Policy for the Notes (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Notes when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

### ASSURED GUARANTY MUNICIPAL CORP.

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM's financial strength is rated "AA" (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), "AA+" (stable outlook) by Kroll Bond Rating Agency, Inc. ("KBRA") and "A2" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

#### *Current Financial Strength Ratings*

On August 13, 2019, Moody's announced it had affirmed AGM's insurance financial strength rating of "A2" (stable outlook). AGM can give no assurance as to any further ratings action that Moody's may take.

On June 27, 2019, S&P announced it had affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On December 21, 2018, KBRA announced it had affirmed AGM's insurance financial strength rating of "AA+" (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

#### *Capitalization of AGM*

At June 30, 2019:

- The policyholders' surplus of AGM was approximately \$2,530 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately \$1,082 million. Such amount includes 100% of AGM's contingency reserve and 60.7% of MAC's contingency reserve.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$1,853 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, (ii) the net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiary Assured Guaranty (Europe) plc ("AGE"), and (iii) 60.7% of the net unearned premium reserve of MAC.

The policyholders' surplus of AGM and the contingency reserves, net unearned premium reserves and deferred ceding commission income of AGM and MAC were determined in accordance with statutory accounting principles. The net unearned premium reserves and net deferred ceding commissions of AGE were determined in accordance with accounting principles generally accepted in the United States of America.

### *Incorporation of Certain Documents by Reference*

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the “SEC”) that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (filed by AGL with the SEC on March 1, 2019);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2019 (filed by AGL with the SEC on May 10, 2019);  
and
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2019 (filed by AGL with the SEC on August 8, 2019).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof “furnished” under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Notes shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC’s website at <http://www.sec.gov>, at AGL’s website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL’s website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption “BOND INSURANCE – Assured Guaranty Municipal Corp.” or included in a document incorporated by reference herein (collectively, the “AGM Information”) shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

### *Miscellaneous Matters*

AGM makes no representation regarding the Notes or the advisability of investing in the Notes. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “BOND INSURANCE”.

## **BOND INSURANCE GENERAL RISKS**

### **General**

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

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

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

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

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

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

#### **Claims-Paying Ability and Financial Strength of Municipal Bond Insurers**

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

#### **EMPLOYEE BENEFIT PLANS AND OTHER POST-EMPLOYMENT BENEFITS**

The District's employees participate in a retirement plan (the "Plan") with the State. The Plan is administered by the Teacher Retirement System of Texas ("TRS"). State contributions are made to cover costs of the Plan up to certain statutory limits. The District is obligated for a portion of TRS costs relating to employee salaries that exceed the statutory limit. Aside from the District's contribution to TRS, the District has no pension fund expenditures or liabilities. For fiscal year ended August 31, 2018, the District made a contribution of \$563,497 to TRS on a portion of its employees' salaries that exceeded the statutory minimum. For a discussion of the TRS retirement plan, see "Note 4 Other Information - Defined Benefit Pension Plan" to the audited financial statements of the District that are attached hereto as APPENDIX D (the "Financial Statements").

In addition to its participation in the TRS, the District contributes to the Texas Public School Retired Employees Group Insurance Program (the "TRS-Care Retired Plan"), a cost-sharing multiple-employer defined benefit post-employment health care plan. The TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the TRS. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. For more detailed information concerning the District's funding policy and contributions in connection with the TRS-Care Retired Plan, see "Note D. Benefits Provided" in the Financial Statements.

During the year ended August 31, 2018, employees of the District were covered by a fully-insured health insurance plan (the "Health Care Plan"). The District contributed \$187 per month per employee to the Health Care Plan. Employees, at their option, authorize payroll withholdings to pay premiums for dependents. See "Note 4 Other Information - Health Care Coverage" of the Financial Statements.

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

#### **RATING**

S&P Global Ratings ("S&P") has assigned an enhanced municipal bond rating of "AA" to the Notes with the understanding that concurrently with the delivery of the Notes a municipal bond insurance policy will be issued by Assured Guaranty Municipal Corp. ("AGM"). (See "BOND INSURANCE" herein.) The District received an S&P unenhanced underlying rating of "A+" on the Notes.

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

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

#### **LEGAL MATTERS**

The delivery of the Notes is subject to the approval of the Attorney General of Texas to the effect that the Notes are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax levied by the M&O Tax and within the limits prescribed by law, upon all taxable property in the District, and the approving legal opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel to the District ("Bond Counsel"), to like effect and to the effect that the interest on the Notes will be excludable from gross income for federal income tax purposes under section 103(a) of the Internal Revenue Code, subject to the matters described under "TAX MATTERS"



herein. The form of Bond Counsel's opinion are attached hereto as Appendix C. The legal fee to be paid to Bond Counsel for services rendered in connection with the issuance of the Notes is contingent upon the sale and delivery of the Notes. Certain legal matters will be passed upon by the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, Houston, Texas, whose compensation is contingent upon the sale and delivery of the Notes.

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

The legal opinion to be delivered concurrently with the delivery of the Notes 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 the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

## **TAX MATTERS**

### **Tax Exemption**

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

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

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

### **Tax Changes**

Existing law may change to reduce or eliminate the benefit to bondholders of the exclusion of interest on the Notes from gross income for federal income tax purposes. Prospective purchasers of the Notes should consult with their own tax advisors with respect to any proposed or future changes in tax law.

## **Ancillary Tax Consequences**

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

## **Tax Accounting Treatment of Discount Notes**

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

However, such accrued interest may be required to be taken into account in determining the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment.

In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions (see “Qualified Tax-Exempt Obligations” below), property and casualty insurance companies, life insurance companies, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

## **Tax Accounting Treatment of Premium Notes**

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

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

## **Qualified Tax-Exempt Obligations**

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

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

## **INVESTMENTS**

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

## Legal Investments

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

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

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

## Investment Policies

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

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

## Current Investments <sup>(1)</sup>

TABLE 1

As of July 31, 2019 the District had the following investments:

	<u>Investment Type</u>	<u>Amount</u>	<u>Percentage</u>
Bank		\$ 1,573,725	10.28%
Certificates of Deposit		1,614,884	10.55%
Investment Pools		3,524,096	23.03%
Bond		<u>8,591,127</u>	<u>56.14%</u>
Total		<u>\$ 15,303,832</u>	<u>100.00%</u>

(1) Unaudited.

## REGISTRATION AND QUALIFICATION OF NOTES FOR SALE

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

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

#### **FINANCIAL ADVISOR**

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

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

#### **LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS**

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

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

#### **CONTINUING DISCLOSURE OF INFORMATION**

In the Resolution, the District has made the following agreement for the benefit of the holders and Beneficial Owners of the Notes. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Notes. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board ("MSRB"). The information provided to the MSRB will be available to the public free of charge via the MSRB's Electronic Municipal Market Access System ("EMMA") system at [www.emma.msrb.org](http://www.emma.msrb.org).

#### **Annual Reports**

The District will file with the MSRB through EMMA annually certain updated financial information and operating data. The information to be updated includes the quantitative financial information and operating data with respect to the District of the general type included in this Official Statement as Table 1, in "APPENDIX A—Financial Information for the Liberty Independent School District" (Tables 1-9) and in APPENDIX D. The District will additionally provide financial statements of the District (the "Financial Statements"), that will be (i) prepared in accordance with the accounting principles described in Appendix D or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation and shall be in substantially the form included in Appendix D and (ii) audited, if the District commissions an audit of such Financial Statements and the audit is completed within the period during which they must be provided. The District will update and provide the Annual Operating Report within six months after the end of each fiscal year and the Financial Statements within six months of the end of each fiscal year, in each case beginning with the fiscal year ending in and after 2019. If the audit of such Financial Statements is not complete within six months after any such fiscal year end, then the District shall file unaudited Financial Statements within such six-month period and audited Financial Statements for the applicable fiscal year, when and if the audit report on such Financial Statements becomes available.

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

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

#### **Notice of Certain Events**

The District will also provide timely notices of certain events to the MSRB. The District will provide notice of any of the following events with respect to the Notes to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the

Notes, or other material events affecting the tax status of the Notes; (7) modifications to rights of holders of the Notes, if material; (8) Note calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Notes, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional 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". In the Resolution, the District will adopt policies and procedures to ensure timely compliance with its continuing disclosure undertakings. In addition, the District will provide timely notice of any failure by the District to provide annual financial information in accordance with their agreement described above under "Annual Reports". Neither the Notes nor the Resolution for the Notes makes any provision for debt service reserves, or liquidity enhancement. The District will provide each notice, described in this paragraph, to the MSRB.

For these purposes, (a) any event described in clause (12) of in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District, and (b) the District intends the words used in the immediately preceding clauses (15) and (16) and in the definition of Financial Obligation above to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018.

### **Availability of Information**

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

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

### **Limitations and Amendments**

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

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

### **Compliance with Prior Undertakings**

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

On December 16, 2009 S&P upgraded the underlying rating of the District's existing debt from "BBB+" to "A". At the time, the District did not file notice of this upgrade, but did so on October 1, 2014 (along with notice of its failure to file timely notice of this event). At the time of this S&P rating change, the Rule and the District's continuing disclosure undertakings made in accordance with the Rule required that notice of rating changes be given only if such change was material within the meaning of federal securities laws. The District posits that such rating change was not material and has filed notice of the same for informational purposes only.

## LITIGATION

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

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

## FORWARD-LOOKING STATEMENTS

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

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

## UNDERWRITING

The Underwriter has agreed, subject to certain customary conditions, to purchase the Notes at a price equal to the initial offering prices to the public, as shown on the inside cover page hereof, less an Underwriter's discount of \$33,907.50, and no accrued interest. The Underwriter's obligations are subject to certain conditions precedent, and the Underwriter will be obligated to purchase all of the Notes, if any Notes are purchased. The Notes 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 pursuant to its responsibilities to investors under the federal securities laws but the Underwriter does not guarantee the accuracy or completeness of such information.

## CONCLUDING STATEMENT

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

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

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

The Resolution approved the form and content of this Official Statement and any addenda, supplement or amendment thereto and authorized its further use in the re-offering of the Notes by the Underwriter.

\_\_\_\_\_  
/s/ Bruce Bell

President, Board of Trustees

ATTEST:

\_\_\_\_\_  
/s/ Patty Watson

Secretary, Board of Trustees

**APPENDIX A**

**FINANCIAL INFORMATION OF THE DISTRICT**

(this page intentionally left blank)



**FINANCIAL INFORMATION OF THE ISSUER**

**ASSESSED VALUATION**

**TABLE 1**

2019 Actual Certified Market Value of Taxable Property (100% of Market Value).....	\$ 1,264,859,219
Less Exemptions:	
\$15,000 Homestead Exemption.....	\$ 56,564,564
\$10,000 Over-65/Disabled Homestead.....	9,889,257
Disabled and Deceased Veterans Exemptions.....	4,614,129
Economic Development Act.....	-
Productivity Loss.....	116,534,777
Pollution Control.....	15,847,490
Freeport Goods.....	12,493,730
10%Residential Cap.....	<u>2,419,181</u>
<b>TOTAL EXEMPTIONS</b> .....	<b>218,363,128</b>
2019 Assessed Value of Taxable Property.....	<u>\$ 1,046,496,091</u>
2019 Frozen Taxable Value	87,485,458
2019 Certified Freeze Adjusted Taxable Assessed Value	<u><u>\$ 959,010,633</u></u>

Source: Liberty County Central Appraisal District.

**GENERAL OBLIGATION BONDED DEBT**

(as of August 1, 2019)

*Unlimited Tax Debt Outstanding:*

Unlimited Tax Refunding Bonds, Series 2014.....	\$ 7,620,000
Unlimited Tax School Building Bonds, Series 2015.....	19,425,000
Unlimited Tax School Building Bonds, Series 2015.....	9,140,000
Unlimited Tax School Building Bonds, Series 2019.....	<u>140,630</u>

*Total Unlimited Tax Debt Outstanding*..... \$ 36,325,630

*Limited Tax Debt Outstanding:*

QZAB Limited Maintenance Tax Notes, Series 2005.....	\$ 1,000,000
Qualified School Construction Maintenance Tax Notes Taxable Series 2011.....	2,560,000
Limited Maintenance Tax Notes, Series 2019.....	<u>4,795,000</u>

*Total Limited Tax Debt Obligations*..... \$ 8,355,000

*Total General Obligation Debt Outstanding*..... \$ 44,680,630

2019 Net Assessed Valuation \$ 1,046,496,091

Ratio of Total Gross General Obligation Debt Principal to Certified Net Taxable Assessed Valuation 4.27%

District Population: 2019 - 12,206  
 Per Capita Certified Net Taxable Assessed Valuation - \$85,736.20  
 Per Capita Gross General Obligation Debt Principal - \$3,660.55

<sup>(1)</sup> Concurrently with the issuance of the Notes, the District sold its \$140,630.05 Unlimited Tax School Building Bonds, Series 2019 (the "Bonds") through a private placement with a local banking institution. This Official Statement describes only the Notes.

The District issued qualified zone academy notes (QZA) and qualified school construction notes (QSC) to provide funds for repair and rehabilitation of facilities and equipping facilities. The notes are secured by the proceeds of a continuing, direct annual ad valorem tax levied from the District's maintenance and operations tax. The notes are issued as 14-18 year noninterest notes. The following is a summary of changes in the notes payable for the fiscal year:

Description	Interest Rate	Original Issue	Maturity Date	Beginning Balance	Additions	Reductions	Ending Balance
2005 QZA Note	0.00%	1,000,000	2022	\$ 1,000,000	-	-	\$ 1,000,000
2011 QSC Note	5.015% <sup>(1)</sup>	2,560,000	2029	2,560,000	-	-	2,560,000
Totals				\$ 3,560,000.0	-	-	\$ 3,560,000

<sup>(1)</sup> The District receives a refundable tax credit on these notes, calculated at a per annum rate of 4.58%, to be received from the United States Department of the Treasury by the District as a result of its designation and election to treat these notes as "qualified school construction bonds" and "qualified zone academy bonds" under the Code. The District treats this refundable tax credit as an offset to interest on the notes, reducing the effective interest rate thereon to 0.435%. The refundable tax credit has been subject to automatic reductions in federal spending effective March 1, 2013 pursuant to the Budget Control Act of 2011 (commonly referred to as "Sequestration"), and extensions thereof pursuant to the Bipartisan Budget Act of 2013, signed into law by the President on December 26, 2013. The District has determined that the reduction in the refundable tax credit (being a reduction of 5.9% in the most recent federal budget year) resulting from Sequestration will not have a material impact on the financial condition of the District or its ability to pay regularly scheduled debt service on these notes when and in the amount due and owing.

Annual debt service requirements to maturity for notes payable are as follows:

Year Ending	Principal	Interest	Total Requirements
<u>August 31</u>			
2019	\$ -	\$ 128,384	\$ 128,384
2020	-	128,384	128,384
2021	-	128,384	128,384
2022	1,000,000	128,384	1,128,384
2023	-	128,384	128,384
2024	-	128,384	128,384
2025	-	128,384	128,384
2026	-	128,384	128,384
2027	-	128,384	128,384
2028	-	128,384	128,384
2029	2,560,000	128,384	2,688,384
Totals	\$ 3,560,000	\$ 1,412,224	\$ 4,972,224

Source: The District's Annual Financial Report for the fiscal year ending August 31, 2018.

**MAINTENANCE TAX NOTE DEBT SERVICE REQUIREMENTS**

*(Includes QZA debt listed in TABLE 2 of this Appendix)*

Fiscal Year Ending (8/31)	Existing Tax Notes		The Notes			Total Net Debt Service
	P&I <sup>(1)</sup>	Principal	Interest <sup>(2)</sup>	Total	Total	
2019	\$ 277,685				\$ 277,685	\$ 277,685
2020	176,685	\$ 230,000	\$ 126,458	\$ 356,458	533,143	533,143
2021	176,685	265,000	142,550	407,550	584,235	584,235
2022	176,685	275,000	131,950	406,950	583,635	583,635
2023	177,136	285,000	120,950	405,950	583,086	583,086
2024	177,136	295,000	109,550	404,550	581,686	581,686
2025	177,136	300,000	103,650	403,650	580,786	580,786
2026	177,136	310,000	97,650	407,650	584,786	584,786
2027	177,136	315,000	91,450	406,450	583,586	583,586
2028	177,136	325,000	78,850	403,850	580,986	580,986
2029	177,136	340,000	65,850	405,850	582,986	582,986
2030	-	350,000	55,650	405,650	405,650	405,650
2031	-	360,000	45,150	405,150	405,150	405,150
2032	-	370,000	34,350	404,350	404,350	404,350
2033	-	380,000	23,250	403,250	403,250	403,250
2034	-	395,000	11,850	406,850	406,850	406,850
Total	<u>\$ 2,047,692</u>	<u>\$ 4,795,000</u>	<u>\$ 1,239,158</u>	<u>\$ 6,034,158</u>	<u>\$ 8,081,850</u>	<u>\$ 8,081,850</u>

<sup>(1)</sup> Payments shown are net of federal subsidy to be received on Series 2011 QSC Notes.

<sup>(2)</sup> Interest calculated at an assumed rate for illustrative purposes only.

**MAINTENANCE TAX NOTE DEBT PRINCIPAL REPAYMENT SCHEDULE**

*(Includes QZA debt listed in TABLE 2 of this Appendix)*

Fiscal Year Ending (8/31)	Principal Currently Outstanding <sup>(1)</sup>	The Notes	Combined Principal Outstanding	Principal Outstanding at Year's End	Percentage of Principal Retired
2019	\$ -		\$ -	\$ 8,355,000	0%
2020	-	\$ 230,000	230,000	8,125,000	3%
2021	-	265,000	265,000	7,860,000	6%
2022	1,000,000	275,000	1,275,000	6,585,000	21%
2023	-	285,000	285,000	6,300,000	25%
2024	-	295,000	295,000	6,005,000	28%
2025	-	300,000	300,000	5,705,000	32%
2026	-	310,000	310,000	5,395,000	35%
2027	-	315,000	315,000	5,080,000	39%
2028	-	325,000	325,000	4,755,000	43%
2029	2,560,000	340,000	2,900,000	1,855,000	78%
2030	-	350,000	350,000	1,505,000	82%
2031	-	360,000	360,000	1,145,000	86%
2032	-	370,000	370,000	775,000	91%
2033	-	380,000	380,000	395,000	95%
2034	-	395,000	395,000	-	100%
Total	<u>\$ 3,560,000</u>	<u>\$ 4,795,000</u>	<u>\$ 8,355,000</u>		

<sup>(1)</sup> In the resolution issuing the Series 2005 Notes shown above with the \$1,000,000 maturities in 2022, the District has entered into two Guaranteed Investment Contracts (GICs) that obligated the District to annually deposit into the GICs \$51,548 for the Series 2005 Notes. At Maturity the GIC will contain \$1,000,000 to make the Note payments.

<sup>(2)</sup> The resolution authorizing the Qualified School Construction Notes, Series 2011 obligates the District to make mandatory deposits into a cumulative sinking fund deposit account on August 15 in the years and the amounts of each required mandatory deposit (which are to be off-set by interest earnings on amounts held in such fund so that no more than the amount required in the authorizing resolution shall ever be held in such account). All amounts held in the cumulative sinking fund account will be used to pay the Notes on the maturity dates of August 15, 2029 or the date of prior redemption thereof.

**GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS**

(As of August 1, 2019)

**Principal Repayment Schedule**

Fiscal Year Ending 8-31	Principal Repayment Schedule		
	Principal	Interest	Total
2020	\$ 1,850,000	\$ 1,239,882	\$ 3,089,882
2021	2,060,630	1,161,795	3,222,425
2022	2,005,000	1,082,388	3,087,388
2023	2,080,000	1,006,888	3,086,888
2024	2,165,000	928,663	3,093,663
2025	2,105,000	842,013	2,947,013
2026	2,340,000	751,150	3,091,150
2027	2,455,000	664,800	3,119,800
2028	1,985,000	594,188	2,579,188
2029	2,050,000	532,744	2,582,744
2030	2,115,000	467,450	2,582,450
2031	2,185,000	399,088	2,584,088
2032	2,250,000	326,550	2,576,550
2033	2,330,000	249,600	2,579,600
2034	2,410,000	169,950	2,579,950
2035	2,490,000	86,475	2,576,475
2036	715,000	32,775	747,775
2037	735,000	11,025	746,025
Total	<u>\$ 36,325,630</u>	<u>\$ 10,547,420</u>	<u>\$ 46,873,050</u>

<sup>(1)</sup> Excludes the District's maintenance tax supported debt and includes the concurrently issued Bonds.

**INTEREST AND SINKING FUND MANAGEMENT INDEX**

Interest and Sinking Fund Balance, Fiscal Year Ended August 31, 2018	\$ 1,018,087
2019 Anticipated Interest and Sinking Fund Tax Levy at 98% Collections Produce <sup>(1)</sup>	<u>3,104,038</u>
Total Available for General Obligation Debt	<u>\$ 4,122,125</u>
Less: General Obligation Debt Service Requirements, Fiscal Year Ending 8/31/19	<u>2,215,063</u>
Estimated Surplus at Fiscal Year Ending 8/31/19 <sup>(1)</sup>	<u>\$ 1,907,062</u>

<sup>(1)</sup> Does not include delinquent tax collections, penalties and interest on delinquent tax collections or investment earnings.

**TAX ADEQUACY**

2019 Freeze Adjusted Certified Net Taxable Assessed Valuation	\$ 959,010,633
Maximum Annual Debt Service Requirements (Fiscal Year Ending 8-31-2027)	3,222,425 *
Anticipated required I&S Fund Tax Rate at 98% Collections to produce Maximum Debt Service requirements	\$ 0.34287 *

Note: Above computations include the estimated payment on the Bonds, are exclusive of investment earnings, delinquent tax collections and penalties and interest on delinquent tax collections.

\* Includes the Bonds.

**TAXABLE ASSESSED VALUATION FOR TAX YEARS 2010-2019**

**TABLE 3**

Year	Net Taxable Assessed Valuation*	Change From Preceding Year	
		Amount (\$)	Percent
2010-11	\$ 747,084,062	---	---
2011-12	819,183,441	72,099,379	9.65%
2012-13	851,807,800	32,624,359	3.98%
2013-14	869,296,856	17,489,056	2.05%
2014-15	874,080,558	4,783,702	0.55%
2015-16	897,854,598	23,774,040	2.72%
2016-17	860,880,128	(36,974,470)	-4.12%
2017-18	915,498,727	54,618,599	6.34%
2018-19	948,318,959	32,820,232	3.58%
2019-20	1,046,496,091	98,177,132	10.35%

\* Includes freeze adjusted taxable values.

**CLASSIFICATION OF ASSESSED VALUATION**

**TABLE 4**

	2019	% of Total	2018	% of Total	2017	% of Total
Real, Residential, Single-Family	\$ 380,049,888	30.05%	\$ 357,086,476	30.01%	\$ 349,228,073	30.22%
Real, Residential, Multi-Family	14,912,630	1.18%	13,979,890	1.17%	13,496,380	1.17%
Real, Vacant Lots/Tracts	27,028,938	2.14%	23,957,398	2.01%	22,810,485	1.97%
Real, Acreage (Land Only)	125,413,985	9.92%	105,733,269	8.89%	105,340,267	9.12%
Real, Farm and Ranch Improvements	53,804,993	4.25%	44,680,330	3.75%	40,926,707	3.54%
Real Commercial and Industrial	195,647,618	15.47%	194,858,018	16.37%	190,250,825	16.46%
Real Minerals Oil and Gas	5,948,487	0.47%	8,137,549	0.68%	8,192,787	0.71%
Real & Tangible, Personal Utilities	151,586,910	11.98%	100,678,110	8.46%	96,051,810	8.31%
Tangible Personal, Commercial & Industrial	289,784,280	22.91%	323,405,860	27.18%	313,502,390	27.13%
Real Property, Mobile Homes	15,108,490	1.19%	12,534,770	1.05%	11,456,400	0.99%
Special Inventory	5,573,000	0.44%	4,963,770	0.42%	4,247,700	0.37%
<b>Total Appraised Value</b>	<u>\$1,264,859,219</u>	<u>100.00%</u>	<u>\$1,190,015,440</u>	<u>100.00%</u>	<u>\$1,155,503,824</u>	<u>100.00%</u>
<b>Less:</b>						
\$15,000 Homestead Exemption	\$ 56,564,564		\$ 56,643,457		\$ 55,959,811	
\$10,000 Over-65/Disabled Homestead	9,889,257		9,617,766		9,558,498	
Disabled and Deceased Veterans Exemptior	4,614,129		3,765,727		3,549,663	
Economic Development Act	-		58,355,400		61,506,880	
Productivity Loss	116,534,777		96,680,474		96,349,926	
Pollution Control	15,847,490		312,550		257,900	
Freeport Goods	12,493,730		13,871,034		7,061,410	
10%Residential Cap	2,419,181		2,450,073		5,761,009	
<b>Net Taxable Assessed Valuation</b>	<u>\$1,046,496,091</u>		<u>\$ 948,318,959</u>		<u>\$ 915,498,727</u>	

Source: Liberty County Central Appraisal District.

**PRINCIPAL TAXPAYERS 2019-2020**

**TABLE 5**

Name	Type of Business/Property	2019 Net Taxable Assessed Valuation	% of Total 2019 Assessed Valuation
Boomerang Tube,LLC	Manufacturing	\$ 107,966,897	10.32%
Moss Bluff HUB Partners LP	Underground Gas Storage	60,531,220	5.78%
Seaway Crude Pipeline	Oil and Gas	37,545,530	3.59%
Transcanada Keystone Pipeline LP	Pipeline Contractors	28,241,850	2.70%
Praxair, Inc.	Oil and Gas	24,847,130	2.37%
Texas Eastern Transmission LP	Oil and Gas	14,287,500	1.37%
Walmart Real Estate Business Trust	Retail	11,046,530	1.06%
Entergy Texas Inc.	Oil and Gas	10,295,620	0.98%
Liberty Forge Inc.	Manufacturing	9,133,740	0.87%
Flint Hills Resources	Oil and Gas	7,613,620	0.73%
		<u>\$ 311,509,637</u>	<u>29.77%</u> <sup>(1)</sup>

Source: Liberty County Appraisal District.

<sup>(1)</sup> As shown in the table above, the top ten taxpayers in the District account for approximately 30% of the District's tax base. Adverse developments in economic conditions, especially in a particular industry in which any one of these large taxpayers participates, could adversely impact these businesses and, consequently, the tax values in the District, resulting in less local tax revenues. If any major taxpayer, or combination of top taxpayers, were to default in the payment of taxes, the ability of the District to make timely payment of debt service on the Bonds may be dependent on its ability to enforce and liquidate its tax lien, which is a time consuming process that may only occur annual. See "REGISTERED OWNERS' REMEDIES" and "AD VALOREM TAX PROCEDURES - District's Rights in the Event of Tax Delinquencies" in this Official Statement.

Source: Liberty County Central Appraisal District.

**TAX RATE DISTRIBUTION****TABLE 6**

	2019	2018	2017	2016	2015
General Fund	\$ 0.9900	\$ 1.0600	\$ 1.0600	\$ 1.0600	\$ 1.0600
I & S Fund	0.3225	0.3340	0.3340	0.3440	0.3343
Total Tax Rate	\$ 1.3125	\$ 1.3940	\$ 1.3940	\$ 1.4040	\$ 1.3943

Source: Texas Municipal Report published by the Municipal Advisory Council of Texas, the Liberty County Central Appraisal District, the District's Comprehensive Annual Financial Report for the Fiscal Year Ended August 31, 2018, and information supplied by the District.

**TAX DATA****TABLE 7**

Taxes are due October 1 and become delinquent after January 31. Current collections are those taxes collected through August 31, applicable to the current year's tax levy. Penalties and Interest: (a) a delinquent tax incurs a penalty of six percent of the amount of the tax for the first calendar month it is delinquent plus one percent for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. However, a tax delinquent on July 1 incurs a total penalty of twelve percent of the amount of the delinquent tax without regard to the number of months the tax has been delinquent; (b) a delinquent tax accrues interest at a rate of one percent for each month or portion of a month the tax remains unpaid; and an additional penalty up to a maximum of 20% of taxes, penalty and interest may be imposed to defray costs of collection for taxes delinquent after July 1. All percentage of collections set forth below exclude penalties and interest.

Tax Year	Net Taxable Assessed Valuation	Tax Rate	Tax Levy	% of Collections		Year Ended
				Current	Total	
2010	\$ 747,084,062	1.171800	\$ 8,754,331	96.82%	100.41%	8/31/2011
2011	819,183,441	1.171800	9,599,192	95.24%	99.73%	8/31/2012
2012	851,807,800	1.171100	9,975,521	95.66%	99.30%	8/31/2013
2013	869,296,856	1.168600	10,158,603	94.26%	97.56%	8/31/2014
2014	874,080,558	1.168600	10,214,505	91.87%	97.15%	8/31/2015
2015	897,854,598	1.394300	12,518,787	98.36%	104.02%	8/31/2016
2016	860,880,128	1.404000	12,086,757	96.82%	99.29%	8/31/2017
2017	915,498,727	1.394000	12,762,052	94.56%	97.25%	8/31/2018
2018	948,318,959	1.394000	13,219,566	93.06%	94.84%	as of 7/31/19
2019	1,046,496,091	1.312500	13,735,261			8/31/2020

**OVERLAPPING DEBT INFORMATION**

(As of August 1, 2019)

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

Taxing Body	Gross Debt (As of 8/1/19)	% Overlapping	Amount Overlapping
Ames, City of	\$ -	98.97%	\$ -
Dayton, City of	27,340,000	0.00%	-
Liberty County	10,065,000	17.47%	1,758,356
Liberty, City of	16,955,000	96.17%	16,305,624
Total Gross Overlapping Debt			<u>\$ 18,063,979</u>
Liberty ISD			\$ 36,325,630 *
Total Gross Direct and Overlapping Debt			<u>\$ 54,389,609</u> *
Ratio of Gross Direct Debt and Overlapping Debt			5.20% *
Per Capita Gross Direct Debt and Overlapping Debt			\$4,455.97 *

Source: Texas Municipal Reports published by the Municipal Advisory Council of Texas  
 \* Includes the Bonds.

**ASSESSED VALUATION AND TAX RATE OF OVERLAPPING ISSUERS**

Governmental Subdivision	2018 Assessed Valuation	% of Actual	2018 Tax Rate
Ames, City of	\$ 45,795,071	100%	\$ 0.500000
Dayton, City of	796,480,291	100%	0.680000
Liberty County	6,071,290,406	100%	0.579000
Liberty, City of	685,929,265	100%	0.610000

Source: Texas Municipal Reports published by the Municipal Advisory Council of Texas.

**AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS OF DIRECT AND OVERLAPPING GOVERNMENTAL SUBDIVISIONS**

Issuer	Date of Authorization	Amount Authorized	Amount Issued to Date	Amount Unissued
Ames, City of	None			
Dayton, City of	None			
Liberty County	None			
Liberty, City of	None			
Liberty ISD	5/09/2015	\$ 33,500,000	\$ 33,500,000 *	\$ -

Source: Texas Municipal Reports published by the Municipal Advisory Council of Texas.  
 \* Includes the issuance of the Bonds.

**GENERAL FUND COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES**

**TABLE 8**

The following statements set forth in condensed form reflect the historical operations of the District. Such summary has been prepared for inclusion herein based upon information obtained from the District's audited financial statements and records. Reference is made to such statements for further and complete information.

	Fiscal Year Ended				
	8/31/2018	8/31/2017	8/31/2016	8/31/2015	8/31/2014
Fund Balance - Beginning of Year	\$ 11,013,579	\$ 11,211,372	\$ 8,679,618	\$ 7,467,552	\$ 6,568,290
<b>Revenues:</b>					
Local and Intermediate Sources and Out-of-State	10,277,815	10,107,961	11,271,026	10,066,586	10,405,139
State Program Revenues	10,159,115	8,524,843	9,037,436	7,802,769	7,378,782
Federal Program Revenues	652,189	544,395	248,224	248,711	120,583
<b>Total Revenues</b>	<b>\$ 21,089,119</b>	<b>\$ 19,177,199</b>	<b>\$ 20,556,686</b>	<b>\$ 18,118,066</b>	<b>\$ 17,904,504</b>
<b>Expenditures:</b>					
Instruction	\$ 10,691,255	\$ 10,475,695	\$ 9,598,873	\$ 8,705,630	\$ 8,509,700
Instructional Resources & Media Services	202,254	187,365	183,588	181,130	165,647
Curriculum & Instructional Staff Development	71,454	73,489	79,507	65,975	31,811
Instructional Leadership	173,557	186,769	151,235	142,485	116,842
School Leadership	1,333,846	1,284,577	1,185,722	1,074,321	1,035,656
Guidance, Counseling & Evaluation Services	514,120	451,950	433,468	434,971	462,468
Food Service	-	-	-	-	-
Soial Work Services	30,000	29,583	25,000	25,000	25,000
Health Services	133,319	126,871	117,817	111,842	125,274
Student (Pupil) Transportation	984,043	894,264	888,114	732,255	1,102,046
Food Services	-	-	-	-	-
Cocurricular/Extracurricular Activities	814,410	731,596	789,628	762,788	705,108
General Administration	988,787	863,829	804,447	812,718	763,978
Plant Maintenance and Operations	2,717,156	2,704,298	2,495,839	2,435,346	2,497,207
Security and Monitoring Services	110,419	70,769	54,563	50,836	71,664
Data Processing Services	458,640	419,219	414,263	397,451	398,347
Debt Service - Principal on long-term debt	1,000,000	-	-	73,000	72,000
Transfers Out	-	-	-	-	-
Debt Service - Interest on log term debt	128,384	128,384	128,384	128,384	128,384
Bond Issuance Costs and Fees	1,100	4,672	2,350	2,350	1,050
Capital Outlay	101,056	67,240	267,915	-	-
Payments to Shared Service Arrangements	448,838	359,587	365,278	429,431	458,396
Other Intergovernmental Charges	344,110	314,835	271,865	279,012	269,664
<b>Total Expenditures</b>	<b>21,246,748</b>	<b>19,374,992</b>	<b>18,257,856</b>	<b>16,844,925</b>	<b>16,940,242</b>
Other Uses	-	-	-	-	-
Excess (Deficiency) Revenues	-	-	-	-	-
Over Expenditures	-	(197,793)	2,298,830	1,273,141	964,262
<b>Other Financing Sources (Uses)</b>					
Transfer In	-	-	135,336	-	-
Transfer Out (Use)	-	-	-	(61,075)	(65,000)
Other Uses	-	-	97,588	-	-
<b>Total Other Financing Sources and (Uses)</b>	<b>\$ -</b>	<b>\$ (197,793)</b>	<b>\$ 2,531,754</b>	<b>\$ 1,212,066</b>	<b>\$ 899,262</b>
Prior Period Adjustent	\$ (157,629)	\$ -	\$ -	\$ -	\$ -
Fund Balance - End of Year	<u>\$ 10,855,950</u>	<u>\$ 11,013,579</u>	<u>\$ 11,211,372</u>	<u>\$ 8,679,618</u>	<u>\$ 7,467,552</u>

Source: The District's Annual Financial Reports.

\* The District's estimated General Fund balance for fiscal year ending August 31, 2019 was \$10,754,714.



**Plan Description**

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

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

**Pension Plan Fiduciary Net Position**

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

**Benefits Provided**

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of services 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 the 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 state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

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

	2018	2017	2016
Member	7.7%	7.7%	6.2%
Non-Employer Contributing Entity (State)	6.8%	6.8%	6.8%
Employers/District	6.8%	6.8%	6.8%

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

District Contributions	\$ 563,497
Member Contributions	1,264,836
NECE On-behalf Contributions (State)	770,374

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

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

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

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

- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district or charter school does to contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

**Actuarial Assumptions**

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

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term expected rate	8.00%
Municipal bond rate	N/A*
Last year ending August 31 in the 2017 and 2116 projection period (100 years)	2116.00%
Inflation	2.50%
Salary increases	3.50% to 9.50% including inflation
Ad Hoc Post-employment Benefit Changes	None

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

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

**Discount Rate**

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

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-term Portfolio Returns*
<b>Global Equity</b>			
U.S.	18.0%	4.6%	1.0%
Non-U.S. Developed	13.0%	5.1%	0.8%
Emerging Markets	9.0%	5.9%	0.7%
Directional Hedge Funds	4.0%	3.2%	0.1%
Private Equity	13.0%	7.0%	1.1%
<b>Stable Value</b>			
U.S. Treasuries	11.0%	0.7%	0.1%
Absolute Return	0.0%	1.8%	0.0%
Stable value hedge funds	4.0%	3.0%	0.1%
Cash	1.0%	-0.2%	0.0%
<b>Real Return</b>			
Global Inflation Linked Bonds	3.0%	0.9%	0.0%
Real Assets	16.0%	5.1%	1.1%
Energy and Natural Resources	3.0%	6.6%	0.2%
Commodities	0.0%	1.2%	0.0%
<b>Risk Parity</b>			
Risk Parity	5.0%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha	0.0%		1.0%
<b>Total</b>	<u>100.0%</u>		<u>8.7%</u>

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

**Discount Rate Sensitivity Analysis**

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

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
TRS	\$ 8,154,040	\$ 4,836,890	\$ 2,074,823

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred inflows of Resources Related to Pensions**

At August 31, 2018, The District reported a liability of \$4,836,890 for its proportionate share of the TRS's net pension liability. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District are as follows:

District's Proportionate Share of the Net Pension Liability	\$ 4,836,890
State's Proportionate Share of the Net Pension Liability Associated with the District	\$ 7,610,501
	<u>\$ 12,447,391</u>

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

At August 31, 2017, the employer's proportion of the net pension liability was .0151273%, which was an increase of .0004548% from its proportion measured as of August 31, 2016.

**Changes Since the Prior Actuarial Valuation**

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

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

For the year ended August 31, 2018, the District recognized pension expense of \$1,343,681 and revenue of \$580,499 for support provided by the State.

**DEFINED PENSION PLAN (Continued)**

**TABLE 9**

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actuarial Experience	\$ 70,766	\$ 260,847
Changes of Assumptions	220,328	126,133
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	352,502
Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions (Cost- Sharing-Plan)	1,161,003	312
District Contribution after Measurement Date	563,497	-
<b>Totals</b>	<u>\$ 2,015,594</u>	<u>\$ 739,794</u>

\$563,497 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended August 31, 2019. Other amounts reported as deferred outflows of resources (deferred inflows of resources) related to pensions will be recognized in pension expense as follows:

Year Ending August 31:	
2019	\$ 119,773
2020	428,524
2021	96,052
2022	1,717
2023	53,324
Thereafter	12,913
Total	<u>\$ 712,303</u>

(this page intentionally left blank)

**APPENDIX B**

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

(this page intentionally left blank)



**LIBERTY INDEPENDENT SCHOOL DISTRICT**

**General Information**

Liberty Independent School District (the “District”) includes the City of Liberty, Texas (the “City”), the county seat and principal commercial center of Liberty County. Oil and gas production is a large part of the District’s business activities. The District has four schools, San Jacinto Elementary, Liberty Elementary School, Liberty Middle School and Liberty High School.

**Other Employees**

District staff totals 382 employees, 148 teachers and 106 teachers’ aides and secretaries.

**School Facilities**

Currently, the District is operating the following school facilities:

- 2 Elementary Schools
- 1 Middle School
- 1 High School

<u>School</u>	<u>Current Enrollment</u>	<u>Teachers</u>
San Jacinto Elementary	479	28 full time
Liberty Elementary	664	44 full time
Liberty Middle School	498	31 full time
Liberty High School	615	42 full time, 1 part time
Total	2,256	143 full time, 1 part time

**ENROLLMENT**

	<u>Year</u>		<u>Student Population</u>												
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	
Grade	194	204	190	181	176	151	172	161	175	175	199	185	163	149	
2	176	190	189	174	173	157	151	175	175	175	164	178	171	168	
3	147	160	165	183	179	170	166	138	146	144	157	169	155	185	
4	163	144	160	153	178	174	162	166	159	159	142	150	168	173	
5	172	165	155	172	161	176	176	146	138	141	160	145	155	177	
6	147	154	165	159	166	157	175	171	156	156	136	155	138	165	
7	162	151	151	161	155	166	175	169	142	137	140	139	162	146	
8	164	158	159	151	151	142	153	158	153	155	131	143	145	168	
9	225	223	199	168	182	168	148	178	198	182	175	160	181	165	
10	155	163	164	169	149	166	155	134	172	168	173	156	133	156	
11	148	140	146	166	154	129	146	132	143	149	150	159	138	136	
12	146	170	162	153	157	129	126	121	100	104	137	139	143	125	
EE	3	2	4	8	8	9	9	2	-	-	8	4	9	16	
KG	173	159	171	157	137	153	147	161	160	161	173	166	126	184	
PK	<u>95</u>	<u>102</u>	<u>109</u>	<u>108</u>	<u>112</u>	<u>101</u>	<u>101</u>	<u>113</u>	<u>110</u>	<u>108</u>	<u>120</u>	<u>98</u>	<u>121</u>	<u>114</u>	
<b>TOTAL</b>	2,274	2,279	2,272	2,244	2,156	2,148	2,162	2,122	2,127	2,114	2,165	2,143	2,108	2,227	

## CITY OF LIBERTY

The City of Liberty, Texas (the "City") is the third oldest town in Texas. In 1756, the first settlement was made on this site when the Spaniards established a mission. By 1825, many industrious people from the United States had already come to this colony in the Coahuila-Texas province. In 1831, the Mexican government established a municipality on the site of Smith's Plantation and the town of Atascosito was renamed "Village of the Most Holy Trinity of Liberty," which was anglicized and shortened to simply "Liberty." The town was incorporated in 1827.

The City is the county seat of Liberty County located halfway between Houston and Beaumont on U.S. Highway 90 and within 45 minutes of two international airports. The City is 16 miles north of Interstate 10 and 25 miles north of Baytown on State Highway 146. There are many points of interest within the City: the Sam Houston Regional Library and Research Center and the Historical Courthouse Square.

The City is also home to a full-service public library, Community Theater, birding trails, shopping, dining and recreational activities. The 37,000 volume Liberty Municipal Library serves the City and surrounding areas with programs and materials for people of all ages. The library is automated and has ten computers that offer high-speed Internet access to the public. The City has four freight carriers and two rail providers. The City's Fire/EMS serves 9,000 people living in a thirty-five square mile area. The fire department has thirteen paid firemen and twenty volunteers. Paid personnel are trained as firefighters/paramedics and receive certifications from the Texas Commission on Fire Protection and the Texas Department of Health. Volunteers receive training and are certified through the State Fireman's and Fire Marshall's Association. The Department provides the following services: firefighting, hazardous material response, ALS Emergency Medical Service, Vehicle Rescue (extrication), and search and rescue.

The City is an oil and gas producing area, business center and government center. The Port of Liberty, located within the City, consists of a twelve-foot deep channel three miles in length. Facilities include several private docks and an adjacent industrial park.

Historically, the City is the third oldest municipality in Texas, and the entire area is rich in heritage and historical sites. From the towering trees of the Big Thicket to the waterways leading to the Gulf of Mexico, the City has something for everyone. The Trinity River provides an unlimited water supply and a channel which allows barge traffic to travel from the Gulf of Mexico to the Port of Liberty. The Houston and Beaumont markets are less than one hour away and Bush Intercontinental Airport is only 30 miles to the west. The area offers a diverse group of employment with both industrial and professional opportunities.

The area also offers water sports in the Trinity River, is well-known for bird watching activities, has a number of golf courses close by, hosts local and professional rodeos, sponsors festivals like the Liberty Jubilee and offers community libraries and a cultural center.

## LIBERTY COUNTY

Liberty County (the “County”) is a southeast Texas county. The economy is based on lumbering, chemical production, manufacturing and agriculture. The Texas Almanac designates rice, sorghum, nursery crops, hay, corn, and beef cattle as sources of agricultural income. The City of Liberty is the county seat.

The Trinity River flows through this county, dividing the county approximately in half. The river begins on the northern border of Liberty County, forming the San Jacinto – Polk County line through the Liberty County line. The east fork of the San Jacinto River flows through far Northeast parts of the county, flowing through Cleveland. Tarkington Bayou begins in the Sam Houston National Forest in San Jacinto County, working its way south through Northeast and East Liberty County and joining other feeders, before traveling into Harris County and emptying into Galveston Bay. The highest point in Liberty County is “Davis Hill,” the roof of a salt dome in the northern part of the county.

Around 1995 the economy of Liberty County was mainly focused on agriculture and oil. At that time the Texas Department of Criminal Justice had established four correctional facilities (Cleveland, Henley, Hightower and Plane) in the county within a six-year span. Since Cleveland is a privately operated facility, the county receives tax revenue from the prison’s operation.

### Labor Force Statistics <sup>(1)</sup>

	<u>2019 <sup>(2)</sup></u>	<u>2018 <sup>(3)</sup></u>	<u>2017 <sup>(3)</sup></u>	<u>2016 <sup>(3)</sup></u>
Civilian Labor Force	32,821	32,303	32,014	31,553
Total Employed	31,047	30,414	29,732	29,181
Total Unemployed	1,774	1,889	2,282	2,372
% Unemployment	5.4%	5.8%	7.1%	7.5%
%Unemployed (Texas)	3.7%	3.9%	4.3%	4.6%
%Unemployed (U.S.)	4.0%	3.9%	4.4%	4.9%

(1) Source: Texas Workforce Commission.

(2) As of July, 2019.

(3) Average annual statistics.

(this page intentionally left blank)

**APPENDIX C**

**FORM OF LEGAL OPINION OF BOND COUNSEL**

(this page intentionally left blank)



Norton Rose Fulbright US LLP  
Frost Tower  
111 West Houston Street, Suite 1800  
San Antonio, Texas 78205-3792  
United States

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

**FINAL**

IN REGARD to the authorization and issuance of the “Liberty Independent School District Maintenance Tax Notes, Series 2019” (the *Notes*), dated September 15, 2019, in the aggregate principal amount of \$4,795,000 we have reviewed the legality and validity of the issuance thereof by the Board of Trustees of the Liberty Independent School District (the *District*). The Notes are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity). The Notes have Stated Maturities of August 15 in each of the years 2020 through 2034, unless redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Notes. Interest on the Notes accrues from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the resolution (the *Resolution*) authorizing the issuance of the Notes. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Resolution.

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

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

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

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

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

**Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, in connection with the authorization and issuance of “LIBERTY INDEPENDENT SCHOOL DISTRICT MAINTENANCE TAX NOTES, SERIES 2019”**

1. The Notes have been duly authorized by the District and, when issued in compliance with the provisions of the Resolution, are valid, legally binding, and enforceable obligations of the District, payable from the proceeds of an annual maintenance and operations ad valorem tax levied, within the limitations prescribed by law, upon all taxable property within the District, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors’ rights or the exercise of judicial discretion in accordance with general principles of equity.

2. Pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the *Code*), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance after the date hereof by the District with the provisions of the Resolution relating to sections 141 through 150 of the Code, interest on the Notes will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes, and such interest will not be included in computing the alternative minimum taxable income of the owners thereof.

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

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



**APPENDIX D**

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

(this page intentionally left blank)



Austin | Conroe | Dallas | Fort Worth | Houston  
Los Angeles | Midland | New York City | San Antonio

## Independent Auditor's Report

The Board of Trustees of  
Liberty Independent School District  
Liberty, Texas

### Report on the Financial Statements

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

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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

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

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

### Opinions

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

***Emphasis of Matters***

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

***Required Supplementary Information***

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

***Supplementary and Other Information***

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

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

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

The Board of Trustees of  
Liberty Independent School District

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2019 on our consideration of Liberty Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Liberty Independent School District's internal control over financial reporting and compliance.

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas  
January 10, 2019

**This Page Intentionally Left Blank**

## Management's Discussion and Analysis

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

### Financial Highlights

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$94,334 (*net position*). Of this amount, \$5,266,107 (*unrestricted net position*) was a negative due to the implementation of GASB Statement No. 75.
- The District's total net position decreased by \$12,718,767, due to the implementation of GASB Statement No. 75.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$20,645,479, a decrease of \$5,155,725.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$9,281,858, or 44 percent of total general fund expenditures, which is approximately five months of operating expenditures of the fund.
- The District's total general obligation bonded debt, net decreased by \$1,742,197 (4 percent), primarily due to the scheduled debt payments.

### Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

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



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

The District's financial statements include the following Shared Services Arrangement: 1) Southeast Texas Cooperative for Special Services.

The District maintains 21 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the debt service fund, and the capital projects fund which are considered to be major funds. Data from the other 18 governmental funds are combined into a single, aggregated presentation. The District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

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

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

***Fiduciary Funds.*** Fiduciary funds are used to account for resources held for the benefit of students. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the District's own programs and activities.

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

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

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

## Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a District's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$94,334 at the close of the most recent fiscal year.

### Liberty Independent School District's Net Position

	Governmental Activities					
	2018		2017		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Current and other assets	\$ 27,498,080	43	\$ 31,973,954	49	\$ (4,475,874)	(14)
Capital assets, net of depreciation	36,840,598	57	33,362,363	51	3,478,235	10
Total assets	64,338,678	100	65,336,317	100	(997,639)	
Total deferred outflows of resources	2,299,045	100	2,653,782	100	(354,737)	(13)
Long-term liabilities outstanding	58,317,239	95	51,896,260	95	6,420,979	12
Other liabilities	3,367,831	5	2,961,077	5	406,754	14
Total liabilities	61,685,070	100	54,857,337	100	6,827,733	
Total deferred inflows of resources	4,858,319	100	319,661	100	4,538,658	1,420
Net position:						
Net investment in capital assets	2,363,935	2,506	925,299	7	1,438,636	155
Restricted	2,996,506	3,176	3,887,116	30	(890,610)	(23)
Unrestricted	(5,266,107)	(5,582)	8,000,686	63	(13,266,793)	(166)
<b>Total net position</b>	<b>\$ 94,334</b>	<b>100</b>	<b>\$ 12,813,101</b>	<b>100</b>	<b>\$ (12,718,767)</b>	

Net investment in capital assets (e.g., land and improvements, buildings and improvements, and furniture and equipment), less any related debt used to acquire those assets that are still outstanding represent \$2,363,935 of the District's net position. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's net investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net position that is restricted for debt service and grants total \$2,996,506 of net position.

The largest portion of the District's net position is unrestricted, which is a negative \$5,266,107 due to the implementation of GASB Statement No. 75. While the District recorded liabilities for pension and OPEB in the amount of \$14,682,711, the District was still able to report a positive total net position.

**Governmental Activities.** Governmental activities increased the District's net position by \$4,545,821 from current operations. The elements giving rise to this change may be determined from the table below.

**Liberty Independent School District's Changes in Net Position**

	Governmental Activities					
	2018		2017		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Revenue:						
Program revenues:						
Charges for services	\$ 3,034,540	11	\$ 3,822,043	13	\$ (787,503)	(21)
Operating grants and contributions	1,631,776	6	5,586,074	18	(3,954,298)	(71)
General revenues:						
Property taxes, levied for general purposes	9,364,564	34	9,077,926	30	286,638	3
Property taxes, levied for debt service	3,132,481	11	3,170,835	10	(38,354)	(1)
Investment earnings	361,089	1	258,373	1	102,716	40
Grants and contributions not restricted to specific programs	9,829,437	35	8,218,351	27	1,611,086	20
Miscellaneous	434,065	2	216,207	1	217,858	101
<b>Total revenues</b>	<b>27,787,952</b>	<b>100</b>	<b>30,349,809</b>	<b>100</b>	<b>(2,561,857)</b>	
Expenses:						
Instruction	9,389,878	41	13,486,802	46	(4,096,924)	(30)
Instructional resources and media services	204,900	1	227,780	1	(22,880)	(10)
Curriculum and instructional staff development	357,239	2	357,324	1	(85)	-
Instructional leadership	163,977	1	321,846	1	(157,869)	(49)
School leadership	927,693	4	1,339,107	5	(411,414)	(31)
Guidance, counseling, and evaluation services	896,001	4	2,426,208	8	(1,530,207)	(63)
Social work services	30,000	-	29,583	-	417	1
Health services	108,060	-	130,831	-	(22,771)	(17)
Student transportation	906,898	4	990,143	3	(83,245)	(8)
Food services	1,035,756	5	1,353,314	5	(317,558)	(23)
Extracurricular activities	970,112	4	1,062,916	4	(92,804)	(9)
General administration	1,088,584	5	1,397,651	5	(309,067)	(22)
Plant maintenance and operations	2,834,158	12	2,869,864	10	(35,706)	(1)
Security and monitoring services	108,925	-	71,928	-	36,997	51
Data processing services	500,650	2	464,574	2	36,076	8
Community services	19,114	-	17,371	-	1,743	10
Interest on long-term debt	1,480,565	6	1,179,966	4	300,599	25
Issuance costs and fees	3,025	-	142,552	-	(139,527)	(98)
Facilities repair and maintenance	221,180	1	-	-	221,180	-
Payments related to shared services arrangements	1,651,306	7	1,173,409	4	477,897	41
Other intergovernmental charges	344,110	1	314,835	1	29,275	9
<b>Total expenses</b>	<b>23,242,131</b>	<b>100</b>	<b>29,358,004</b>	<b>100</b>	<b>(6,115,873)</b>	
Change in net position	4,545,821		991,805		3,554,016	
Net position - beginning	12,813,101		11,821,296		991,805	
Prior period adjustment - implement GASB 75 for OPEB (a)	(17,264,588)		-		(17,264,588)	
Net position - beginning, as restated	(4,451,487)		11,821,296		(16,272,783)	
<b>Net position - ending</b>	<b>\$ 94,334</b>		<b>\$ 12,813,101</b>		<b>\$ (12,718,767)</b>	

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

Revenues are generated primarily from two sources. Grants and contributions (program and general revenues), totaling \$11,461,213 represent 41 percent of total revenues and property taxes (\$12,497,045) represent 45 percent of total revenues. The remaining 14 percent is generated from charges for services, investment earnings, and miscellaneous revenues.

The primary functional expense of the District is instruction (\$9,389,878), which represents 41 percent of total expenses and plant maintenance and operations (\$2,834,158), which represents 12 percent of total expenses. The remaining functional categories of expenses are individually equal to or less than 10 percent of total expenditures.

The District's net position increased despite the decreases in operating grants and contributions, property taxes, and grants and contributions not restricted to a specific program due to the District controlled expenditures within the budgeted revenues available and the District reduced functional expenses where possible.

### **Financial Analysis of the Government's Funds**

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

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

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$20,645,479 a decrease of \$5,155,725. Comments as to each individual fund's change in fund balance follow.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance was \$9,281,858 and total fund balance of the general fund was \$10,855,950. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned and total fund balance both represent 44 and 51 percent, respectively, of total general fund expenditures. The fund balance of the District's general fund decreased by \$157,629 during the current fiscal year. The decrease was primarily due the repayment retirement of the 2013 QZA Note in the current year. A portion of the fund balance (\$1,574,092) is restricted for debt service and unavailable to fund District operations.

The debt service fund ended the year with a total fund balance of \$1,018,087, all of which is restricted for the payment of principal and interest on debt. The debt service fund balance increased by \$113,098 during the year, increase was primarily due the District's ability to cover scheduled debt payments without a significant change in revenues.

The capital projects fund has a total fund balance of \$8,047,648, all of which is restricted for capital acquisition programs and contractual obligations. The net decrease in fund balance during the current year in the capital projects fund was \$4,789,407. The decrease was due to planned construction expenditures as outlined in the bond issue.

### **General Fund Budgetary Highlights**

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

There were no significant variations between the final budget and actual results.

## Capital Assets and Long-term Liabilities

**Capital Assets.** The District's investment in capital assets for its governmental type activities as of August 31, 2018, amounts to \$36,840,598 (net of accumulated depreciation). This investment in capital assets includes land and improvements, buildings and improvements, furniture and equipment, and construction in progress. The total increase in the District's investment in capital assets for the current fiscal year was \$3,478,235.

Major capital asset additions during the current fiscal year included the following:

- \$18,102,271 due to completion of 2015 Bond Projects.

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

	Governmental Activities					
	2018		2017		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Land and improvements	\$ 874,305	2	\$ 874,305	3	\$ -	-
Buildings and improvements	31,621,434	86	13,519,163	40	18,102,271	134
Furniture and equipment	2,125,094	6	1,980,207	6	144,887	7
Construction in progress	2,219,765	6	16,988,688	51	(14,768,923)	(87)
<b>Totals</b>	<b>\$ 36,840,598</b>	<b>100</b>	<b>\$ 33,362,363</b>	<b>100</b>	<b>\$ 3,478,235</b>	

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

**Construction Commitments.** At the end of the current fiscal year, the District's commitments with construction contractors totaled \$7,159,385.

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

### Liberty Independent School District's Long-term Liabilities Outstanding

	Governmental Activities					
	2018		2017		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
General obligation bonds (net)	\$ 39,844,889	69	\$ 41,587,086	60	\$ (1,742,197)	(4)
Notes payable	3,560,000	6	4,560,000	7	(1,000,000)	(22)
Workers' compensation	62,844	-	38,320	-	24,524	64
Compensated absences	166,795	-	166,370	-	425	-
Net pension liability	4,836,890	8	5,544,502	8	(707,612)	(13)
Net OPEB liability	9,845,821	17	17,382,300	25	(7,536,479)	(43)
<b>Totals</b>	<b>\$ 58,317,239</b>	<b>100</b>	<b>\$ 69,278,578</b>	<b>100</b>	<b>\$ (10,961,339)</b>	

The District's general obligation bonds, net increased by \$1,742,197 (4 percent) during the current fiscal year, which resulted for regularly scheduled debt payments.

The District's general obligation debt is backed by the full faith and credit District and is further guaranteed by the Texas Permanent School Fund Guarantee Program.

State statutes do not limit the rate or amount for the support of school districts bonded indebtedness. However, approval of the Attorney General of the State of Texas is required prior to the sale of bonds.

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

### **Economic Factors and Next Year's Budget and Rates**

- Current enrollment (2018-2019) totals 2,211 students, which is a 4% increase from the prior year.
- District staff totals 409 employees, which includes 145 teachers and 106 teachers' aides and secretaries.
- The District maintains 4 campuses for instruction.
- The unemployment rate for the County is currently 5.8 percent, which is a decrease from a rate of 7.6 percent a year ago. This compares unfavorably to the state's average unemployment rate of 3.9 percent, which has decreased from a rate of 4.5 percent a year ago.
- Property values of the District will increase by approximately 10% in the 2018-2019 fiscal year from the 2017-2018 fiscal year.
- 2018 Tax Rates are \$1.06 for maintenance and operations and \$0.334 for debt service, a total rate of \$1.394. Preceding year rates were \$1.06, \$.344, and \$1.404, respectively.

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

The District plans to utilize unassigned fund balance to fund current period expenditures prior to collecting the current year tax levy.

### **Requests for Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Liberty Independent School District, 1600 Grand Avenue, Liberty, Texas, 77575.

# Basic Financial Statements

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

Exhibit A-1

<u>Data Control Codes</u>		<u>1 Primary Governmental Governmental Activities</u>
<b>ASSETS</b>		
1110	Cash and cash equivalents	\$ 562,188
1120	Current investments	20,331,664
1220	Property taxes receivable	3,735,268
1230	Allowance for uncollectible taxes	(186,700)
1240	Due from other governments	1,446,724
1250	Accrued interest	32,025
1290	Other receivables	2,819
	Capital assets:	
1510	Land and improvements	874,305
1520	Buildings and improvements (net)	31,621,434
1530	Furniture and equipment (net)	2,125,094
1580	Construction in progress	2,219,765
1890	Restricted investments for debt obligations	1,574,092
1000	Total assets	<u>64,338,678</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
1705	Deferred outflows - pension	2,015,594
1706	Deferred outflows - OPEB	163,081
1710	Deferred charge on refunding	120,370
1700	Total deferred outflows of resources	<u>2,299,045</u>
<b>LIABILITIES</b>		
2110	Accounts payable	2,415,981
2140	Interest payable	63,798
2160	Accrued wages payable	888,052
	Noncurrent liabilities:	
2501	Due within one year	2,019,842
2502	Due in more than one year	41,614,686
2540	Net pension liability	4,836,890
2545	Net OPEB liability	9,845,821
2000	Total liabilities	<u>61,685,070</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
2605	Deferred inflows - pension	739,794
2606	Deferred inflows - OPEB	4,118,525
2600	Total deferred inflows of resources	<u>4,858,319</u>
<b>NET POSITION</b>		
3200	Net investment in capital assets	2,363,935
3820	Restricted for grants	634,563
3850	Restricted for debt service	2,361,943
3900	Unrestricted	(5,266,107)
3000	<b>TOTAL NET POSITION</b>	<u>\$ 94,334</u>

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



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

Exhibit B-1

Data Control Codes	Functions/Programs	1 Expenses	3 Program Revenues		4 Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position Governmental Activities
			Charges for Services			
<b>PRIMARY GOVERNMENT</b>						
Governmental activities:						
0011	Instruction	\$ 9,389,878	\$ 943,357	\$ (120,812)	\$ (8,567,333)	
0012	Instructional resource and media services	204,900	-	(13,785)	(218,685)	
0013	Curriculum and instructional staff development	357,239	-	364,259	7,020	
0021	Instructional leadership	163,977	77,344	(43,725)	(130,358)	
0023	School leadership	927,693	-	(172,588)	(1,100,281)	
0031	Guidance, counseling, and evaluation services	896,001	229,167	826,896	160,062	
0032	Social work services	30,000	-	-	(30,000)	
0033	Health services	108,060	-	(10,852)	(118,912)	
0034	Student transportation	906,898	-	(63,825)	(970,723)	
0035	Food services	1,035,756	339,208	691,438	(5,110)	
0036	Extracurricular activities	970,112	172,987	(61,706)	(858,831)	
0041	General administration	1,088,584	430,665	(166,579)	(824,498)	
0051	Plant maintenance and operations	2,834,158	76,505	7,442	(2,750,211)	
0052	Security and monitoring services	108,925	-	(1,010)	(109,935)	
0053	Data processing services	500,650	-	(17,914)	(518,564)	
0061	Community services	19,114	7,321	11,848	55	
0072	Interest on long-term debt	1,480,565	-	-	(1,480,565)	
0073	Issuance costs and fees	3,025	-	109,510	106,485	
0081	Facilities repair and maintenance	221,180	-	-	(221,180)	
0093	Payments related to shared services arrangement	1,651,306	757,986	293,179	(600,141)	
0099	Other intergovernmental charges	344,110	-	-	(344,110)	
TG	Total governmental activities	23,242,131	3,034,540	1,631,776	(18,575,815)	
TP	<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 23,242,131</b>	<b>\$ 3,034,540</b>	<b>\$ 1,631,776</b>	<b>(18,575,815)</b>	
General revenues:						
MT	Property taxes, levied for general purposes				9,364,564	
DT	Property taxes, levied for debt service				3,132,481	
GC	Grants and contributions not restricted to specific programs				9,829,437	
IE	Investment earnings				361,089	
MI	Miscellaneous				434,065	
TR	Total general revenues				23,121,636	
CN	Change in net position				4,545,821	
NB	Net position - beginning				12,813,101	
PA	Prior period adjustment - implement GASB 75 for OPEB				(17,264,588)	
	Net position - beginning, as restated				(4,451,487)	
NE	<b>NET POSITION - ENDING</b>				<b>\$ 94,334</b>	

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

**Liberty Independent School District**  
 Balance Sheet - Governmental Funds  
 August 31, 2018

Data Control Codes		199	599
		General Fund	Debt Service Fund
<b>ASSETS</b>			
1110	Cash and cash equivalents	\$ 258,687	\$ 8,780
1120	Current investments	8,255,335	857,333
1220	Property taxes receivable	3,116,272	618,996
1230	Allowance for uncollectible taxes	(155,800)	(30,900)
1240	Due from other governments	688,549	-
1250	Accrued interest	22,682	87
1260	Due from other funds	1,401,062	151,887
1290	Other receivables	2,819	-
1890	Restricted investments for debt obligations	1,574,092	-
1000	Total assets	<u>15,163,698</u>	<u>1,606,183</u>
1000a	<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 15,163,698</u>	<u>\$ 1,606,183</u>
<b>LIABILITIES</b>			
2110	Accounts payable	\$ 255,036	\$ -
2160	Accrued wages payable	888,052	-
2170	Due to other funds	204,188	-
2000	Total liabilities	<u>1,347,276</u>	<u>-</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
2600	Unavailable revenue - property taxes	<u>2,960,472</u>	<u>588,096</u>
	Total deferred inflows of resources	2,960,472	588,096
<b>FUND BALANCES</b>			
3450	Restricted - grant funds	-	-
3470	Restricted - capital acquisitions and contractual obligations	-	-
3480	Restricted - debt service	1,574,092	1,018,087
3545	Committed - other	-	-
3600	Unassigned	9,281,858	-
3000	Total fund balances	<u>10,855,950</u>	<u>1,018,087</u>
4000	<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<u>\$ 15,163,698</u>	<u>\$ 1,606,183</u>

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

699		98
Capital Projects Fund	Total Nonmajor Funds	Total Governmental Funds
\$ -	\$ 294,721	\$ 562,188
9,946,159	1,272,837	20,331,664
-	-	3,735,268
-	-	(186,700)
-	758,175	1,446,724
9,256	-	32,025
-	52,301	1,605,250
-	-	2,819
-	-	1,574,092
<u>9,955,415</u>	<u>2,378,034</u>	<u>29,103,330</u>
<u>\$ 9,955,415</u>	<u>\$ 2,378,034</u>	<u>\$ 29,103,330</u>
\$ 1,907,667	\$ 253,278	\$ 2,415,981
-	-	888,052
100	1,400,962	1,605,250
<u>1,907,767</u>	<u>1,654,240</u>	<u>4,909,283</u>
-	-	3,548,568
-	-	3,548,568
-	634,563	634,563
8,047,648	-	8,047,648
-	-	2,592,179
-	89,231	89,231
-	-	9,281,858
<u>8,047,648</u>	<u>723,794</u>	<u>20,645,479</u>
<u>\$ 9,955,415</u>	<u>\$ 2,378,034</u>	<u>\$ 29,103,330</u>

**This Page Intentionally Left Blank**

**Liberty Independent School District**  
 Reconciliation of the Governmental Funds Balance  
 Sheet to the Statement of Net Position  
 August 31, 2018

**Exhibit C-1R**

**TOTAL FUND BALANCES - GOVERNMENTAL FUNDS (EXHIBIT C-1)** \$ 20,645,479

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

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

Governmental capital assets costs	\$ 63,538,072	
Accumulated depreciation of governmental capital assets	<u>(26,697,474)</u>	36,840,598

Property taxes receivable, which will be collected subsequent to year-end, but are not available soon enough to pay expenditures and, therefore, are deferred in the funds.	3,548,568
-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----------

Long-term liabilities, including bonds payable, notes payable, workers' compensation, compensated absences, and net pension and OPEB liability, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Liabilities at year-end related to such items consist of:

Bonds payable, at original par	\$ (37,214,995)	
Premium on bonds payable	(1,869,686)	
Accreted interest on capital appreciation bonds	(760,208)	
Accrued interest on the bonds	(58,124)	
Notes payable	(3,560,000)	
Accrued interest on the notes	(5,674)	
Workers' compensation	(62,844)	
Compensated absences	(166,795)	
Net pension liability	(4,836,890)	
Net OPEB liability	<u>(9,845,821)</u>	(58,381,037)

Deferred charge on refunding is reported as deferred outflow of resources in the statement of net position and is not reported in the governmental funds as it is not a current financial resource available to pay for current expenditures.	120,370
-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------

Deferred outflows of resources for pension represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditures) until then.	2,015,594
-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----------

Deferred inflows for pension represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.	(739,794)
-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----------

Deferred outflows of resources for OPEB represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditures) until then.	163,081
--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------

Deferred inflows of resources for OPEB represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.	<u>(4,118,525)</u>
-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------------------

**TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES (EXHIBIT A-1)** \$ 94,334

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

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

Data Control Codes		199	599
		General Fund	Debt Service Fund
<b>REVENUES</b>			
5700	Local and intermediate sources	\$ 10,277,815	\$ 3,068,287
5800	State program revenues	10,159,115	122,432
5900	Federal program revenues	652,189	-
5020	Total revenues	21,089,119	3,190,719
<b>EXPENDITURES</b>			
Current:			
0011	Instruction	10,691,255	-
0012	Instructional resources and media services	202,254	-
0013	Curriculum and instructional staff development	71,454	-
0021	Instructional leadership	173,557	-
0023	School leadership	1,333,846	-
0031	Guidance, counseling, and evaluation services	514,120	-
0032	Social work services	30,000	-
0033	Health services	133,319	-
0034	Student transportation	984,043	-
0035	Food services	-	-
0036	Extracurricular activities	814,410	-
0041	General administration	988,787	-
0051	Plant maintenance and operations	2,717,156	-
0052	Security and monitoring services	110,419	-
0053	Data processing Services	458,640	-
0061	Community services	-	-
Debt service:			
0071	Principal on long-term debt	1,000,000	1,625,000
0072	Interest on long-term debt	128,384	1,450,696
0073	Issuance costs and fees	1,100	1,925
Capital outlay:			
0081	Facilities acquisition and construction	101,056	-
Intergovernmental:			
0093	Payments related to shared service arrangements	448,838	-
0099	Other intergovernmental charges	344,110	-
6030	Total expenditures	21,246,748	3,077,621
1200	Net change in fund balances	(157,629)	113,098
0100	Fund balances - beginning	11,013,579	904,989
3000	<b>FUND BALANCES - ENDING</b>	<b>\$ 10,855,950</b>	<b>\$ 1,018,087</b>

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

699		98
Capital Projects Fund	Total Nonmajor Funds	Total Governmental Funds
\$ 187,368	\$ 2,532,162	\$ 16,065,632
-	230,799	10,512,346
-	4,454,159	5,106,348
187,368	7,217,120	31,684,326
-	2,145,760	12,837,015
-	-	202,254
-	439,471	510,925
-	92,783	266,340
-	-	1,333,846
-	1,765,564	2,279,684
-	-	30,000
-	-	133,319
289,402	-	1,273,445
-	1,170,289	1,170,289
-	97,320	911,730
-	501,866	1,490,653
-	100,651	2,817,807
-	-	110,419
59,473	-	518,113
-	22,735	22,735
-	-	2,625,000
-	-	1,579,080
-	-	3,025
4,627,900	-	4,728,956
-	1,202,468	1,651,306
-	-	344,110
4,976,775	7,538,907	36,840,051
(4,789,407)	(321,787)	(5,155,725)
12,837,055	1,045,581	25,801,204
<u>\$ 8,047,648</u>	<u>\$ 723,794</u>	<u>\$ 20,645,479</u>

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

**Exhibit C-3**

**TOTAL NET CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS (EXHIBIT C-2)** \$ (5,155,725)

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

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

Capital assets increased	\$ 4,864,878	
Depreciation expense	<u>(1,386,643)</u>	3,478,235

Because some property taxes will not be collected for several months after the District's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues increased (decreased) by this amount this year. 261,107

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 1,625,000

Repayment of note principal is an expenditure in the governmental funds, but the repayment 1,000,000

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

Accrued interest on current interest bonds payable	\$ 11,990	
Interest accreted on the capital appreciation bonds	(38,283)	
Amortization of bond premium	155,462	
Amortization of deferred charge on refunding	<u>(30,654)</u>	98,515

The (increase) decrease in compensated absences is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. (425)

The (increase) decrease in workers' compensation is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. (24,524)

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

Deferred outflows increased (decreased)	\$ (487,164)	
Deferred inflows (increased) decreased	(420,133)	
Net pension liability (increased) decreased	<u>707,612</u>	(199,685)

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

Deferred outflows increased (decreased)	\$ 45,369	
Deferred inflows (increased) decreased	(4,118,525)	
Net OPEB liability (increased) decreased	<u>7,536,479</u>	3,463,323

**CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES (EXHIBIT B-1)** \$ 4,545,821

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



**Liberty Independent School District**  
 Statement of Assets and Liabilities  
 Fiduciary Fund  
 August 31, 2018

**Exhibit E-1**

<u>Data Control Codes</u>		<u>Agency Fund</u>
		<u>Student Activity</u>
	<b>ASSETS</b>	
1120	Current investments	\$ 138,333
1000	<b>TOTAL ASSETS</b>	<u>\$ 138,333</u>
	<b>LIABILITIES</b>	
2110	Accounts payable	\$ 4,279
2190	Due to student groups	134,054
2000	<b>TOTAL LIABILITIES</b>	<u>\$ 138,333</u>

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

**This Page Intentionally Left Blank**

# Liberty Independent School District

## Notes to the Financial Statements

### Note 1. Summary of Significant Accounting Policies

#### A. Description of Government-wide Financial Statements

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

#### B. Reporting Entity

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

#### C. Basis of Presentation – Government-wide Financial Statements

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

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

#### D. Basis of Presentation – Fund Financial Statements

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

The District reports the following major governmental funds:

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

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

The *capital projects fund* accounts for the acquisition and construction of the District's major capital facilities, other than those financed by proprietary funds.

## Liberty Independent School District

### Notes to the Financial Statements

Additionally, the District reports the following fund type:

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

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

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

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

#### **E. Change in Accounting Principle**

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

The requirements of Statement No. 75 apply to the financial statements of all state and local government employers whose employees are provided postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense related to the OPEB plan. Note disclosure and required supplementary information requirements about the OPEB plan also are addressed. The implementation of Statement No. 75 has no impact on the District's governmental fund financial statements, which continue to report expenditures in the contribution amount determined legislatively. Refer to Note 4.D. for more information regarding the District's OPEB plan. The implementation of Statement No. 75 resulted in the restatement of the District's beginning net position by \$17,264,588. See Note 4.H. for details of the District's prior period adjustment and restatement of beginning net position.

#### **F. Measurement Focus and Basis of Accounting**

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

## Liberty Independent School District

### Notes to the Financial Statements

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

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

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

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

#### **G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance**

##### **1. Cash and Cash Equivalents**

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

##### **2. Investments**

Investments for the District, except for certain investment pools, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost or net asset value. Non-negotiable certificates of deposit are reported at cost.

##### **3. Capital Assets**

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

# Liberty Independent School District

## Notes to the Financial Statements

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

<u>Capital Asset Class</u>	<u>Lives</u>
Buildings and improvements	5-45
Furniture and equipment	2-15

#### **4. *Deferred Outflows/Inflows of Resources***

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

The components of the deferred outflows of resources and deferred inflows of resources in the government-wide and fund level financial statements are as follows:

Deferred outflows/inflows of resources are amortized as follows:

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

#### **5. *Compensated Absences***

The District's policy permits employees to accumulate earned but unused local leave benefits. Payment for unused local leave days accumulated locally will be made upon separation from the District for employees employed ten or more years by the District. All local leave is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have met the District's retirement and State's retirement eligibility requirements

## Liberty Independent School District

### Notes to the Financial Statements

#### **6. Net Position Flow Assumption**

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

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

#### **7. Fund Balance Flow Assumptions**

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

#### **8. Fund Balance Policies**

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

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

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

#### **9. Pension**

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

## Liberty Independent School District

### Notes to the Financial Statements

#### **10. Other Post-Employment Benefits**

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

#### **H. Revenues and Expenditures/Expenses**

##### **1. Program Revenues**

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

##### **2. Property Taxes**

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

#### **I. Use of Estimates**

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

#### **J. Data Control Codes**

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



# Liberty Independent School District

## Notes to the Financial Statements

### Note 2. Stewardship, Compliance, and Accountability

#### A. Budgetary Information

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

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

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

#### B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as restricted, committed, or assigned fund balances as appropriate. The encumbrances do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year. The District's outstanding encumbrances at August 31, 2018 total \$7,159,385, which are included in restricted capital projects fund balance.

#### C. Excess of Expenditures Over Appropriations

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

<u>Fund</u>	<u>Function</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund	71	\$ 266,250	\$ 1,000,000	\$ (733,750)

# Liberty Independent School District

## Notes to the Financial Statements

### Note 3. Detailed Notes on All Funds

#### A. Deposits and Investments

##### Cash Deposits

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

##### Investments

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

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

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

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

# Liberty Independent School District

## Notes to the Financial Statements

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

Governmental Funds' Investment Type	Current Investments & Restricted Investments for Debt Obligations	Fair Value Measurements Using		Percentage of Total Investments	Weighted Average Maturity (Days)	Credit Risk
		Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)			
Investments measured at cost:						
Certificates of deposit	\$ 2,644,485	\$ -	\$ -	12%	305	Not Rated*
Investments measured at amortized cost:						
Investment pools:						
TexPool	5,035,481	-	-	23%	28	AAAm
TexPool Prime	620,300	-	-	3%	27	AAAm
Money Market Fund	846,179	-	-	4%	14	AAAm
Investments measured at net asset value (NAV), fair value:						
Investment pools:						
Texas CLASS	976,730	-	-	4%	47	AAAm
Investments measured at fair value:						
Certificates of deposit	1,748,933	-	1,748,933	8%	105	Not Rated*
US Treasury Bills	10,033,648	10,033,648	-	46%	57	AA+
<b>Total value</b>	<b>\$ 21,905,756</b>	<b>\$ 10,033,648</b>	<b>\$ 1,748,933</b>	<b>101%</b>		
<b>Portfolio weighted average maturity</b>					137	

\* Certificates of deposit are insured and/or collateralized

Fiduciary Fund's Investment Type	Current Investments	Fair Value Measurements Using		Percentage of Total Investments	Weighted Average Maturity (Days)	Credit Risk
		Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)			
Investments measured at amortized cost:						
Investment pools:						
TexPool	\$ 138,333	\$ -	\$ -	100%	28	AAAm
<b>Total value</b>	<b>\$ 138,333</b>	<b>\$ -</b>	<b>\$ -</b>	<b>100%</b>		
<b>Portfolio weighted average maturity</b>					28	

Investment pools and money market funds are measured at amortized cost or net asset value. Such investments are not required to be reported in the fair value hierarchy.

Certificates of deposit classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

*U.S Treasury Bills* are classified as Level 1 on the fair value hierarchy. The U.S Treasury Bills classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

## **Liberty Independent School District**

### Notes to the Financial Statements

The TexPool investment pool is an external investment pool measured at amortized cost. The Cavanal Hill U.S. Treasury Fund, a money market fund, noted in the above table is also measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, such investments must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity and diversification requirements. Such investments pools transact at a net asset value of \$1.00 per share, have weighted average maturity of 60 days or less and weighted average life of 120 days or less, investments held are highly rated by nationally recognized statistical rating organization, have no more than 5% of portfolio with one issuer (excluding US government securities), and can meet reasonably foreseeable redemptions. Such investments have a redemption notice period of one day and no maximum transaction amounts. The investment pools' authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities market, general banking moratorium or national or state emergency that affects the pools' liquidity.

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

#### **Credit Risk**

At year-end, the District's investments were rated as noted in the preceding table. All credit ratings met acceptable levels required by legal guidelines prescribed in both the PFIA and the District's investment policy.

#### **Interest Rate Risk**

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

#### **Concentration of Credit Risk**

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

#### **Custodial Credit Risk – Deposits**

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

# Liberty Independent School District

## Notes to the Financial Statements

### Custodial Credit Risk – Investments

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

### B. Receivables

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

Change in uncollectibles related to general fund property taxes	\$	790
Change in uncollectibles related to debt service property taxes		<u>2,609</u>
<b>Total change in uncollectibles of the current fiscal year</b>	<b>\$</b>	<b><u><u>3,399</u></u></b>

Approximately 88% of the outstanding balance of property taxes is not anticipated to be collected within the next year.

### C. Interfund Receivables, Payables and Transfers

#### 1. Receivables/Payables

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

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General fund	\$ 1,401,062	\$ 204,188
Debt service fund	151,887	-
Capital projects fund	-	100
Nonmajor funds	<u>52,301</u>	<u>1,400,962</u>
<b>Totals</b>	<b>\$ <u><u>1,605,250</u></u></b>	<b>\$ <u><u>1,605,250</u></u></b>

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

#### 2. Transfers

Interfund transfers are defined as "flows of assets from one fund to another fund without equivalent flow of assets in return and without a requirement for repayment." Transfers are the use of funds collected in one fund to finance various programs accounted for in other funds. There were no interfund transfers between the various funds at August 31, 2018.

**Liberty Independent School District**  
Notes to the Financial Statements

**D. Capital Assets**

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

	Beginning Balance	Additions	Reclassifications/ Reductions	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land and improvements	\$ 874,305	\$ -	\$ -	\$ 874,305
Construction in progress	16,988,688	4,440,289	(19,209,212)	2,219,765
Total capital assets, not being depreciated	17,862,993	4,440,289	(19,209,212)	3,094,070
Capital assets, being depreciated:				
Buildings and improvements	35,474,442	67,487	19,209,212	54,751,141
Furniture and equipment	5,335,759	357,102	-	5,692,861
Total capital assets, being depreciated	40,810,201	424,589	19,209,212	60,444,002
Less accumulated depreciation for:				
Buildings and improvements	(21,955,279)	(1,174,428)	-	(23,129,707)
Furniture and equipment	(3,355,552)	(212,215)	-	(3,567,767)
Total accumulated depreciation	(25,310,831)	(1,386,643)	-	(26,697,474)
Total capital assets, being depreciated, net	15,499,370	(962,054)	19,209,212	33,746,528
<b>Governmental activities capital assets, net</b>	<b>\$ 33,362,363</b>	<b>\$ 3,478,235</b>	<b>\$ -</b>	<b>\$ 36,840,598</b>

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

Governmental activities:	
11 Instruction	\$ 527,208
12 Instructional resources and media services	40,899
23 School leadership	25,732
31 Guidance, counseling, and evaluation services	5,870
33 Health services	4,621
34 Student transportation	98,169
35 Food services	116,125
36 Extracurricular activities	209,549
41 General administration	5,479
51 Plant maintenance and operations	287,815
52 Security and monitoring services	1,044
53 Data processing services	64,132
<b>Total depreciation expense-governmental activities</b>	<b>\$ 1,386,643</b>

# Liberty Independent School District

## Notes to the Financial Statements

### Construction Commitments

The District has an active construction project as of August 31, 2018 for a district-wide updates. At year end, the District's commitments with contractors are as follows:

Project	Remaining Commitment
2017 Bond project	\$ 7,159,385
<b>Total</b>	<b>\$ 7,159,385</b>

The commitment for construction and equipment of school facilities is being financed by general obligation bonds secured by tax revenues and local funds.

### E. Long-term Liabilities

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

### Changes in Long-term Liabilities

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

	Beginning Balance	Additions/ (Provision Adjustments)	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 38,839,995	\$ -	\$ (1,625,000)	\$ 37,214,995	\$ 1,029,995
Issuance premium	2,025,148	-	(155,462)	1,869,686	-
Accreted interest (CAB)	721,925	38,283	-	760,208	760,208
Total bonds payable, net	41,587,068	38,283	(1,780,462)	39,844,889	1,790,203
Notes payable	4,560,000	-	(1,000,000)	3,560,000	-
Workers' compensation	38,320	86,646	(62,122)	62,844	62,844
Compensated absences	166,370	42,437	(42,012)	166,795	166,795
Net pension liability	5,544,502	700,753	(1,408,365)	4,836,890	-
Net OPEB liability*	17,382,300	1,665	(7,538,144)	9,845,821	-
<b>Governmental activities long-term liabilities</b>	<b>\$ 69,278,560</b>	<b>\$ 869,784</b>	<b>\$ (11,831,105)</b>	<b>\$ 58,317,239</b>	<b>\$ 2,019,842</b>

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

# Liberty Independent School District

## Notes to the Financial Statements

### General Obligation Bonds

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

General obligation bonds are direct obligations and pledge the full faith and credit of the District. The following is a summary of changes in the general obligation bonds for the fiscal year:

Series	Interest Rate	Original Issue	Maturity Date	Beginning Balance	Additions	Reductions	Ending Balance
2005 CAB	-	\$ 109,995	2019	\$ 109,995	\$ -	\$ -	\$ 109,995
2010 REF	2.00-3.00%	3,650,000	2018	755,000	-	(755,000)	-
2014 REF	2.00-3.75%	8,080,000	2027	7,720,000	-	(100,000)	7,620,000
2015 BLDG	3.00-5.00%	23,035,000	2035	20,790,000	-	(645,000)	20,145,000
2017 BLDG	2.00-5.00%	9,465,000	2037	9,465,000	-	(125,000)	9,340,000
<b>Totals</b>				<u>\$ 38,839,995</u>	<u>\$ -</u>	<u>\$ (1,625,000)</u>	<u>\$ 37,214,995</u>

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

Year Ending August 31,	Principal Value	Interest	Total Requirements
2019	\$ 1,029,995	\$ 1,295,063	\$ 2,325,058
2020	1,850,000	1,237,263	3,087,263
2021	1,920,000	1,160,213	3,080,213
2022	2,005,000	1,082,387	3,087,387
2023	2,080,000	1,006,887	3,086,887
2024	2,165,000	928,662	3,093,662
2025	2,105,000	842,012	2,947,012
2026	2,340,000	751,150	3,091,150
2027	2,455,000	664,799	3,119,799
2028	1,985,000	594,187	2,579,187
2029	2,050,000	532,744	2,582,744
2030	2,115,000	467,451	2,582,451
2031	2,185,000	399,088	2,584,088
2032	2,250,000	326,550	2,576,550
2033	2,330,000	249,600	2,579,600
2034	2,410,000	169,950	2,579,950
2035	2,490,000	86,474	2,576,474
2036	715,000	32,775	747,775
2037	735,000	11,025	746,025
<b>Totals</b>	<u>\$ 37,214,995</u>	<u>\$ 11,838,280</u>	<u>\$ 49,053,275</u>

As of August 31, 2018, the District did not have any authorized but unissued bonds.

In prior years, the District defeased certain bonds through the issuance of the new bonds and placed the proceeds in an irrevocable trust to provide for all future debt service payments of the old bonds. Securities being utilized to repay the refinanced debt as it becomes due consist solely of U.S. government obligations. Accordingly, the trust account securities and the liability for the defeased bonds are not included in the District's basic financial statements. As of August 31, 2018, there were no outstanding defeased bonds.



# Liberty Independent School District

## Notes to the Financial Statements

### Notes Payable

The District issued qualified zone academy notes (QZA) and qualified school construction maintenance tax note (QSC) to provide funds for repair and rehabilitation of facilities and equipping facilities. The notes are secured by the proceeds of a continuing, direct annual ad valorem tax levied for maintenance. The following is a summary of changes in the notes payable for the fiscal year:

Description	Interest Rate	Original Issue	Maturity Date	Beginning Balance	Additions	Reductions	Ending Balance
2003 QZA NOTE	0.00%	\$ 1,000,000	2018	\$ 1,000,000	\$ -	\$ (1,000,000)	\$ -
2005 QZA NOTE	0.00%	1,000,000	2022	1,000,000	-	-	1,000,000
2011 QSC NOTE	5.015%	2,560,000	2029	2,560,000	-	-	2,560,000
<b>Totals</b>				<u>\$ 4,560,000</u>	<u>\$ -</u>	<u>\$ (1,000,000)</u>	<u>\$ 3,560,000</u>

Annual debt service requirements to maturity for notes payable are as follows:

Year Ending August 31,	Principal	Interest	Total Requirements
2019	\$ -	\$ 128,384	\$ 128,384
2020	-	128,384	128,384
2021	-	128,384	128,384
2022	1,000,000	128,384	1,128,384
2023	-	128,384	128,384
2024	-	128,384	128,384
2025	-	128,384	128,384
2026	-	128,384	128,384
2027	-	128,384	128,384
2028	-	128,384	128,384
2029	2,560,000	128,384	2,688,384
<b>Totals</b>	<u>\$ 3,560,000</u>	<u>\$ 1,412,224</u>	<u>\$ 4,972,224</u>

### F. Fund Balance

Other committed fund balance includes the following commitments of funds:

Nonmajor and other funds:	
Campus activity funds	\$ 89,231
<b>Total other committed fund balance</b>	<u>\$ 89,231</u>

# Liberty Independent School District

## Notes to the Financial Statements

### G. Revenues from Local and Intermediate Sources

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

	General	Debt Service	Capital Projects	Nonmajor Funds	Total
Property taxes	\$ 9,184,158	\$ 3,051,780	\$ -	\$ -	\$ 12,235,938
Charges for services	524,230	-	-	2,510,310	3,034,540
Investment income	165,256	16,507	157,474	21,852	361,089
Other	404,171	-	29,894	-	434,065
<b>Totals</b>	<b>\$ 10,277,815</b>	<b>\$ 3,068,287</b>	<b>\$ 187,368</b>	<b>\$ 2,532,162</b>	<b>\$ 16,065,632</b>

### Note 4. Other Information

#### A. Risk Management

##### Property/Liability

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disaster. During the fiscal year 2018, the District purchased insurance through Property Causality Alliance of Texas for claims related to property and liability risks. The District transfers the risk to the Fund. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for any of the past three fiscal years.

##### Health Care Coverage

During the fiscal year ended August 31, 2018, employees of the District were covered by TRS-Active Care (the Plan) a statewide health coverage program for Texas public education employees, implemented by the Teacher Retirement System of Texas (TRS). The District paid premiums of \$187 per month, per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to the TRS.

##### Workers' Compensation

The District established a limited risk management program for workers' compensation. Premiums are paid into the general fund by all other funds and are available to pay claims, claim reserves, and administrative costs of the program. These interfund premiums are used to reduce the amount of claims expenditure reported in the general fund.

## Liberty Independent School District

### Notes to the Financial Statements

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries from stop-loss insurance recoveries are another component of the claims liability estimate. An excess coverage insurance policy covers individual claims in excess of \$1,000,000 and statutory limit of \$5,000,000. Settlements have not exceeded coverages for each of the past three years and no significant reductions in insurance coverage from the prior year. Changes in the balances of claims liabilities during the past two years are as follows:

	Year Ended 8/31/2018	Year Ended 8/31/2017
Unpaid claims, beginning of fiscal year	\$ 38,320	\$ 27,503
Incurred claims	86,646	88,878
Claim payments	(62,122)	(78,061)
<b>Unpaid claims, end of fiscal year</b>	<b>\$ 62,844</b>	<b>\$ 38,320</b>

#### B. Contingencies

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

#### C. Defined Benefit Pension Plan

##### Plan Description

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

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

##### Pension Plan Fiduciary Net Position

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

# Liberty Independent School District

## Notes to the Financial Statements

### Benefits Provided

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

### Contributions

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

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

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

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

District contributions	\$ 563,497
Member contributions	1,264,836
NECE on-behalf contributions (state)	770,374

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

## Liberty Independent School District

### Notes to the Financial Statements

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

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

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

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

#### Actuarial Assumptions

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

Valuation date	August 31, 2017
Actuarial cost method	Individual entry age normal
Asset valuation method	Market value
Single discount rate	8.00%
Long-term expected rate	8.00%
Municipal bond rate	N/A*
Last year ending August 31 in the 2017 to 2116 projection period (100 years)	2116
Inflation	2.50%
Salary increases	3.50% to 9.50% including inflation
Ad hoc post-employment benefit changes	None

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

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

## Liberty Independent School District

### Notes to the Financial Statements

#### Discount Rate

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

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

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

# Liberty Independent School District

## Notes to the Financial Statements

### Discount Rate Sensitivity Analysis

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

1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
\$ 8,154,040	\$ 4,836,890	\$ 2,074,823

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

At August 31, 2018, the District reported a liability of \$4,836,890 for its proportionate share of the TRS's net pension liability. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District are as follows:

District's proportionate share of the net pension liability	\$ 4,836,890
State's proportionate share of the net pension liability associated with the District	<u>7,610,501</u>
<b>Total</b>	<b><u>\$ 12,447,391</u></b>

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

At August 31, 2017, the employer's proportion of the net pension liability was 0.0151273%, which was an increase of 0.0004548% from its proportion measured as of August 31, 2016.

### Changes Since the Prior Actuarial Valuation

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

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

For the fiscal year ended August 31, 2018, the District recognized pension expense of \$1,343,681 and revenue of \$580,499 for support provided by the State.

## Liberty Independent School District

### Notes to the Financial Statements

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 70,766	\$ 260,847
Changes of assumptions	220,328	126,133
Net difference between projected and actual earnings on pension plan investments	-	352,502
Changes in proportion and differences between District contributions and proportionate share of contributions (cost-sharing plan)	1,161,003	312
District contribution after measurement date	563,497	-
<b>Totals</b>	<b>\$ 2,015,594</b>	<b>\$ 739,794</b>

\$563,497 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended August 31, 2019. Other amounts reported as deferred outflows of resources (deferred inflows of resources) related to pensions will be recognized in pension expense as follows:

Year Ending August 31,	
2019	\$ 119,773
2020	428,524
2021	96,052
2022	1,717
2023	53,324
Thereafter	12,913
<b>Total</b>	<b>\$ 712,303</b>

#### D. Defined Other Postemployment Benefit Plan

##### Plan Description

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

##### OPEB Plan Fiduciary Net Position

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



## Liberty Independent School District

### Notes to the Financial Statements

#### Benefits Provided

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

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

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

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

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

\* or surviving spouse

#### Contributions

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

## Liberty Independent School District

### Notes to the Financial Statements

Texas Insurance Code, section 1575.202 establishes the state's contribution rate which is 1.0% of the employee's salary. Section 1575.203 establishes the active employee's rate which is 0.65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25% or not more than 0.75% of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

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

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

District contributions	\$ 161,541
Member contributions	106,772
NECE on-behalf contributions (state)	224,636

In addition, the State of Texas contributed \$48,684, \$46,195 and \$56,846 in 2018, 2017, and 2016, respectively, for on-behalf payments for Medicare Part D.

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

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

## Liberty Independent School District

### Notes to the Financial Statements

#### Actuarial Assumptions

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

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

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

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

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

\*\*Includes Inflation at 2.50%

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

#### Discount Rate

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

# Liberty Independent School District

## Notes to the Financial Statements

### Sensitivity of the Net OPEB Liability

#### Discount Rate

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

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

1% Decrease (2.42%)	Current Discount Rate (3.42%)	1% Increase (4.42%)
\$ 11,620,513	\$ 9,845,821	\$ 8,419,369

#### Healthcare Cost Trend Rates

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 of 1% lower or 1% higher than the assumed healthcare cost trend rate:

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

1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
\$ 8,197,630	\$ 9,845,821	\$ 12,007,776

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

At August 31, 2018, the District reported a liability of \$9,845,821 for its proportionate share of the TRS's net OPEB liability. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the net OPEB liability	\$ 9,845,821
State's proportionate share of the net OPEB liability associated with the District	<u>11,185,512</u>
<b>Total</b>	<u><u>\$21,031,333</u></u>

The net OPEB liability was measured as of August 31, 2018 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The employer's proportion of the net OPEB liability was based on the employer's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2016 through August 31, 2017.

At August 31, 2017 the employer's proportion of the collective net OPEB liability was 0.0226412% which was the same proportion measured as of August 31, 2016.

## Liberty Independent School District

### Notes to the Financial Statements

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

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

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

GASB 75 requires the District to record OPEB expense for the amount of the State's proportionate share of collective OPEB expense that is associated with the District, and record revenue in the same amount for the support provided by the State. For the measurement period ended August 31, 2017, the State's proportionate share of collected OPEB expense was a negative expense of \$8,504,163,580 and the portion of that amount that is associated with the District is a negative expense of \$3,742,970. This amount is recorded as a negative revenue and negative expense for the year ended August 31, 2018.

For the year ended August 31, 2018, the District recognized total negative OPEB expense of \$7,044,752, which includes both the District's proportionate share of collective OPEB expense and the portion of the State's proportionate share of collective OPEB expense that is associated with the District, as described above.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 205,539
Changes of assumptions	-	3,912,986
Net difference between projected and actual earnings on pension plan investments	1,496	-
Changes in proportion and differences between District contributions and proportionate share of contributions (cost-sharing plan)	44	-
District contributions after measurement date	161,541	-
<b>Totals</b>	<b>\$ 163,081</b>	<b>\$ 4,118,525</b>

## Liberty Independent School District

### Notes to the Financial Statements

\$161,541 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal year ended August 31, 2019. Other amounts reported as deferred outflows of resources (deferred inflows of resources) related to OPEB will be recognized in OPEB expense as follows:

Year Ending August 31,	
2019	\$ (543,241)
2020	(543,241)
2021	(543,241)
2022	(543,241)
2023	(543,615)
Thereafter	<u>(1,400,406)</u>
<b>Total</b>	<b><u>\$ (4,116,985)</u></b>

#### E. Shared Service Arrangements

The District is the fiscal agent for a Shared Services Arrangement ("SSA") which provides services for special education students of the District and member districts: Anahuac ISD, Cleveland ISD, Devers ISD, Hardin ISD, Hull-Daisetta ISD, and Tarkington ISD. All services are provided by the fiscal agent, and funds are received directly by the fiscal agent from the granting agency. According to guidance provided in TEA's Resource Guide, the District has accounted for the fiscal agent's activities of the SSA in the appropriate Special Revenue Funds and has accounted for these funds using Model 1 in the SSA section of the Resource Guide. Expenditures of the SSA are summarized below:

	<u>All School Districts</u>
SSA IDEA - B formula and preschool (flow through plus rollforward)	\$ 2,421,637
SSA special education (flow through plus rollforward)	<u>2,460,063</u>
<b>Total</b>	<b><u>\$ 4,881,700</u></b>

#### F. Nonmonetary Transactions

During 2018, the District received textbooks purchased by the State of Texas for the benefit of the District for a purchase price of \$11,212. The District receives the textbooks as part of state funding for textbook allotment. The textbooks have been recorded in the amount of \$11,212 in a special revenue fund as both state revenues and expenditures, which represents the amount of consideration given by the State of Texas.

# Liberty Independent School District

## Notes to the Financial Statements

### G. Tax Abatements

Liberty Independent School District entered into property tax abatement agreements with local businesses under Texas Tax Code, Title 3. Subtitle B. Chapter 313. Texas Economic Development Act (the Act) beginning December 16, 2008. Under the Act, Texas school districts may grant property tax abatements according to the category of taxable value of property in the District for the preceding tax year. Liberty Independent School District is a Category III district, which limits the minimum amount per qualified investment to \$60 million. The qualified property is limited only from maintenance and operation (M&O) property tax. The tax abatements, which are approved by the Texas Comptroller's office and the District's board of trustees, are granted for the purpose of enhancing the local community; improving the public education system; creating high-paying jobs; and advancing economic development goals.

The agreement was for a local business to invest a minimum capital investment totaling \$20,000,000 within the District's boundaries during a qualifying period and to create jobs. Such investments would be limited to taxable value of the lesser of qualified appraised value or the agreements that range individually from \$20,000,000. The District's tax abatement expires in December 31, 2021.

For the fiscal year ended August 31, 2018, the District foregoes collecting property taxes totaling \$651,973 resulting from the M&O tax rate of \$1.06 per \$100 of taxable value. The qualified property per the agreements had a taxable value of \$81,506,880 and was limited to a taxable value of \$20,000,000. However, in foregoing the property tax revenue, the District receives state funding through the Foundation School Program funding formula to offset the loss of property tax revenues. In addition, the local businesses receiving such property tax abatements have committed to compensate the District for the loss of M&O revenue, reimburse the District for all non-reimbursed costs for extraordinary education related expenses not funded by state aid, and compensate the District for the greater of \$100 per student per average daily attendance (ADA) or \$50,000 during the term of the agreement.

### H. Prior Period Adjustment and Restatement of Beginning Net Position

#### Implementation of GASB Statement No. 75

As described in Note 1.E, the District implemented GASB Statement No. 75 during the year ended August 31, 2018, resulting in a reduction of beginning net position by \$17,264,588. The reduction represents the recognition of the August 31, 2017 OPEB liability of \$17,382,300, offset by August 31, 2017 deferred outflows of resources of \$117,712.

	<u>Governmental Activities</u>
Beginning net position, as originally reported	\$ 12,813,101
Implementation of GASB 75 for OPEB	<u>(17,264,588)</u>
<b>Beginning net position, restated</b>	<b><u>\$ (4,451,487)</u></b>

## Required Supplementary Information



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

**Exhibit G-1**

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
<b>REVENUES</b>					
5700	Local and intermediate sources	\$ 10,254,387	\$ 10,232,527	\$ 10,277,815	\$ 45,288
5800	State program revenues	9,205,573	9,852,883	10,159,115	306,232
5900	Federal program revenues	532,860	652,148	652,189	41
5020	Total revenues	19,992,820	20,737,558	21,089,119	351,561
<b>EXPENDITURES</b>					
Current:					
0011	Instruction	10,949,624	10,818,236	10,691,255	126,981
0012	Instructional resources and media services	207,247	207,247	202,254	4,993
0013	Curriculum and instructional staff development	100,947	92,760	71,454	21,306
0021	Instructional leadership	191,109	191,109	173,557	17,552
0023	School leadership	1,431,405	1,356,405	1,333,846	22,559
0031	Guidance, counseling, and evaluation services	522,376	529,793	514,120	15,673
0032	Social work services	30,000	30,000	30,000	-
0033	Health services	134,319	134,319	133,319	1,000
0034	Student transportation	973,667	998,667	984,043	14,624
0036	Extracurricular activities	825,762	869,072	814,410	54,662
0041	General administration	1,060,791	1,040,041	988,787	51,254
0051	Plant maintenance and operations	2,755,570	2,736,858	2,717,156	19,702
0052	Security and monitoring services	96,361	112,861	110,419	2,442
0053	Data processing Services	417,189	460,000	458,640	1,360
Debt service:					
0071	Principal on long-term debt	266,250	266,250	1,000,000	(733,750)
0072	Interest on long-term debt	128,385	129,300	128,384	916
0073	Issuance costs and fees	4,700	4,700	1,100	3,600
Capital outlay:					
0081	Facilities acquisition and construction	-	107,019	101,056	5,963
Intergovernmental:					
0093	Payments related to shared service arrangements	322,525	448,851	448,838	13
0099	Other intergovernmental charges	342,600	345,100	344,110	990
6030	Total expenditures	20,760,827	20,878,588	21,246,748	(368,160)
1200	Net change in fund balance	(768,007)	(141,030)	(157,629)	(16,599)
0100	Fund balance - beginning	11,013,579	11,013,579	11,013,579	-
3000	<b>FUND BALANCE - ENDING</b>	<b>\$ 10,245,572</b>	<b>\$ 10,872,549</b>	<b>\$ 10,855,950</b>	<b>\$ (16,599)</b>

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

**Liberty Independent School District**

**Exhibit G-2**

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	0.0151273%	0.0146725%	0.0146309%	0.0090402%
District's proportionate share of the net pension liability	\$ 4,836,890	\$ 5,544,502	\$ 5,171,828	\$ 2,414,762
State's proportionate share of the net pension liability associated with the District	<u>7,610,501</u>	<u>8,724,674</u>	<u>8,564,323</u>	<u>7,443,561</u>
<b>TOTALS</b>	<u>\$ 12,447,391</u>	<u>\$ 14,269,176</u>	<u>\$ 13,736,151</u>	<u>\$ 9,858,323</u>
District's covered payroll	\$ 14,275,042	\$ 14,538,625	\$ 13,971,045	\$ 13,340,395
District's proportionate share of the net pension liability as a percentage of its covered payroll	33.88%	38.14%	37.02%	18.10%
Plan fiduciary net position as a percentage of the total pension liability	82.17%	78.00%	78.43%	83.25%

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

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

**Exhibit G-3**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>TRS</b>				
Contractually required contributions	\$ 563,497	\$ 495,402	\$ 464,471	\$ 434,409
Contributions in relation to the contractually required contributions	<u>(563,497)</u>	<u>(495,402)</u>	<u>(464,471)</u>	<u>(434,409)</u>
<b>CONTRIBUTION DEFICIENCY (EXCESS)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 16,426,442	\$ 14,275,042	\$ 14,538,625	\$ 13,971,045
Contributions as a percentage of covered payroll	3.43%	3.47%	3.19%	3.11%

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

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

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

	<u>2018</u>
District's proportion of the net OPEB liability	0.0226412%
District's proportionate share of the net OPEB liability	\$ 9,845,821
State's proportionate share of the net OPEB liability	<u>11,185,512</u>
<b>TOTAL</b>	<u><u>\$ 21,031,333</u></u>
District's covered payroll	\$ 14,275,042
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	68.97%
Plan fiduciary net position as a percentage of the total OPEB liability	0.91%

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

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

**Exhibit G-5**

	<u>2018</u>
<b>TRS</b>	
Contractually required contributions	\$ 161,541
Contributions in relation to the contractually required contributions	<u>(161,541)</u>
<b>CONTRIBUTION DEFICIENCY (EXCESS)</b>	<u>\$ -</u>
District's covered payroll	\$ 16,426,442
Contributions as a percentage of covered payroll	0.98%

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

**Liberty Independent School District**  
 Notes to the Required Supplementary Information

**Note 1. Budget**

**A. Budgetary Information**

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

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

1. Prior to August 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
3. Prior to September 1, the budget is formally approved and adopted by the Board.

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

**B. Excess of Expenditures Over Appropriations**

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

<u>Fund</u>	<u>Function</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund	71	\$ 266,250	\$ 1,000,000	\$ (733,750)

**APPENDIX E**

**Specimen Municipal Bond Insurance Policy**

(this page intentionally left blank)





## MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By \_\_\_\_\_  
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.  
1633 Broadway, New York, N.Y. 10019  
(212) 974-0100



Financial Advisory Services  
Provided By:

