

OFFICIAL STATEMENT
Dated: October 9, 2019

Ratings (PSF): Moody's: "Aaa"
S&P: "AAA"
PSF: Conditionally Approved
(See "OTHER INFORMATION – Ratings"
and "THE PERMANENT SCHOOL FUND
GUARANTEE PROGRAM" herein.

NEW ISSUE: BOOK-ENTRY-ONLY

IN THE OPINION OF BOND COUNSEL, UNDER CURRENT LAW AND SUBJECT TO CONDITIONS DESCRIBED IN THE SECTION "TAX EXEMPTION" HEREIN, INTEREST ON THE BONDS (1) IS NOT INCLUDED IN GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES AND (2) IS NOT AN ITEM OF TAX PREFERENCE FOR PURPOSES OF THE FEDERAL ALTERNATIVE MINIMUM INCOME TAX. A HOLDER MAY BE SUBJECT TO OTHER FEDERAL TAX CONSEQUENCES AS DESCRIBED IN THE SECTION "TAX EXEMPTION." SEE "TAX EXEMPTION" FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL.

\$12,965,000
DICKINSON INDEPENDENT SCHOOL DISTRICT
(Galveston County, Texas)
UNLIMITED TAX REFUNDING BONDS, SERIES 2019

Dated Date: November 1, 2019

Due: February 15, as shown on Page ii

Interest Accrual Date: Date of Delivery (defined below)

The Dickinson Independent School District (the "District") is issuing its \$12,965,000 Unlimited Tax Refunding Bonds, Series 2019 (the "Bonds") in accordance with the Constitution and general laws of the State of Texas, including, particularly, Chapter 1207, Texas Government Code, as amended, and an order adopted by the Board of Trustees (the "Board") authorizing the issuance of the Bonds. In the order, the board of trustees of the District delegated pricing of the Bonds and certain other matters to a pricing officer who approved a pricing certificate which contains final pricing information for the Bonds (the order and the pricing certificate are collectively referred to herein as the "Order").

The Bonds constitute direct obligations of the District and are payable as to principal and interest from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, against all taxable property located within the District. **An application has been filed and conditional approval has been received by the District for the payment of the principal of and interest on the Bonds to be guaranteed by the corpus of the Permanent School Fund of the State of Texas (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").**

Interest on the Bonds will accrue from the date they are initially delivered to the initial purchasers thereof named below (the "Underwriters"), and will be payable February 15 and August 15 of each year, commencing February 15, 2020, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS – Book-Entry-Only System" herein. The initial Paying Agent/Registrar is Wells Fargo Bank, N.A., Minneapolis, Minnesota (see "THE BONDS – Paying Agent/Registrar").

The District reserves the right, at its option, to redeem Bonds maturing on or after February 15, 2030, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2029, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS – Optional Redemption").

Proceeds from the sale of the Bonds will be used (i) to refund a portion of the District's outstanding bonds (the "Refunded Bonds") (see "SCHEDULE I – SCHEDULE OF REFUNDED BONDS") and (ii) to pay costs of issuance related to the Bonds (see "PLAN OF FINANCING – Purpose"). The refunding is being undertaken to lower the District's debt service payments and will result in a present value savings to the District.

CUSIP PREFIX: 253363
MATURITY SCHEDULE & 9 DIGIT CUSIP – See Schedule on Page ii

The Bonds are offered when, as and if issued, and accepted by the Underwriters, subject to the approving opinion of the Attorney General of the State of Texas and the opinion of Hunton Andrews Kurth LLP, Houston, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, Houston, Texas. The Bonds are expected to be available for initial delivery through the services of DTC on or about November 19, 2019 (the "Date of Delivery").

SAMCO Capital Markets

Baird

Stifel Nicolaus & Company, Inc.

MATURITY SCHEDULE

\$12,965,000
DICKINSON INDEPENDENT SCHOOL DISTRICT
(Galveston County, Texas)
UNLIMITED TAX REFUNDING BONDS, SERIES 2019

<u>Maturity Date (2/15)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield ^(a)</u>	<u>CUSIP No. ^(b)</u>
2029	\$525,000	4.000%	1.570%	253363 YX7
2030	550,000 ^(c)	4.000	1.680	253363 YY5
2031	1,765,000 ^(c)	4.000	1.790	253363 YZ2
2032	1,845,000 ^(c)	4.000	1.850	253363 ZA6
2033	6,515,000 ^(c)	4.000	1.930	253363 ZB4
2034	1,765,000 ^(c)	4.000	1.950	253363 ZC2

(Interest to accrue from the Date of Delivery)

^(a) The initial yields at which the Bonds are priced are established by and are the sole responsibility of the Underwriters and may be changed at any time at the discretion of the Underwriters.

^(b) 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. CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for the convenience of the owners of the Bonds. This data is not intended to create a database and does not serve in any way as a substitute for CUSIP services. None of the District, the Financial Advisor or the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

^(c) The Bonds maturing on February 15, 2030 and thereafter are subject to optional redemption on February 15, 2029 or any date thereafter at par plus accrued interest to the date of redemption. See "THE BONDS – Optional Redemption."

USE OF INFORMATION IN OFFICIAL STATEMENT

This Official Statement, which includes the cover page and the Schedules and Appendices A and B 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.

Certain information set forth herein has been provided by sources other than the District that the District believes are reliable, but the District makes no representation as to the accuracy of such information. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of the 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 since the date hereof. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the District's undertaking to provide certain information on a continuing basis.

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

NONE OF THE DISTRICT, ITS FINANCIAL ADVISOR, OR THE UNDERWRITERS MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM OR THE AFFAIRS OF THE TEXAS EDUCATION AGENCY DESCRIBED UNDER "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM."

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

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 cover page contains certain information for general reference only and is not intended as a summary of this offering. Investors should read the entire Official Statement, including all schedules and appendices attached hereto, to obtain information essential to making an informed investment decision.

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

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 offering document.

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

OFFICIAL STATEMENT SUMMARY

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

The District	The Dickinson Independent School District (the “District”) is a political subdivision located in Galveston County, Texas. The District is approximately 61 square miles in area. See “INTRODUCTION – Description of the District.”
The Bonds	The Bonds are issued as \$12,965,000 Unlimited Tax Refunding Bonds, Series 2019 (the “Bonds”). The Bonds are issued and mature as shown on page ii of this Official Statement (see “THE BONDS – Description of the Bonds”).
Payment of Interest	Interest on the Bonds will accrue from the date of their initial delivery (the “Date of Delivery”) to the initial purchasers of the Bonds listed on the cover page hereof (the “Underwriters”), at the interest rates shown on page ii hereof and such interest shall be payable to the registered owners thereof on February 15 and August 15, commencing February 15, 2020, until state maturity or prior redemption (see “THE BONDS – Description of the Bonds”).
Authority for Issuance	The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, including, particularly, Chapter 1207, Texas Government Code, as amended, and an order adopted by the Board of Trustees (the “Board”) authorizing the issuance of the Bonds. In the order, the board of trustees of the District delegated pricing of the Bonds and certain other matters to a pricing officer who approved a pricing certificate which contains final pricing information for the Bonds (the order and the pricing certificate are collectively referred to herein as the “Order”) (see “THE BONDS – Authority for Issuance”).
Security for the Bonds	The Bonds constitute direct obligations of the District, payable from a continuing ad valorem tax levied, without limit as to rate or amount, on all taxable property within the District. Additionally, the payment of principal of and interest on the Bonds is expected to be guaranteed by the corpus of the Permanent School Fund of the State of Texas (see “THE BONDS – Security and Source of Payment” and “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).
Permanent School Fund Guarantee	The District has received conditional approval from the Texas Education Agency for the payment of principal of and interest on the Bonds to be guaranteed by the corpus of the Permanent School Fund of the State of Texas (see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).
Optional Redemption	The District reserves the right, at its option, to redeem Bonds maturing on or after February 15, 2030, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2029, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption as described herein (see “THE BONDS – Optional Redemption”).
Tax Exemption	In the opinion of Bond Counsel, under current law and subject to conditions described in the section “TAX EXEMPTION” herein, interest on the Bonds (1) is not included in gross income for federal income tax purposes and (2) is not an item of tax preference for purposes of the federal alternative minimum income tax. A holder may be subject to other federal tax consequences as described in the section “TAX EXEMPTION.” See “TAX EXEMPTION” for a discussion of the opinion of Bond Counsel.
Use of Proceeds	Proceeds from the sale of the Bonds will be used for (i) refunding certain outstanding District bonds, as more particularly described in “SCHEDULE I – SCHEDULE OF REFUNDED BONDS” (the “Refunded Bonds”), to generate present value debt service savings and (ii) paying costs of issuance associated with the sale of the Bonds (see “PLAN OF FINANCING – Purpose”).
Ratings	The Bonds are rated “Aaa” by Moody's Investors Service, Inc. (“Moody's”) and “AAA” by S&P Global Ratings (“S&P”) by virtue of the guarantee of the Permanent School Fund of the State of Texas. The underlying ratings of the District are “Aa3” by Moody's and “A” by S&P. The District also has various bond issues outstanding which are rated “Aaa” by Moody's and “AAA” by S&P by virtue of the guarantee of the Permanent School Fund of the State of Texas (see “OTHER INFORMATION - Ratings”).
Book-Entry-Only System	The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 of principal or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the paying agent/registrars, initially Wells Fargo Bank, N.A., Minneapolis, Minnesota, to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see “THE BONDS – Book-Entry-Only System”).

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 08/31	Estimated District Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	Tax Supported Debt Outstanding at End of Year	Tax Supported Debt Per Capita	Ratio of Tax Supported Debt to Taxable Assessed Valuation	Total Tax Collections
2016	59,644	\$ 2,992,027,654	\$ 50,165	\$ 258,550,000	\$ 4,335	8.64%	100.91%
2017	60,886	3,481,379,121	57,179	317,005,000	5,207	9.11%	99.74%
2018	62,487	3,552,494,300	56,852	312,435,000	5,000	8.79%	99.28%
2019	70,965	3,851,567,723	54,274	305,160,000	4,300	7.92%	97.96% ⁽³⁾
2020	70,965	4,324,192,594	60,934	295,390,000 ⁽⁴⁾	4,162 ⁽⁴⁾	6.83%	⁽⁵⁾

⁽¹⁾ Source: Municipal Advisory Council of Texas. Fiscal Year 2019 population held constant in Fiscal Year 2020 for purposes of illustration.

⁽²⁾ Established by Galveston Central Appraisal District. Net of exemptions. Subject to change during ensuing years.

⁽³⁾ Unaudited collections as of June 30, 2019.

⁽⁴⁾ Projected. Includes the Bonds and excludes the Refunded Bonds.

⁽⁵⁾ In process of collections.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	Fiscal Year Ended August 31,				
	2018	2017	2016	2015	2014
Beginning Balance	\$ 49,971,503	\$ 49,039,928	\$ 42,344,279	\$ 38,150,284	\$ 31,662,058
Total Revenue	98,385,366	91,200,229	88,329,887	82,407,337	76,359,825
Total Expenditures	95,215,202	90,284,795	81,602,503	78,221,282	70,430,077
Other Financing Sources	102,273	16,141	(31,735)	7,940	558,478
Ending Balance	<u>\$ 53,243,940</u>	<u>\$ 49,971,503</u>	<u>\$ 49,039,928</u>	<u>\$ 42,344,279</u>	<u>\$ 38,150,284</u>

Source: The District's audited financial statements.

DISTRICT OFFICIALS, STAFF AND CONSULTANTS

Elected Officials

<u>Board of Trustees</u>	<u>Office</u>	<u>Length of Service</u>	<u>Term Expires (May)</u>
David Swartz	President	2 years	2022
Corey Magliolo	Vice President	2 years	2022
Veanna Veasey	Secretary	4 years	2020
Mike Mackey	Member	9 years	2020
Jeff Pittman	Member	14 years	2021
Jessica Rodriguez	Member	2 years	2022
Fritzie Samford	Member	17 years	2021

Selected Administrative Staff

<u>Name</u>	<u>Position</u>	<u>Length of Service with the District</u>
Carla Voelkel	Superintendent	6 years
Robert Cobb	Assistant Superintendent for Administration	19 years
Ryan Boone	Deputy Superintendent for Business and Operations	10 years
Kelly Logsdon	Executive Director for Business and Operations	13 years

Consultants and Advisors

AuditorsStart, Garcia & Stanley, LLC
Baytown, Texas

Bond Counsel.....Hunton Andrews Kurth LLP
Houston, Texas

Financial Advisor.....Post Oak Municipal Advisors LLC
Houston, Texas

For additional information regarding the District, please contact:

Ms. Carla Voelkel Superintendent of Schools Dickinson Independent School District 2218 FM 517 East Dickinson, Texas 77539 (281) 229-6100 Phone (281) 229-6023 Fax	or	Mr. Terrell Palmer President Post Oak Municipal Advisors LLC 820 Gessner Road, Suite 1350 Houston, Texas 77024 (713) 328-0990 Phone (713) 583-5742 Fax
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OFFICIAL STATEMENT

\$12,965,000

DICKINSON INDEPENDENT SCHOOL DISTRICT
(Galveston County, Texas)
UNLIMITED TAX REFUNDING BONDS, SERIES 2019

INTRODUCTION

This Official Statement, which includes the cover page, inside cover page, the schedule and the appendices hereto, provides certain information regarding the issuance by Dickinson Independent School District (the “District”) of its Unlimited Tax Refunding Bonds, Series 2019 (the “Bonds”). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the order adopted on July 22, 2019, which authorized the issuance of the Bonds, except as otherwise indicated herein. In the order adopted on July 22, 2019, pricing of the Bonds and certain other matters were delegated to a pricing officer who approved a pricing certificate which contains final pricing information for the Bonds. The order and the pricing certificate are collectively referred to herein as the “Order”.

There follows in this Official Statement descriptions of the Bonds and certain information regarding 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 electronic mail or upon payment of reasonable copying, mailing, and handling charges by writing the District’s Financial Advisor, Post Oak Municipal Advisors LLC, 820 Gessner Road, Suite 1350, Houston, Texas 77024.

Description of the District

The District is a political subdivision located in Galveston County, Texas. The District is governed by a seven-member Board of Trustees (the “Board”) who serve staggered three-year terms with elections being held in May of each year. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors. The District consists of approximately 61 square miles in Galveston County, encompassing the City of Dickinson.

PLAN OF FINANCING

Purpose

The Bonds are being issued for the purpose of refunding a portion of the District’s outstanding debt, as more particularly described in “SCHEDULE I – SCHEDULE OF REFUNDED BONDS” (collectively, the “Refunded Bonds”), in order to generate present value debt service savings for the District, and to pay the costs of issuance of the Bonds. See SCHEDULE I for a detailed listing of the Refunded Bonds and their respective call date at par.

Refunded Bonds

The Refunded Bonds and the interest due thereon are to be paid on the scheduled redemption date from funds to be deposited with Wells Fargo Bank, N.A., Minneapolis, Minnesota (the “Escrow Agent”) pursuant to an escrow agreement (the “Escrow Agreement”) between the District and the Escrow Agent.

The Order provides that from the proceeds of the sale of the Bonds to underwriters listed on the cover page hereof (the “Underwriters”), the District will deposit with the Escrow Agent an amount, together with other lawfully available funds, which, when added to the investment earnings thereon, will be sufficient to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Escrow Agent in an escrow account (the “Escrow Fund”) and used to purchase noncallable direct obligations of the United States of America and noncallable obligations of an agency or instrumentality of the United States of America (the “Federal Securities”). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Bonds.

Public Finance Partners LLC, will verify at the time of delivery of the Bonds to the Underwriters that the Federal Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds on their scheduled redemption date. Such maturing principal of and interest on the Federal Securities will not be available to pay the debt service on the Bonds. See “VERIFICATION OF ARITHMETICAL COMPUTATIONS.

By the deposit of the Federal Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of the Refunded Bonds pursuant to the terms of Chapter 1207, Texas Government Code, and the order authorizing the issuance of the Refunded Bonds. It is the opinion of Bond Counsel that as a result of such defeasance and in reliance upon the report of Public Finance Partners LLC, the Refunded Bonds will be outstanding only for the purpose of receiving payments from the Federal Securities and cash held for such purpose by the Escrow Agent, and the Refunded Bonds will not be deemed as being outstanding obligations of the District payable from the sources and secured in the manner provided in the order authorizing their issuance or for any other purpose. Upon defeasance of the Refunded Bonds, the payment of such Refunded Bonds will no longer be guaranteed by the Permanent School Fund of the State of Texas.

The District has covenanted in the Escrow Agreement to make timely deposits with the Escrow Agent from lawfully available funds of any additional amounts required to pay the principal of and interest on the Refunded Bonds, if for any reason the Federal Securities and cash balances on deposit or scheduled to be on deposit in the Escrow Fund are insufficient to make such payment.

Sources and Uses of Funds

The proceeds from the sale of the Bonds, together with other available funds, will be applied approximately as follows:

<u>Sources of Funds</u>	
Par Amount of Bonds	\$ 12,965,000.00
Original Issue Premium	2,324,726.25
Transfer from Debt Service Fund	240,205.98
Total	<u>\$ 15,529,932.23</u>
<u>Uses of Funds</u>	
Deposit to Escrow Fund	\$ 15,349,326.61
Underwriters' Discount	74,313.41
Costs of Issuance ⁽¹⁾	106,292.21
Total	<u>\$ 15,529,932.23</u>

⁽¹⁾ Includes fees of Bond Counsel, the Financial Advisor, the Paying Agent/Registrar, the rating agency and other costs related to the issuance of the Bonds.

THE BONDS

Description of the Bonds

The Bonds are dated November 1, 2019 and mature on February 15 in each of the years and in the amounts shown on page ii hereof. Interest on the Bonds will accrue from the date of their initial delivery (the "Date of Delivery") to the Underwriters, at the interest rates shown on page ii hereof and such interest shall be payable to the registered owners thereof on February 15 and August 15, commencing February 15, 2020, until stated maturity or prior redemption. Interest accruing on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 of principal amount for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book-Entry-Only System described herein. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by Wells Fargo Bank, N.A., Minneapolis, Minnesota (the "Paying Agent/Registrar") to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS – Book-Entry-Only System" herein.

Authority for Issuance

The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Chapter 1207, Texas Government Code, as amended, and the Order.

Security and Source of Payment

The Bonds constitute direct obligations of the District and are payable from a continuing ad valorem tax levied, without limit as to rate or amount, on all taxable property within the District. Additionally, the payment of principal of and interest on the Bonds is expected to be guaranteed by the corpus of the Permanent School Fund of the State of Texas. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.

Permanent School Fund Guarantee

In connection with the sale of the Bonds, the District has submitted an application to the Texas Education Agency and has received conditional approval from the Commissioner of Education for guarantee of the Bonds under the Permanent School Fund Guarantee Program of the State of Texas (Chapter 45, Subchapter C of the Texas Education Code). Subject to satisfying certain conditions discussed under the heading “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein, the payment of the principal of and interest on the Bonds will be absolutely and unconditionally guaranteed by the corpus of the Permanent School Fund of the State of Texas. In the event of default, registered owners will receive all payments due on the Bonds from the corpus of the Permanent School Fund. In the event the District defeases any of the Bonds, the payment of such defeased Bonds will cease to be guaranteed by the Permanent School Fund of the State of Texas. See “ – Defeasance.”

Optional Redemption

The District reserves the right, at its option, to redeem Bonds maturing on or after February 15, 2030, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2029, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the District may select the maturities of Bonds to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

Notice of Redemption

Not less than 30 days prior to a redemption date for the Bonds, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds 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. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

Book-Entry-Only System

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

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

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

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic

computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

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

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

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

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

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

Effect of Termination of Book-Entry-Only System. In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the District, printed Bonds will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Order and summarized under “THE BONDS – Transfer, Exchange, and Registration.”

Paying Agent/Registrar

The initial Paying Agent/Registrar is Wells Fargo Bank, N.A., Minneapolis, Minnesota. In the Order, the District retains the right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the United States or any state and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Principal of the Bonds will be payable to the registered owner at maturity or prior redemption, as applicable, upon presentation at the principal office of the Paying Agent/Registrar. Interest on the Bonds will be payable by check, dated as of the interest payment date, and mailed by the Paying Agent/Registrar to registered owners as shown on the records of the Paying Agent/Registrar on the Record Date (see “THE BONDS – Record Date for Interest Payment” herein), or by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, legal holiday, or 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 such a Saturday, Sunday, legal holiday, or 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.

Transfer, Exchange and Registration

In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange 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, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the principal office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See “THE BONDS – Book-Entry-Only System” herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

Record Date for Interest Payment

The record date (“Record Date”) for the interest payable on the Bonds on any interest payment date means the close of business on the last business day of the preceding month of such interest payment date. 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 (“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 holder of a Bond appearing on the registration 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.

Bondholders' Remedies

The Order does not provide for the appointment of a trustee to represent the interests of the Bond holders upon any failure of the District to perform in accordance with the terms of the Order or upon any other condition and, in the event of any such failure to perform, the Bond holders would be responsible for the initiation and cost of any legal action to enforce performance of the Order. Furthermore, the Order does not establish specific events of default with respect to the Bonds and, under State law, there is no right to the acceleration of maturity of the Bonds upon the failure of the District to observe any covenant under the Order. A Bond holder could seek a judgment against the District if a default occurred in the payment of principal or interest on any such Bonds; however, such judgment could not be satisfied by execution against any property of the District and a suit for monetary damages could be vulnerable to the defense of sovereign immunity. A Bond holder's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the District to levy, assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Bonds as it becomes due or perform other material terms and covenants contained in the Order. In general, Texas courts have held that a writ of mandamus may be issued to require a public official to perform legally imposed ministerial duties necessary for the performance of a valid contract, and Texas law provides that, following their approval by the Attorney General and issuance, the Bonds are valid and binding obligations for all purposes according to their terms. However, the enforcement of any such remedy may be difficult and time consuming and a Bond holder could be required to enforce such remedy on a periodic basis.

The District is also 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 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 Bond holders 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 Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, including rights afforded to creditors under the Bankruptcy Code.

Defeasance

In the Order, the District reserves the right to defease the Bonds in any manner now or hereafter provided by law.

RISKS FROM WEATHER EVENTS AND EFFECTS OF HURRICANE HARVEY

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

On or about August 25, 2017, Hurricane Harvey, characterized as a Category 4 hurricane at its peak, made landfall on the Texas coast before stalling over the Houston-Galveston region and producing significant flooding. Many residential and commercial properties within the District sustained damage. As a result of Hurricane Harvey and the related flooding, it is estimated that 400 students relocated to other school districts. Subsequent enrollment trends suggest many, if not all, of these students have returned.

While the District experienced damage to some facilities, such damage did not have a substantial negative affect on the operation of facilities. The District filed insurance claims to cover eligible losses at sites that sustained damage. The District's windstorm policy carries a 2% deductible, with some sites having varying deductibles for flood and excess flood policies. On August 25, 2017, the President of the United States issued a major disaster declaration where the District is located. The major disaster declaration made federal assistance available for debris removal and emergency protective measures, including direct federal assistance, under the Public Assistance program. The District has utilized general fund balance to cover Hurricane Harvey related expenses. The District has filed for reimbursement from the Federal Emergency Management Agency for eligible disaster-related expenses.

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

History and Purpose

The PSF was created with a \$2,000,000 appropriation by the Texas Legislature (the “Legislature”) in 1854 expressly for the benefit of the public schools of Texas. The Constitution of 1876 stipulated that certain lands and all proceeds from the sale of these lands should also constitute the PSF. Additional acts later gave more public domain land and rights to the PSF. In 1953, the U.S. Congress passed the Submerged Lands Act that relinquished to coastal states all rights of the U.S. navigable waters within state boundaries. If the state, by law, had set a larger boundary prior to or at the time of admission to the Union, or if the boundary had been approved by Congress, then the larger boundary applied. After three years of litigation (1957-1960), the U. S. Supreme Court on May 31, 1960, affirmed Texas’ historic three marine leagues (10.35 miles) seaward boundary. Texas proved its submerged lands property rights to three leagues into the Gulf of Mexico by citing historic laws and treaties dating back to 1836. All lands lying within that limit belong to the PSF. The proceeds from the sale and the mineral-related rental of these lands, including bonuses, delay rentals and royalty payments, become the corpus of the Fund. Prior to the approval by the voters of the State of an amendment to the constitutional provision under which the Fund is established and administered, which occurred on September 13, 2003 (the “Total Return Constitutional Amendment”), and which is further described below, the PSF had as its main sources of revenues capital gains from securities transactions and royalties from the sale of oil and natural gas. The Total Return Constitutional Amendment provides that interest and dividends produced by Fund investments will be additional revenue to the PSF. The State School Land Board (“SLB”) maintains the land endowment of the Fund on behalf of the Fund and is generally authorized to manage the investments of the capital gains, royalties and other investment income relating to the land endowment. The SLB is a three-member board, the membership of which consists of the Commissioner of the Texas General Land Office (the “Land Commissioner”) and two citizen members, one appointed by the Governor and one by the Texas Attorney General (the “Attorney General”). (But see “2019 Texas Legislative Session” for a description of legislation that is expected to change the composition of the SLB). As of August 31, 2018, the General Land Office (the “GLO”) managed approximately 23% of the PSF, as reflected in the fund balance of the PSF at that date.

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

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

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

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

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

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

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

2019 Texas Legislative Session

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

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

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

The Total Return Constitutional Amendment

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

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

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

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

With respect to the management of the Fund’s financial assets portfolio, the single most significant change made to date as a result of the Total Return Constitutional Amendment has been new asset allocation policies adopted from time to time by the SBOE. The SBOE generally reviews the asset allocations during its summer meeting in even numbered years. The first asset

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

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

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

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

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

Management and Administration of the Fund

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

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

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

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

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

Capacity Limits for the Guarantee Program

The capacity of the Fund to guarantee bonds under the Guarantee Program is limited in two ways: by State law (the "State Capacity Limit") and by regulations and a notice issued by the IRS (the "IRS Limit"). Prior to May 20, 2003, the State Capacity Limit was equal to two times the lower of cost or fair market value of the Fund's assets, exclusive of real estate. During the 78th Regular Session of the Legislature in 2003, legislation was enacted that increased the State Capacity Limit by 25%, to two and one half times the lower of cost or fair market value of the Fund's assets as estimated by the SBOE and certified by the State Auditor, and eliminated the real estate exclusion from the calculation. Prior to the issuance of the IRS Notice (defined below),

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

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

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

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

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

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

Guarantee Program on the TEA web site at http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/, which are also filed with the MSRB.

Based upon historical performance of the Fund, the legal restrictions relating to the amount of bonds that may be guaranteed has generally resulted in a lower ratio of guaranteed bonds to available assets as compared to many other types of credit enhancements that may be available for Texas school district bonds and charter district bonds. However, the ratio of Fund assets to guaranteed bonds and the growth of the Fund in general could be adversely affected by a number of factors, including changes in the value of the Fund due to changes in securities markets, investment objectives of the Fund, an increase in bond issues by school districts in the State or legal restrictions on the Fund, changes in State laws that implement funding decisions for school districts and charter districts, which could adversely affect the credit quality of those districts, the implementation of the Charter District Bond Guarantee Program, or an increase in the calculation base of the Fund for purposes of making transfers to the ASF. It is anticipated that the issuance of the IRS Notice and the Proposed IRS Regulations will likely result in a substantial increase in the amount of bonds guaranteed under the Guarantee Program. The implementation of the Charter School Bond Guarantee Program is also expected to increase the amount of guaranteed bonds.

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

The School District Bond Guarantee Program

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

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

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

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

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

The Charter District Bond Guarantee Program

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

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

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

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

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

The Act provides that immediately following receipt of notice that a charter district will be or is unable to pay maturing or matured principal or interest on a guaranteed bond, the Commissioner is required to instruct the Comptroller to transfer from the Charter District Reserve Fund to the district's paying agent an amount necessary to pay the maturing or matured principal or interest. If money in the Charter District Reserve Fund is insufficient to pay the amount due on a bond for which a notice of default has been received, the Commissioner is required to instruct the Comptroller to transfer from the PSF to the district's paying agent the amount necessary to pay the balance of the unpaid maturing or matured principal or interest. If a total of two or more payments are made under the Charter District Bond Guarantee Program on charter district bonds and the Commissioner determines that the charter district is acting in bad faith under the program, the Commissioner may request the Attorney General to institute appropriate legal action to compel the charter district and its officers, agents, and employees to comply with the duties required of them by law in regard to the guaranteed bonds. As is the case with the School District Bond Guarantee Program, the

Act provides a funding “intercept” feature that obligates the Commissioner to instruct the Comptroller to withhold the amount paid with respect to the Charter District Bond Guarantee Program, plus interest, from the first State money payable to a charter district that fails to make a guaranteed payment on its bonds. The amount withheld will be deposited, first, to the credit of the PSF, and then to restore any amount drawn from the Charter District Reserve Fund as a result of the non-payment.

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

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

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

2017 Legislative Changes to the Charter District Bond Guarantee Program

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

population to the overall public school scholastic population, could, in and of itself, increase the CDBGP Capacity, as that percentage has grown from 3.53% in September, 2012 to 5.85% in February 2019. TEA is unable to predict how the ratio of charter district students to the total State scholastic population will change over time.

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

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

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

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

Charter District Risk Factors

Open-enrollment charter schools in the State may not charge tuition and, unlike school districts, charter districts have no taxing power. Funding for charter district operations is largely from amounts appropriated by the Legislature. The amount of such State payments a charter district receives is based on a variety of factors, including the enrollment at the schools operated by a

charter district. The overall amount of education aid provided by the State for charter schools in any year is also subject to appropriation by the Legislature. The Legislature may base its decisions about appropriations for charter schools on many factors, including the State's economic performance. Further, because some public officials, their constituents, commentators and others have viewed charter schools as controversial, political factors may also come to bear on charter school funding, and such factors are subject to change.

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

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

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

Potential Impact of Hurricane Harvey on the PSF

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

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

attendance. In the past, storm damage has caused multiple year impacts to affected schools with respect to both attendance figures and tax base (for school districts). In June 2018 TEA received results of a survey of tax appraisal districts in the area affected by the hurricane with respect to the impact of the hurricane on the tax rolls of affected school districts. In aggregate, the tax rolls of affected districts appear to have increased slightly for fiscal 2018 over 2017, but the increases were at a lower rate than had been anticipated in the State’s general appropriation act for the biennium. TEA notes that as of June 2018 the negative effect of the hurricane on the average daily attendance of districts in the affected area appears to have been less than TEA had initially anticipated.

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

Ratings of Bonds Guaranteed Under the Guarantee Program

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

Valuation of the PSF and Guaranteed Bonds

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

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

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

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

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

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

Permanent School Fund Guaranteed Bonds by Category ⁽¹⁾

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2011 Constitutional Amendment

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

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

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

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

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

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

Other Events and Disclosures

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

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

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

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

PSF Continuing Disclosure Undertaking

The SBOE has adopted an investment policy rule (the "TEA Rule") pertaining to the PSF and the Guarantee Program. The TEA Rule is codified in Section I of the TEA Investment Procedure Manual, which relates to the Guarantee Program and is posted to the TEA web site at http://tea.texas.gov/Finance_and_Grants/Texas_Permanent_School_Fund/Texas_Permanent_School_Fund_Disclosure_Statement_-_Bond_Guarantee_Program/. The most recent amendment to the TEA Rule was adopted by the SBOE on February 1, 2019, and is summarized below. Through the adoption of the TEA Rule and its commitment to guarantee bonds, the SBOE has made the following agreement for the benefit of the issuers, holders and beneficial owners of guaranteed bonds.

The TEA (or its successor with respect to the management of the Guarantee Program) is required to observe the agreement for so long as it remains an “obligated person,” within the meaning of Rule 15c2-12, with respect to guaranteed bonds. Nothing in the TEA Rule obligates the TEA to make any filings or disclosures with respect to guaranteed bonds, as the obligations of the TEA under the TEA Rule pertain solely to the Guarantee Program. The issuer or an “obligated person” of the guaranteed bonds has assumed the applicable obligation under Rule 15c2-12 to make all disclosures and filings relating directly to guaranteed bonds, and the TEA takes no responsibility with respect to such undertakings. Under the TEA agreement, the TEA will be obligated to provide annually certain updated financial information and operating data, and timely notice of specified material events, to the MSRB.

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

Annual Reports

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

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

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

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

Event Notices

The TEA will also provide timely notices of certain events to the MSRB. Such notices will be provided not more than ten business days after the occurrence of the event. The TEA will provide notice of any of the following events with respect to the Guarantee Program: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if such event is material within the meaning of the federal securities laws; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax-exempt status of the Guarantee Program, or other material events affecting the tax status of the Guarantee Program; (7) modifications to rights of holders of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (8) bond calls, if such event is material within the meaning of the federal securities laws, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the Guarantee Program (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Guarantee Program in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Guarantee Program, or if such jurisdiction has been assumed by

leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Guarantee Program); (13) the consummation of a merger, consolidation, or acquisition involving the Guarantee Program or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) the appointment of a successor or additional trustee with respect to the Guarantee Program or the change of name of a trustee, if such event is material within the meaning of the federal securities laws; (15) the incurrence of a financial obligation of the Guarantee Program, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Program, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Guarantee Program, any of which reflect financial difficulties. (Neither the Act nor any other law, regulation or instrument pertaining to the Guarantee Program make any provision with respect to the Guarantee Program for bond calls, debt service reserves, credit enhancement, liquidity enhancement, early redemption or the appointment of a trustee with respect to the Guarantee Program.) In addition, the TEA will provide timely notice of any failure by the TEA to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports.”

Availability of Information

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

Limitations and Amendments

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

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

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

Compliance with Prior Undertakings

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

SEC Exemptive Relief

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

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

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

On May 13, 2016, the Court issued its opinion in the most recent school finance litigation, *Morath, et.al v. The Texas Taxpayer and Student Fairness Coalition, et al.*, No. 14-0776 (Tex. May 13, 2016) (“*Morath*”). The plaintiffs and intervenors in the case had alleged that the Finance System, as modified by the Legislature in part in response to prior decisions of the Court, violated article VII, section 1 and article VIII, section 1-e of the Texas Constitution. In its opinion, the Court held that “[d]espite the imperfections of the current school funding regime, it meets minimum constitutional requirements.” The Court also noted that:

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

Possible Effects of Changes in Law on District Bonds

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

During the 2019 Legislative session, the State Legislature made numerous changes to the current public school finance system, the levy and collection of ad valorem taxes, and the calculation of defined tax rates, including particularly those contained in House Bill 3 (“HB 3”) and Senate Bill 2 (“SB 2”). In some instances, the provisions of HB 3 and SB 2 will require further interpretation in connection with their implementation in order to resolve ambiguities contained in the bills. The District is still in the process of (a) analyzing the provisions of HB 3 and SB 2, and (b) monitoring the on-going guidance provided by TEA. The information contained herein under the captions “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” and “TAX RATE LIMITATIONS” is subject to change, and only reflects the District’s understanding of HB 3 and SB 2 based on information available to the District as of the date of this Official Statement. Prospective investors are encouraged to review HB 3, SB 2, and the Property Tax Code (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 (though certain school districts located in Harris County had special M&O tax rate authorization 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 86th 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 respective Tier One Tax Rate and Enrichment Tax Rate generate tax revenues at a level below the respective entitlement, the State will provide Tier One funding or Tier Two funding, respectively, to fund the difference between the school district’s entitlements and the calculated M&O revenues generated by the school district’s respective M&O tax rates.

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

The current public school finance system also provides an Existing Debt Allotment (“EDA”) to subsidize debt service on eligible outstanding school district bonds, an Instructional Facilities Allotment (“IFA”) to subsidize debt service on newly issued bonds, and a New Instructional Facilities Allotment (“NIFA”) to subsidize operational expenses associated with the opening of a new

instructional facility. IFA primarily addresses the debt service needs of property-poor school districts. For the 2020-2021 State fiscal biennium, the State Legislature appropriated funds in the amount of \$1,323,444,300 for the EDA, IFA, and NIFA.

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

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

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

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

Existing Debt Allotment, Instruction Facilities Allotment, and New Instructional Facilities Allotment. The Foundation School Program also includes facilities funding components consisting of the IFA and the EDA, subject to legislative appropriation each State fiscal biennium. To the extent funded for a biennium, these programs assist school districts in funding facilities by, generally, equalizing a school district's I&S tax effort. The IFA guarantees each awarded school district a specified amount per student (the "IFA Yield") in State and local funds for each cent of I&S tax levied to pay the principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. The IFA Yield has been \$35 since this program first began in 1997. New awards of IFA are only available if appropriated funds are allocated for such purpose by the State Legislature. To receive an IFA award, in years where new IFA awards are available, a school district must apply to the

Commissioner in accordance with rules adopted by the TEA before issuing the bonds to be paid with IFA State assistance. The total amount of debt service assistance over a biennium for which a school district may be awarded is limited to the lesser of (1) the actual debt service payments made by the school district in the biennium in which the bonds are issued; or (2) the greater of (a) \$100,000 or (b) \$250 multiplied by the number of students in ADA. The IFA is also available for lease-purchase agreements and refunding bonds meeting certain prescribed conditions. Once a school district receives an IFA award for bonds, it is entitled to continue receiving State assistance for such bonds without reapplying to the Commissioner. The guaranteed level of State and local funds per student per cent of local tax effort applicable to the bonds may not be reduced below the level provided for the year in which the bonds were issued. For the 2020-2021 State fiscal biennium, the State Legislature did not appropriate any funds for new IFA awards; however, awards previously granted in years the State Legislature did appropriate funds for new IFA awards will continue to be funded.

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

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

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

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

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

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

Local Revenue Level in Excess of Entitlement

A school district that has sufficient property wealth per student in ADA to generate local revenues on the school district’s Tier One Tax Rate and Copper Pennies in excess of the school district’s respective funding entitlements (a “Chapter 49 school district”), is subject to the local revenue reduction provisions contained in Chapter 49 of Texas Education Code, as amended (“Chapter 49”). Additionally, in years in which the amount of State funds appropriated specifically excludes the amount necessary to provide the guaranteed yield for Golden Pennies, local revenues generated on a school district’s Golden Pennies in excess of the school district’s respective funding entitlement are subject to the local revenue reduction provisions of Chapter 49. To reduce local revenue, Chapter 49 school districts are generally subject to a process known as “recapture”, which requires a Chapter 49 school district to exercise certain options to remit local M&O tax revenues collected in excess of the Chapter 49 school district’s funding entitlements to the State (for redistribution to other school districts) or otherwise expending the respective M&O tax revenues for the benefit of students in school districts that are not Chapter 49 school districts, as described

in the subcaption “Options for Local Revenue Levels in Excess of Entitlement”. Chapter 49 school districts receive their allocable share of funds distributed from the constitutionally-prescribed Available School Fund, but are generally not eligible to receive State aid under the Foundation School Program, although they may continue to receive State funds for certain competitive grants and certain programs that remain outside the Foundation School Program.

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

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

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

The School Finance System as Applied to the District

The District is not a Chapter 49 District for the 2019-2020 school year. Accordingly, the District is not subject to local revenue reduction as discussed under “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Revenue Level in Excess of Entitlement.” A district’s local revenue level must be tested for each future school year and, if it exceeds the District’s entitlement, must be reduced by exercising one of the permitted options.

AD VALOREM TAX PROCEDURES

The following is a summary of certain provisions of State law as it relates to ad valorem taxation and is not intended to be complete. 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 Galveston 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 TAX PROCEDURES – District and Taxpayer Remedies."

State Mandated Homestead Exemptions

State law grants, with respect to each school district in the State, (1) a \$25,000 exemption of the market 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 market value of all homesteads (but not less than \$5,000) and (2) an additional exemption of at least \$3,000 of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable. The governing body of a school district may not repeal or reduce the amount of the local option homestead exemption described in (1), above, that was in place for the 2014 tax year (fiscal year 2015) for a period ending December 31, 2019. The exemption described in (2), above, may also be created, increased, decreased or repealed at an election called by the governing body of a taxing unit upon presentment of a petition for such creation, increase, decrease, or repeal of at least 20% of the number of qualified voters who voted in the preceding election of the taxing unit.

State Mandated Freeze on School District Taxes

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

Personal Property

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

Freeport and Goods-In-Transit Exemptions

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

Certain goods, that are acquired in or imported into the State to be forwarded to another location within or without the State, stored in a location that is not owned by the owner of the goods and are transported to another location within or without the State within 175 days ("Goods-in-Transit"), are generally exempt from ad valorem taxation; however, the Property Tax Code

permits a taxing unit, on a local option basis, to tax Goods-in-Transit if the taxing unit takes official action, after conducting a public hearing, before January 1 of the first tax year in which the taxing unit proposes to tax Goods-in-Transit. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include aircraft or special inventories such as manufactured housing inventory, or a dealer's motor vehicle, boat, or heavy equipment inventory.

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

Other Exempt Property

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

Tax Increment Reinvestment Zones

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

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

Tax Limitation Agreements

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

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

District and Taxpayer Remedies

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

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

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

Levy and Collection of Taxes

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

District’s Rights in the Event of Tax Delinquencies

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

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

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

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

District Application of Tax Code

The District grants the State-mandated general residence homestead exemption of \$25,000, and a \$10,000 exemption to the market value of the residence homestead of disabled persons as well as persons 65 years of age or older. The District has not granted an additional exemption of 20% of the market value of residence homesteads. Ad valorem taxes are not levied by the District against the exempt value of residence homesteads for the payment of debt. The District does not tax nonbusiness personal property. The District does not permit split payments, and discounts are not allowed. The District does not tax freeport property. The District does not grant a “goods-in-transit” exemption. The District does not participate in any tax increment reinvestment zones and has not entered into any abatement agreements.

EMPLOYEES’ BENEFIT PLANS

Pension Fund. Pension funds for employees of Texas school districts, and any employee in public education in Texas, are administered by the Teacher Retirement System of Texas (the “System”). The individual employees contribute a fixed amount of their salary to the System, currently 7.7%, and the State of Texas contributes funds to the System based on statutory required minimum salary for certified personnel, except any District personnel paid by Federally funded programs. (For more detailed

information concerning the retirement plan, see Appendix B, “EXCERPTS FROM THE DISTRICT’S ANNUAL FINANCIAL REPORT” – Note 10). The District does not provide post-employment healthcare benefits except those mandated by the Consolidated Omnibus Budget Reconciliation Act (COBRA). The requirements established by COBRA are fully funded by former employees who elect coverage under the Act, and no direct costs are incurred by the District.

Retiree Healthcare. The District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by TRS. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal year 2017 and 0.75% for fiscal year 2018. For detailed information concerning TRS-Care, including contributions made by the State, the District and District employees for fiscal years 2017 and 2018, see Appendix B, “EXCERPTS FROM THE DISTRICT’S ANNUAL FINANCIAL REPORT” – Note 9.

The Government Accounting Standards Board (GASB) has issued GASB Statements No. 68, No. 73, and No. 82 regarding pension issues. The implementation of these statements is reflected in the financial statements and the notes to the financial statements. The District implemented the Governmental Accounting Standards Board Statement 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions at the beginning of the 2018 fiscal year. Changes for revenues and expenses prior to the implementation have not been calculated and are not available for comparison.

In June 2015, Government Accounting Standards Board (GASB) Statement No. 75 (Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions – which supersedes GASB Statement No. 45) was issued to improve accounting and financial reporting by state and local governments for OPEB. GASB Statement No. 75 requires reporting entities, such as the District, to recognize their proportionate share of the net OPEB liability in the TRS-Care Plan and a deferred outflow for the contributions made by the District subsequent to the measurement date in the Statement of Net Position, a government-wide financial statement. The changes related to OPEB in the Statement of Net Position to implement GASB 75 are reflected in the Statement of Activities, a government-wide financial statement. The changes related to the OPEB affect only the government-wide financial statements and do not affect the General Fund balance. The calculation of OPEB contributions is unaffected by the change. Such reporting began with the District’s fiscal year ended August 31, 2018. To date, the District has met all funding requirements of the TRS-Care Plan.

Formal collective bargaining agreements relating directly to wages and other conditions of employment are prohibited by Texas law, as are strikes by teachers. There are various local, state, and national organized employee groups who engage in efforts to better the 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.

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 October 14, 1961 in accordance with the provisions of Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended (“Article 2784e-1”).

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

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

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

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

I&S Tax Rate Limitations

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

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

Public Hearing and Voter-Approval Tax Rate

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

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

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

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

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

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

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

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

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

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

FINANCIAL POLICIES

Basis of Accounting – The District prepares its basic financial statements in conformity with Generally Accepted Accounting Principles (“GAAP”) promulgated by the Governmental Accounting Standards Board (“GASB”) and other authoritative sources identified in Statement of Auditing Standards No. 69 of the American Institute of Certified Public Accountants. Additionally, the District complies with the requirements of the appropriate version of Texas Education Agency’s Financial Accountability System Resource Guide (“FASRG”) and the requirements of contracts and grants of agencies from which it receives funds.

General Fund – The General Fund is used to account for financial resources used for general operations. Any fund balances are considered resources available for current operations. All general tax revenues and other receipts that are not allocated by law or contractual agreement to other fund are accounted for in this fund.

Debt Service Fund – The Debt Service Fund is used to account for revenues collected to pay interest and related costs and to retire long-term debt.

Special Revenue Funds – Special Revenue Funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund. Generally, unused balances are returned to the grantor at the close of specified project periods.

Budgetary Procedures – The Board adopts an “appropriated budget” for the General Fund, Debt Service Fund, and the Food Service Fund, which is included in the Special Revenue Funds. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budgeted to actual revenues and expenditures. For each of the funds for which a formal budget is adopted, the same basis of accounting is used to reflect actual revenues and expenditures recognized on the basis of generally accepted accounting principles.

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either canceled or appropriately provided for the subsequent year’s budget.

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

1. Prior to August 20 the District prepares a budget for the next succeeding fiscal year beginning September 1.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days’ public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approved of a majority of the members of the Board. Amendments are presented to the Board at its regular meeting. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year and are reflected in the official minutes of the Board.

INVESTMENTS

The District invests its investable funds in investments authorized by Texas law in accordance with investment policies approved by the Board. Both State law and the District’s investment policies are subject to change. See Table 13 in APPENDIX A for a description of the District’s investments as of August 31, 2019.

Legal Investments

Under Texas law, the District is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7)

interest-bearing banking deposits (i) that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor; or (ii) if (a) the funds invested in the banking deposits are invested through: (I) a broker with a main office or branch office in this state that the investing entity selects from a list the governing body or designated investment committee of the entity adopts as required by Section 2256.025; or (II) a depository institution with a main office or branch office in this state that the investing entity selects; (b) the broker or depository institution selected as described by subsection (a) arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the investing entity's account; (c) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (d) the investing entity appoints as the entity's custodian of the banking deposits issued for the entity's account: (I) the depository institution selected as described by subsection (a); (II) an entity described by Section 2257.041(d); or (III) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3); (8) certificates of deposit or share certificates (i) that are issued by or through a depository institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (7) or in accordance with Chapter 2257, Texas Government Code or in any other manner and amount provided by law for District deposits or, (ii) where (a) the funds are invested by the District through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the District as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the District; (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (ii) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit issued for the account of the District; (9) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1) require the securities being purchased by the District or cash held by the District to be pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (10) certain bankers' acceptances with a stated maturity of 270 days or less, that will be, in accordance with their terms, liquidated in full at maturity; that are eligible for collateral for borrowing from a Federal Reserve Bank, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (11) commercial paper with a stated maturity of 270 days or less that is rated at least A 1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (12) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that provides the investing entity with a prospectus and other information required by the Securities Exchange Act of 1934 (15 U.S.C. Section 78a et seq.) or the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.), and comply with federal Securities and Exchange Commission Rule 2a-7; and (13) no-load mutual funds registered with the Securities and Exchange Commission that: have an average weighted maturity of less than two years; and have a duration of one year or more and are invested exclusively in obligations described in this paragraph or have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities.

In addition, bond proceeds may be invested in certain guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks, in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below; and is pledged to the District and deposited with the District or with a third party selected and approved by the District.

A political subdivision such as the District may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (7) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (7) above, clauses (11) through (13) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than “AAA” or “AAAm” or an equivalent by at least one nationally recognized rating service. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution.

The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Investment Policies

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

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

Additional Provisions

Under Texas law the District is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt a written instrument by rule, order, ordinance, or resolution stating that it has reviewed the investment policy and investment strategies and that the written instrument so adopted shall record any changes made to either the investment policy or investment strategies; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the Board of Education; (4) require the registered principal of firms seeking to sell securities to the District to: (a) receive and review the District’s investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the District’s investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (8) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the District’s monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually, review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

TAX EXEMPTION

In the opinion of Hunton Andrews Kurth LLP, Houston, Texas, Bond Counsel, interest on the Bonds is (1) excludable from gross income of the owners thereof for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (2) is not an item of tax preference for purposes of the federal alternative minimum income tax.

The foregoing opinions of Bond Counsel are based on the Code and the regulations, rulings and court decisions thereunder in existence on the date of issue of the Bonds. Such authorities are subject to change and any such change could prospectively or retroactively result in the inclusion of the interest on the Bonds in gross income of the owners thereof or change the treatment of such interest for purposes of computing alternative minimum taxable income.

In rendering its opinions, Bond Counsel has assumed continuing compliance by the District with certain covenants of the Order and has relied on representations by the District with respect to matters solely within the knowledge of the District, which Bond Counsel has not independently verified. The covenants and representations relate to, among other things, the use of Bond proceeds and any facilities financed therewith, the source of repayment of the Bonds, the investment of Bond proceeds and certain other amounts prior to expenditure, and requirements that excess arbitrage earned on the investment of Bond proceeds and certain other amounts be paid periodically to the United States and that the District file an information report with the Internal Revenue Service (the “Service”). If the District should fail to comply with the covenants in the Order, or if its representations relating to the Bonds that are contained in the Order should be determined to be inaccurate or incomplete, interest on the Bonds could become taxable from the date of delivery of the Bonds, regardless of the date on which the event causing such taxability occurs.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt or accrual of interest on or acquisition or disposition of the Bonds.

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

Under the Code, taxpayers are required to provide information on their returns regarding the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations, such as the Bonds, may result in collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who are deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations, and individuals otherwise eligible for the earned income tax credit. Such prospective purchasers should consult their tax advisors as to the consequences of investing in the Bonds.

Proposed Tax Legislation

Tax legislation, administrative actions taken by tax authorities, and court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to state income taxation, or otherwise prevent the beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. For example, future legislation to resolve certain federal budgetary issues may significantly reduce the benefit of, or otherwise affect, the exclusion of gross income for federal income tax purposes of interest on all state and local obligations, including the Bonds. In addition, such legislation or actions (whether currently proposed, proposed in the future or enacted) could affect the market price or marketability of the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and its impact on their individual situations, as to which Bond Counsel expresses no opinion.

TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE PREMIUM BONDS

The Bonds are offered at an initial offering price which exceeds the stated redemption price payable at the maturity of such Bonds. If a substantial amount of any maturity of the Bonds is sold to members of the public (which for this purpose excludes bond houses, brokers and similar persons or entities acting in the capacity of wholesalers or underwriters) at such initial offering price, each of the Bonds of such maturity (“Premium Bond”) will be considered for federal income tax purposes to have “bond premium” equal to the amount of such excess. The basis for federal income tax purposes of a Premium Bond in the hands of an initial purchaser who purchases such Premium Bond in the initial offering must be reduced each year and upon the sale or other taxable disposition of the Bond by the amount of amortizable bond premium. This reduction in basis will increase the amount of any gain (or decrease the amount of any loss) recognized for federal income tax purposes upon the sale or other taxable disposition of a Premium Bond by the initial purchaser. Generally, no corresponding deduction is allowed for federal income tax purposes, for the reduction in basis resulting from amortizable bond premium with respect to a Premium Bond. The amount of bond premium on a Premium Bond which is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined under special tax accounting rules which use a constant yield throughout the term of the Premium Bond based on the initial purchaser’s original basis in such Premium Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition by an owner of Bonds that are not purchased in the initial offering or which are purchased at an amount representing a price other than the initial offering price for the Bonds of the same maturity may be determined according to rules which differ from those described above. Moreover, all prospective purchasers of Bonds should consult their tax advisors with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of Premium Bonds.

VERIFICATION OF ARITHMETICAL COMPUTATIONS

The arithmetical accuracy of certain computations included in the schedules provided by the District relating to (a) computation of the sufficiency of the anticipated receipts from the Federal Securities, together with the initial cash deposit, to pay, when due, the principal, interest, and early redemption premium requirements, if any, of the Refunded Bonds, and (b) computation of the yields on the Federal Securities and the Bonds was verified by Public Finance Partners LLC (the “Verification Agent”). Such computations were based solely on assumptions and information provided by the District. The Verification Agent has restricted its procedures to verifying the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information on which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

The report will be relied upon by Bond Counsel in rendering its opinion with respect to the tax exemption of interest on the Bonds and with respect to the defeasance of the Refunded Bonds.

CONTINUING DISCLOSURE OF INFORMATION

In the Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the MSRB. This information will be available free of charge from the MSRB via EMMA system at www.emma.msrb.org. See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” for a description of the continuing disclosure undertaking to provide certain updated financial information and operating data annually with respect to the Permanent School Fund and the State of Texas, as the case may be, and to provide timely notice of specified material events related to the guarantee to certain information vendors.

Annual Reports

The District will provide annually to the MSRB, (i) within six (6) months after the end of each fiscal year of the District ending in or after 2020, financial information and operating data with respect to the District of the general type included in APPENDIX A to this Official Statement under Tables numbered 1 through 6 and 8 through 13, and (ii) if not provided as part of such financial information and operating data, audited financial statements of the District, when and if available. Any financial statements to be provided shall be (i) prepared in accordance with the accounting principles prescribed by the Texas State Board of Education or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation and (ii) audited, if the District commissions an audit of such statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within twelve (12) months after any such fiscal year end, then the District shall file unaudited financial statements within such 12-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 United States Securities and Exchange Commission Rule 15c2-12 (“Rule 15c2-12”).

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

Event Notices

The District will also provide timely notices of certain events to the MSRB (not in excess of ten (10) business days after the occurrence of the event). The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a Financial Obligation of the District or obligated person, 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 the Financial Obligation of the District, any of which reflect financial difficulties. (Neither the Bonds nor the Order make any provision for debt service reserves, redemption provisions, liquidity enhancement, or credit enhancement, except for the Permanent School Fund Guarantee.) In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports.”

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

The term “Financial Obligation” shall mean, for purposes of the events in clauses (15) and (16), a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing, or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “Financial Obligation” shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in Rule 15c2-12) has been provided to the MSRB consistent with Rule 15c2-12. The District intends to comply with the events in clauses (15) and (16), and the definition of “Financial Obligation”, with reference to Rule 15c2-12, any other applicable federal securities laws, and the guidance provided by the Commission in Release No. 34-83885 dated August 20, 2018 (the “2018 Release”), and any further amendments or written guidance provided by the Commission or its staff with respect to the amendments to Rule 15c2-12 effected by the 2018 Release.

All documents provided to the MSRB shall be accompanied by identifying information, as prescribed by the MSRB.

Limitations and Amendments

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

beneficial owners of the Bonds may seek a writ of mandamus to compel the District to comply with its agreement. Nothing in this paragraph is intended or shall act to disclaim, waive or limit the District's duties under federal or state securities laws.

This continuing disclosure agreement may be amended by the District from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with Rule 15c2-12, taking into account any amendments or interpretations of Rule 15c2-12 since such offering as well as such changed circumstances and (2) either (a) the Bondholders of a majority in aggregate principal of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the District (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interest of the Bondholders and beneficial owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of Rule 15c2-12 are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

Compliance with Prior Undertakings

During the last five (5) years, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with Rule 15c2-12.

OTHER INFORMATION

Ratings

The Bonds are rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") and "AAA" by S&P Global Ratings ("S&P"), by virtue of the guarantee by the PSF. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM." The presently outstanding unenhanced tax-supported debt of the District is rated "Aa3" by Moody's and "A" by S&P. The District has numerous issues outstanding which are rated "Aaa" by Moody's and "AAA" by S&P by virtue of the guarantee of the PSF. The District also has other issues outstanding that are not guaranteed by the PSF. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the District makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by any or all of such rating companies, if in the judgment of any or all of such companies, circumstances so warrant.

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

Effects of Sequestration on Certain Obligations

Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, certain automatic reductions in federal spending took effect as of March 1, 2013. These required reductions in federal spending include a reduction to refundable credits under section 6431 of the Internal Revenue Code (the "Code") applicable to certain qualified bonds, including qualified school construction bonds issued pursuant to sections 54A and 54F of the Code for which an issuer elected to receive a direct credit subsidy pursuant to section 6431 of the Code.

For such qualified bonds eligible for the direct credit subsidy payment, the Office of Management and Budget ("OMB") set a sequester percentage (i.e. reduction) of 5.9%, which applies to any payments processed on or after October 1, 2019 and on or before September 30, 2020, unless and until a law is enacted that cancels or otherwise impacts the sequester. Sequestration may continue past September 30, 2020 and the sequestration percentage may increase or decrease in any fiscal year.

These reductions apply to Build America Bonds, Qualified School Construction Bonds, Qualified Zone Academy Bonds, New Clean Renewable Energy Bonds, and Qualified Energy Conservation Bonds for which an issuer elected to receive a direct credit subsidy pursuant to section 6431 of the Code. Payments to issuers of such bonds are currently subject to a reduction of 5.9% of the amount budgeted for such payments.

The District has previously issued its Unlimited Tax Schoolhouse Bonds, Taxable Series 2010B (Build America Bonds – Direct Payment to Issuer) (the “Affected Bonds”), which Affected Bonds are outstanding in the principal amount of \$30,000,000. It is anticipated that federal payments to the District for such Affected Bonds will be reduced as described above. Pursuant to the order authorizing the issuance of the Affected Bonds, the District is required to make interest and principal payments on the Affected Bonds regardless of whether any federal funding is received. If the sequestration continues, the District may be required to increase ad valorem tax rates in order to pay additional debt service expenses on the Affected Bonds resulting from decreased federal funding. The District can make no prediction as to the length or long-term effects of the sequestration.

No Litigation Certificate

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

Legal Investments and Eligibility to Secure Public Funds in Texas

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of “A” or its equivalent as to investment quality by a national rating agency. See “OTHER INFORMATION - Ratings” herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the District has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

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

Registration and Qualification of Bonds for Sale

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

Legal Matters

The District will furnish to the Underwriters a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, within the limits prescribed by law, upon all taxable property in the District, and the approving legal opinions of Hunton Andrews Kurth LLP, Houston, Texas, Bond Counsel to the District, in substantially the forms attached as Appendix C.

Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the captions and subcaptions “PLAN OF FINANCING – Purpose”, “PLAN OF FINANCING – Refunded Bonds”, “THE BONDS” (except for the information under the subcaptions “Permanent School Fund Guarantee,” “Book-Entry-Only System,” and “Bondholders’ Remedies,” as to which no opinion need be expressed), and “CONTINUING DISCLOSURE OF INFORMATION” (except for the information under the subcaption “Compliance with Prior Undertakings,” as to which no opinion need be expressed), and such firm is of the opinion that the statements and

information contained therein fairly and accurately reflect the provisions of the Order; further, Bond Counsel has reviewed the statements and information contained in this Official Statement under the captions and subcaptions “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS,” “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” (except for the information under the subcaption “The School Finance System as Applied to the District” as to which no opinion need be expressed), “TAX RATE LIMITATIONS,” “TAX EXEMPTION,” “TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE PREMIUM BONDS,” and “OTHER INFORMATION – Registration and Qualification of Bonds for Sale,” “– Legal Investments and Eligibility to Secure Public Funds in Texas” and “– Legal Matters,” and Bond Counsel is of the opinion that the statements and information contained therein are correct as to matters of law. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, Houston, Texas. The legal fee of such firm is contingent upon the sale and delivery of the Bonds. The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Financial Advisor

In their role as Financial Advisor, Post Oak Municipal Advisors LLC has relied on the District for certain information concerning the District and the Bonds. The fee of the Financial Advisor for services with respect to the Bonds is contingent upon delivery of the Bonds. The Financial Advisor is not obligated to undertake and has not undertaken to make an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement.

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.

Underwriting

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the District at a price of \$15,215,412.84 (representing the principal amount of the Bonds, plus a premium in the amount of \$2,324,726.25, less an underwriting discount of \$74,313.41). The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

Additionally, the Underwriters may receive additional compensation from the District for additional services rendered including but not limited to the provision of certain investment services either directly or through a subsidiary.

The Underwriters have reviewed the information in this Official Statement in accordance with and as part of to their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

On April 1, 2019, Baird Financial Corporation, the parent company of Robert W. Baird & Co. Incorporated (“Baird”), acquired HL Financial Services, LLC, its subsidiaries, affiliates and assigns (collectively “Hilliard Lyons”). As a result of such common control, Baird and Hilliard Lyons are now affiliated. It is expected that Hilliard Lyons will merge with and into Baird later in 2019.

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. The District’s actual results could differ materially from those discussed in such forward-looking statements.

**SCHEDULE I
SCHEDULE OF BONDS TO BE REFUNDED**

<u>Series</u>	<u>Original Dated Date</u>	<u>Original Principal Amount</u>	<u>Principal Amount Outstanding</u>	<u>Maturities Being Refunded</u>	<u>Principal Amount Outstanding</u>	<u>Principal Amount Refunded</u>	<u>Redemption Date / Price</u>
Unlimited Tax Schoolhouse & Refunding Bonds, Series 2010A	3/15/2010	\$ 22,150,000	\$ 15,600,000	2/15/2021	\$ 510,000	\$ 510,000	2/15/2020 @ Par
				2/15/2022	455,000	455,000	2/15/2020 @ Par
				***	***	***	***
				2/15/2029	665,000	665,000	2/15/2020 @ Par
				2/15/2030	695,000	695,000	2/15/2020 @ Par
				2/15/2031	1,915,000	1,915,000	2/15/2020 @ Par
				2/15/2032	2,005,000	2,005,000	2/15/2020 @ Par
				2/15/2033 ⁽¹⁾	6,690,000	6,690,000	2/15/2020 @ Par
				2/15/2034 ⁽¹⁾	2,165,000	2,165,000	2/15/2020 @ Par
						<u>\$ 15,100,000</u>	<u>\$ 15,100,000</u>

⁽¹⁾ Mandatory sinking fund installment of term bond maturing February 15, 2034.

APPENDIX A
FINANCIAL INFORMATION REGARDING THE DISTRICT

FINANCIAL INFORMATION REGARDING THE DISTRICT

TABLE 1 - VALUATION, EXEMPTIONS, AND TAX SUPPORTED DEBT

2019/20 Appraised Valuation Established by the Galveston Central Appraisal District (Excludes Fully Exempt Property)		\$ 5,063,710,052
Less Exemptions/Reductions at 100% Market Value:		
Homestead Cap Adjustment	\$ 199,106,487	
Productivity Loss	127,120,212	
Residential Homestead Exemptions	324,012,132	
Over 65 Homestead Exemptions (State Mandated)	36,696,758	
Disabled Persons Exemptions	5,591,193	
Disabled and Deceased Veterans Survivor(s) Exemptions	39,419,093	
Pollution Control	7,532,353	
Other Exemptions	<u>39,230</u>	<u>(739,517,458)</u>
2019/20 Taxable Assessed Valuation		\$ 4,324,192,594
Debt Payable from Ad Valorem Taxes		
Outstanding Unlimited Tax Bonds (as of August 31, 2019)	\$ 305,160,000	
Plus: The Bonds	12,965,000	
Less: The Refunded Bonds	<u>(15,100,000)</u>	\$ 303,025,000
Less: Estimated Interest and Sinking Fund Balance (as of August 31, 2019)		<u>(13,000,000)</u> ⁽¹⁾
Net Debt Payable from Ad Valorem Taxes		\$ 290,025,000
 Ratio of Tax Supported Debt to Taxable Assessed Valuation		 7.01%
 2019 Estimated Population		 70,965 ⁽²⁾
Per Capita Taxable Assessed Valuation	\$	60,934
Per Capita Tax Supported Debt	\$	4,270

⁽¹⁾ Source: The District's financial records. Unaudited.

⁽²⁾ Source: Municipal Advisory Council of Texas.

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TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

	Taxable Assessed Value for Fiscal Year Ended August 31,					
	2020		2019		2018	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Residential	\$3,407,979,982	67.30%	\$2,890,690,122	64.83%	\$2,747,773,182	64.88%
Vacant Lots / Tracks	161,206,230	3.18%	146,209,441	3.28%	137,533,155	3.25%
Acreage / Farm & Ranch Improvements	224,240,212	4.43%	203,121,921	4.56%	204,356,138	4.83%
Commercial & Industrial	716,308,692	14.15%	703,527,733	15.78%	623,492,517	14.72%
Utilities	131,769,890	2.60%	117,566,178	2.64%	112,065,900	2.65%
Minerals	8,212,890	0.16%	7,194,588	0.16%	8,535,873	0.20%
Other	413,992,156	8.18%	390,417,297	8.76%	401,290,588	9.48%
Total Appraised Value Before Exemptions	\$5,063,710,052	100.00%	\$4,458,727,280	100.00%	\$4,235,047,353	100.00%
Less: Total Exemptions/Reductions	(739,517,458)		(607,159,557)		(682,553,053)	
Taxable Assessed Value	<u>\$4,324,192,594</u>		<u>\$3,851,567,723</u>		<u>\$3,552,494,300</u>	

	Taxable Assessed Value for Fiscal Year Ended August 31,			
	2017		2016	
	Amount	% of Total	Amount	% of Total
Residential	\$2,416,880,363	60.31%	\$2,131,089,822	60.65%
Vacant Lots / Tracks	118,844,026	2.97%	98,740,372	2.81%
Acreage / Farm & Ranch Improvements	223,559,444	5.58%	174,285,284	4.96%
Commercial & Industrial	654,697,191	16.34%	584,977,285	16.65%
Utilities	108,103,386	2.70%	104,823,460	2.98%
Minerals	8,796,689	0.22%	11,021,538	0.31%
Other	476,613,418	11.89%	409,071,147	11.64%
Total Appraised Value Before Exemptions	\$4,007,494,517	100.00%	\$3,514,008,908	100.00%
Less: Total Exemptions/Reductions	(526,115,396)		(521,981,254)	
Taxable Assessed Value	<u>\$3,481,379,121</u>		<u>\$2,992,027,654</u>	

NOTE: Valuations shown are certified taxable assessed values reported by the Galveston Central Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates its records.

TABLE 3 - VALUATION AND TAX SUPPORTED DEBT HISTORY

Fiscal Year Ended 8/31	Estimated District Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	Tax Supported Debt Outstanding at End of Year	Ratio of Tax Supported Debt to Taxable Assessed Valuation	Tax Supported Debt Per Capita
2016	59,644	\$2,992,027,654	\$50,165	\$258,550,000	8.64%	\$4,335
2017	60,886	3,481,379,121	57,179	317,005,000	9.11%	5,207
2018	62,487	3,552,494,300	56,852	312,435,000	8.79%	5,000
2019	70,965	3,851,567,723	54,274	305,160,000	7.92%	4,300
2020	70,965	4,324,192,594	60,934	295,390,000 ⁽³⁾	6.83% ⁽³⁾	4,162 ⁽³⁾

⁽¹⁾ Source: Municipal Advisory Council of Texas. Fiscal Year 2019 population held constant in Fiscal Year 2020 for purposes of illustration.

⁽²⁾ Established by the Galveston Central Appraisal District and subject to change during ensuing year.

⁽³⁾ Projected. Includes the Bonds and excludes the Refunded Bonds.

TABLE 4 - TAX RATE, LEVY, AND COLLECTION HISTORY

Tax Year	Tax Rate	General Fund	Interest & Sinking Fund	Tax Levy	% Current Tax Collections to Tax Levy	% Total Tax Collections to Tax Levy
2015	\$1.54000	\$1.04000	\$0.50000	\$47,205,523	98.34%	100.91%
2016	1.54000	1.04000	0.50000	52,151,840	98.25%	99.74%
2017	1.52000	1.04000	0.48000	55,908,017	97.94%	99.28%
2018	1.52000	1.06000	0.46000	56,755,274 ⁽¹⁾	96.72% ⁽¹⁾	97.96% ⁽¹⁾
2019	1.45000	0.97000	0.48000	60,788,534 ⁽²⁾	*** In Process of Collection ***	

⁽¹⁾ Source: Unaudited as of June 30, 2019.

⁽²⁾ Source: The District's adopted budget for the 2019-20 fiscal year.

TABLE 5 - TEN LARGEST TAXPAYERS ⁽¹⁾

Name of Taxpayer	Nature of Property	2019/20 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
ISP Technologies Inc.	Manufacturing	\$93,847,800	2.17%
Galveston Outlets LLC	Shopping Center	77,287,290	1.79%
Komatsu America Corp.	Wholesale Supplier	69,064,350	1.60%
Amalfi & Sorrento Prop. LLC	Residential Land	38,490,000	0.89%
Texas-New Mexico Power Co.	Electric Utility	36,950,310	0.85%
CenterPoint Energy Inc.	Electric Utility	26,471,160	0.61%
Strata Beacon LLC	Residential Land	23,898,141	0.55%
TL II Apartments LLC	Apartments	23,254,100	0.54%
Excel League City LLC	Building	21,871,180	0.51%
PHR Holdings LLC	Electric Utility	20,611,920	0.48%
		<u>\$431,746,251</u>	<u>9.98%</u>

⁽¹⁾ Source: The Galveston Central Appraisal District.

TABLE 6 - TAX ADEQUACY

2020 Principal and Interest Requirements.....	\$19,527,883 ⁽¹⁾
\$0.4656 Tax Rate on 2019/20 Taxable Assessed Valuation at 97% Collection Produces.....	\$19,529,437
Maximum Principal and Interest Requirements (2035).....	\$21,814,311 ⁽¹⁾
\$0.5201 Tax Rate on 2019/20 Taxable Assessed Valuation at 97% Collection Produces.....	\$21,815,422
Average Principal and Interest Requirements (2020-2049).....	\$15,902,527 ⁽¹⁾
\$0.3792 Tax Rate on 2019/20 Taxable Assessed Valuation at 97% Collection Produces.....	\$15,905,418

⁽¹⁾ Includes the Bonds and excludes the Refunded Bonds. The direct subsidy to the District in connection with the District's Unlimited Tax Schoolhouse Bonds, Taxable Series 2010B (Build America Bonds – Direct Payment to Issuer) has been deducted. See "OTHER INFORMATION – Effects of Sequestration on Certain Obligations."

TABLE 7 - ESTIMATED OVERLAPPING DEBT

Expenditures of the various taxing entities within the territory of the District are paid out of ad valorem taxes levied by such entities on properties within the District. Such entities are independent of the District and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax debt ("Tax Debt") was developed from information contained in "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 may have issued additional Tax Debt since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional Tax Debt, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the District.

Entity	2018/19 Net Taxable Assessed Value	2018/19 Tax Rate	Gross General Obligation Debt as of 8/31/2019	Estimated Overlapping %	Overlapping General Obligation Debt
Dickinson ISD	\$ 4,324,192,594 ⁽¹⁾	\$ 1.4500 ⁽²⁾	\$ 303,025,000 ⁽³⁾	100.00%	\$ 303,025,000
Bacliff MUD	352,566,618	0.3310	12,435,000	97.91%	12,175,109
Bay Colony West MUD	197,244,412	1.0000	15,675,000	98.94%	15,508,845
College of the Mainland	12,085,638,929	2.1300	103,935,000	33.64%	34,963,734
Dickinson, City of	1,106,825,777	0.4550	7,090,000	95.35%	6,760,315
Galveston Co	30,686,499,260	0.5320	247,913,720	12.53%	31,063,589
Galveston Co MUD # 14	319,986,238	0.6800	9,390,000	99.82%	9,373,098
Galveston Co MUD # 15	270,211,499	0.5100	4,410,000	100.00%	4,410,000
Galveston Co MUD # 31	70,651,958	0.9000	4,950,000	100.00%	4,950,000
Galveston Co MUD # 44	240,640,960	0.8000	22,650,000	100.00%	22,650,000
Galveston Co MUD # 54	142,751,590	0.5400	20,870,000	100.00%	20,870,000
Galveston Co MUD # 56	163,025,116	1.0000	22,785,000	100.00%	22,785,000
Galveston Co MUD # 66	72,655,039	1.0000	6,340,000	71.77%	4,550,218
Galveston WC&ID # 1	1,189,545,405	0.1280	2,470,000	100.00%	2,470,000
La Marque, City of	985,000,033	0.4910	23,040,000	5.91%	1,361,664
League City, City of	8,103,667,336	0.5640	215,920,000	14.60%	31,524,320
San Leon MUD	389,240,202	0.4500	11,065,000	100.00%	11,065,000
Texas City, City of	5,531,174,401	0.5500	36,105,000	17.61%	6,358,091
Total Direct and Overlapping Debt					\$ 545,863,982
Ratio of Direct and Overlapping Debt to Taxable Assessed Valuation					12.62%
Per Capita Direct and Overlapping Debt					\$ 7,692

Source: Municipal Advisory Council of Texas.

⁽¹⁾ Reflects the District's 2019/20 Taxable Assessed Valuation.

⁽²⁾ Reflects the District's 2019/20 adopted tax rate.

⁽³⁾ Includes the Bonds and excludes the Refunded Bonds.

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TABLE 8 - TAX SUPPORTED DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 8/31	Outstanding Debt Service Requirements ⁽¹⁾	Less: Refunded Debt Service Requirments	Plus: The Bonds			Less: Direct Subsidy ⁽²⁾	Net Total Debt Service
			Principal	Interest	Total		
2020	\$ 20,359,745	\$ (623,394)		\$ 383,188	\$ 383,188	\$ (591,656)	\$ 19,527,883
2021	21,318,820	(1,125,744)		518,600	518,600	(591,656)	20,120,020
2022	22,331,329	(1,055,700)		518,600	518,600	(591,656)	21,202,572
2023	22,334,593	(593,306)		518,600	518,600	(591,656)	21,668,230
2024	22,336,968	(593,306)		518,600	518,600	(591,656)	21,670,605
2025	22,335,618	(593,306)		518,600	518,600	(591,656)	21,669,255
2026	22,242,718	(593,306)		518,600	518,600	(591,656)	21,576,355
2027	22,244,643	(593,306)		518,600	518,600	(591,656)	21,578,280
2028	22,241,993	(593,306)		518,600	518,600	(591,656)	21,575,630
2029	22,239,343	(1,245,006)	\$ 525,000	508,100	1,033,100	(591,656)	21,435,780
2030	22,249,683	(1,247,372)	550,000	486,600	1,036,600	(591,656)	21,447,255
2031	22,235,627	(2,413,541)	1,765,000	440,300	2,205,300	(591,656)	21,435,730
2032	22,233,902	(2,422,691)	1,845,000	368,100	2,213,100	(591,656)	21,432,655
2033	22,236,662	(6,924,175)	6,515,000	200,900	6,715,900	(591,656)	21,436,730
2034	22,650,250	(2,211,006)	1,765,000	35,300	1,800,300	(555,751)	21,683,793
2035	22,274,137					(459,826)	21,814,311
2036	21,852,018					(336,157)	21,515,861
2037	21,433,968					(205,693)	21,228,275
2038	15,945,936					(69,439)	15,876,497
2039	9,317,800						9,317,800
2040	9,312,900						9,312,900
2041	9,316,600						9,316,600
2042	9,313,400						9,313,400
2043	9,312,900						9,312,900
2044	9,309,600						9,309,600
2045	4,261,000						4,261,000
2046	4,260,700						4,260,700
2047	4,259,500						4,259,500
2048	4,257,200						4,257,200
2049	4,258,500						4,258,500
	<u>\$490,278,051</u>	<u>\$(22,828,466)</u>	<u>\$12,965,000</u>	<u>\$6,571,288</u>	<u>\$19,536,288</u>	<u>(\$9,910,055)</u>	<u>\$477,075,818</u>

⁽¹⁾ Interest on the District's Variable Rate Unlimited Tax Refunding Bonds, Series 2014 is calculated at the current rate through August 2, 2021, and 5.00% thereafter for purposes of illustration.

⁽²⁾ Represents a subsidy, estimated at 35% of the interest payments on the District's Unlimited Tax Schoolhouse Bonds, Taxable Series 2010B (Build America Bonds – Direct Payment to Issuer), that is expected to be paid by the federal government. See "OTHER INFORMATION – EFFECTS OF SEQUESTRATION ON CERTAIN OBLIGATIONS." Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, payments to certain state and local government filers claiming payments applicable to certain qualified bonds are subject to sequestration. Payments from the Federal government for Build America Bonds processed on or after October 1, 2019 and on or before September 30, 2020 will be reduced by the fiscal year 2020 sequestration rate of 5.9%. The sequestration reduction rate will be applied unless and until a law is enacted that cancels or otherwise impacts the sequester, at which time the sequestration reduction rate is subject to change.

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION

Estimated Interest and Sinking Fund Balance as of August 31, 2019		\$ 13,000,000 ⁽¹⁾
Plus: Budgeted Interest and Sinking Fund Tax Revenue @ 97% Collections	\$ 19,612,430 ⁽²⁾	
Plus: Budgeted Delinquent Taxes, Penalties and Interest	460,000 ⁽²⁾	
Plus: Budgeted Investment Income	240,000 ⁽²⁾	20,312,430
Less: I&S Fund Tax Supported Debt Service Requirements, Fiscal Year Ending August 31, 2020		<u>(19,827,883) ⁽³⁾</u>
Estimated Interest and Sinking Fund Balance as of August 31, 2020		<u>\$ 13,484,547</u>

⁽¹⁾ Source: The District's financial records. Unaudited.

⁽²⁾ Source: The District's adopted budget for the 2019-20 fiscal year.

⁽³⁾ Net of federal subsidy on the District's Unlimited Tax Schoolhouse Bonds, Taxable Series 2010B (Build America Bonds – Direct Payment to Issuer). Includes paying agent/registrar fees and other bond related expenses. Includes the Bonds and excludes the Refunded Bonds.

TABLE 10 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

The District has no authorized but unissued bonds outstanding.

TABLE 11 - OTHER OBLIGATIONS

The District has no outstanding obligations other than unlimited tax debt.

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TABLE 12 - CHANGE IN NET ASSETS

	Fiscal Year Ended August 31,				
	2018	2017	2016	2015	2014
Revenues:					
Program Revenues					
Charges for services	\$ 3,247,034	\$ 3,403,664	\$ 4,213,741	\$ 3,898,144	\$ 3,165,985
Operating grants and contributions	(1,414,831)	18,288,646	17,222,744	15,201,494	14,459,041
General Revenues					
Property taxes	57,038,086	52,543,886	47,509,999	46,071,525	42,507,574
State-aid formula grants	48,694,652	48,098,196	49,031,325	44,597,880	41,789,822
Grants and Contributions Not Restricted	3,129,849	1,753,165	1,844,113	1,845,303	1,432,572
Investment earnings	1,878,282	1,222,470	578,273	116,955	55,996
Other	1,556,236	516,128	45,822	124,237	877,871
Total Revenues	\$ 114,129,308	\$ 125,826,155	\$ 120,446,017	\$ 111,855,538	\$ 104,288,861
Expenses:					
Instruction	\$ 48,689,348	\$ 70,180,460	\$ 62,251,427	\$ 58,710,093	\$ 52,166,206
Instructional resources and media services	1,125,158	1,283,845	1,282,380	1,078,479	995,938
Curriculum and staff development	1,047,415	542,610	569,757	630,515	595,016
Instructional leadership	870,917	1,422,193	1,378,550	1,187,130	1,088,049
School leadership	4,639,690	6,550,299	5,630,603	5,201,161	4,776,816
Guidance, counseling and evaluation services	2,393,952	3,449,370	3,086,858	2,952,215	2,550,294
Social work services	189,928	238,876	103,637	94,487	92,829
Health services	743,481	790,992	704,833	685,700	637,249
Student transportation	4,311,131	4,855,618	4,394,855	4,511,265	4,113,533
Food Services	5,339,392	6,826,969	6,832,714	6,466,937	5,955,732
Extracurricular activities	2,309,362	2,813,082	2,612,470	2,503,180	1,987,835
General administration	2,728,128	3,436,699	3,273,660	3,095,355	2,707,820
Plant, maintenance and operations	14,656,332	13,178,845	13,473,147	9,936,281	9,160,145
Security and monitoring services	587,051	613,269	430,144	424,099	378,035
Data processing services	1,086,887	1,755,845	1,626,752	1,626,601	1,394,977
Community services	678,527	504,739	492,006	439,389	410,757
Interest on long-term debt	12,686,237	12,983,344	10,849,248	11,024,363	10,327,770
Juvenile Justice Alternative Ed Programs	103,427	97,126	86,452	79,280	66,596
Other governmental charges	205,371	224,145	146,871	1,907,280	1,980,211
Total Expenses	\$ 104,391,734	\$ 131,748,326	\$ 119,226,364	\$ 112,553,810	\$ 101,385,808
Change in Net Assets	\$ 9,737,574	\$ (5,922,171)	\$ 1,219,653	\$ (698,272)	\$ 2,903,053
Net Assets - Beginning	9,049,573	14,971,744	13,752,091	26,122,382	23,219,329
Prior period adjustment	(63,026,334) ⁽¹⁾	-	-	(11,672,019) ⁽²⁾	-
Net Assets - Ending	\$ (44,239,187)	\$ 9,049,573	\$ 14,971,744	\$ 13,752,091	\$ 26,122,382

Source: The District's audited financial statements.

⁽¹⁾ Attributable to the reporting of Post Employment Benefits Other Than Pensions (OPEB), in accordance with the District's implementation of GASB Statement No. 75.

⁽²⁾ Attributable to the reporting of net pension liability and deferred outflows, in accordance with the District's implementation of GASB Statement No. 68 and GASB Statement No. 71.

TABLE 12A - GENERAL FUND REVENUE AND EXPENDITURE HISTORY

	Fiscal Year Ended August 31,				
	2018	2017	2016	2015	2014
Revenues:					
Local, Intermediate and Out-of-State	\$ 42,386,956	\$ 36,828,252	\$ 33,449,590	\$ 32,234,467	\$ 29,900,341
State Program Revenues	53,574,185	52,457,262	52,904,976	48,202,752	44,915,751
Federal Program Revenues	2,424,225	1,914,715	1,975,321	1,970,118	1,543,733
Total Revenues	\$ 98,385,366	\$ 91,200,229	\$ 88,329,887	\$ 82,407,337	\$ 76,359,825
Expenditures:					
Instruction & Instructional Related Services	\$ 57,774,700	\$ 56,035,427	\$ 50,458,090	\$ 45,408,947	\$ 42,098,042
Curriculum and Staff Development	566,165	232,769	239,463	214,693	229,207
Instructional and School Leadership	6,698,698	6,483,881	5,632,836	5,061,456	4,850,454
Guidance, Counseling and Evaluation Services	2,644,397	2,612,115	2,219,922	2,095,452	1,866,859
Social Work Services	168,944	169,527	88,214	78,243	81,135
Health Services	829,050	679,641	599,033	574,243	556,973
Student Transportation	5,861,215	4,221,907	4,344,932	4,197,508	4,086,487
Cocurricular / Extracurricular Activities	2,031,677	1,943,334	1,911,559	1,658,277	1,318,786
Administrative Support Services	3,154,148	2,984,430	2,856,576	2,576,085	2,374,372
Plan Maintenance and Operation	12,624,616	11,456,544	10,292,486	8,248,253	7,981,904
Security and Monitoring Services	521,910	540,548	406,558	434,056	330,113
Data Processing Services	1,472,165	1,759,211	1,426,662	1,522,403	1,282,498
Community Services	594,024	419,270	376,243	363,317	355,205
Capital Outlay	62,617	541,616	549,231	3,832,404	1,018,457
Intergovernmental Charges	210,876	204,575	200,698	1,955,945	1,999,585
Total Expenditures	\$ 95,215,202	\$ 90,284,795	\$ 81,602,503	\$ 78,221,282	\$ 70,430,077
Excess (Deficiency) of Revenues Over Expenditures	\$ 3,170,164	\$ 915,434	\$ 6,727,384	\$ 4,186,055	\$ 5,929,748
Other Financing Sources (Uses):					
Transfers In	\$ 102,273	\$ -	\$ -	\$ -	\$ -
Sale of Real and Personal Property	-	16,141	22,987	7,940	260,054
Other Resources (Uses)	-	-	(54,722)	-	298,424
Total Other Financing Sources (Uses)	\$ 102,273	\$ 16,141	\$ (31,735)	\$ 7,940	\$ 558,478
Net Change in Fund Balance	\$ 3,272,437	\$ 931,575	\$ 6,695,649	\$ 4,193,995	\$ 6,488,226
Beginning General Fund Balance	49,971,503	49,039,928	42,344,279	38,150,284	31,662,058
Ending General Fund Balance	\$ 53,243,940	\$ 49,971,503	\$ 49,039,928	\$ 42,344,279	\$ 38,150,284

Source: The District's audited financial statements.

TABLE 13 - CURRENT INVESTMENTS

As of August 31, 2019, the District's investable funds were invested in the following categories:

Description	Market Value	Percent of Total Value
Texas TERM.....	\$ 61,236,421	74.30%
TexPool.....	10,700,989	12.98%
LOGIC.....	4,251,674	5.16%
Texas CLASS.....	3,928,866	4.77%
Texas FIT.....	2,003,539	2.43%
TexSTAR.....	297,227	0.36%
	\$ 82,418,716	100.00%

APPENDIX B

EXCERPTS FROM THE DISTRICT'S ANNUAL FINANCIAL REPORT



Start, Garcia & Stanley, LLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
DICKINSON INDEPENDENT SCHOOL DISTRICT
Dickinson, Texas

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 auditors' 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 District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Change in Accounting Principle

As described in Note 2 to the financial statements, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management’s discussion and analysis, budgetary comparison information, and TRS pension and OPEB schedules on pages 7-14 and 59-65 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 U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District’s basic financial statements. The combining nonmajor fund financial statements and schedules required by the Texas Education Agency are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining nonmajor fund financial statements, schedules required by the Texas Education Agency, 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 U.S. generally accepted auditing standards. In our opinion, the combining nonmajor fund financial statements, schedules required by the Texas Education Agency, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2018 on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 the District’s internal control over financial reporting and compliance.

Start, Garcia & Stanley
Start, Garcia & Stanley, LLC

Baytown, Texas
December 20, 2018

DICKINSON INDEPENDENT SCHOOL DISTRICT
Management's Discussion and Analysis
August 31, 2018

As administrators of the Dickinson Independent School District (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 District's total liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year by \$44,239,187 (*net position*).

- During the year, the District adopted Statement No.75, Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions (OPEB). With GASB 75, the District assumed their proportionate share of the Net Other Post-Employment Benefits (OPEB) liability of the Teacher Retirement System. As a result of the adoption of GASB 75, the District recorded a prior period adjustment of \$63,026,334 related to its proportionate share of the net OPEB liability to restate beginning net position. The District's net OPEB liability at year end totaled \$35,943,285 and the District's total net position decreased by \$53,288,760 for the current fiscal period.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$85,518,235, a decrease of \$35,230,709 in comparison with the prior year. The decrease in overall governmental fund balances was primarily due to the capital outlay expenditures associated with bonds to build a new junior high school. Fund balance in the capital projects fund decreased by \$40,947,851. The general fund fund balance increased by \$3,272,437 due to excess revenues over expenditures.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$20,898,617 or 22% of total general fund expenditures.

Overview of the Financial Statements

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

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the government, reporting the District's operations in more detail than the government-wide statements. The *governmental funds* statements tell how *general government* services were financed in the *short-term* as well as what remains for future spending. *Proprietary fund* statements offer *short* and *long-term* financial information about the activities the government operates *like businesses*, such as the District's self-insurance workers' compensation program. *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.
- The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data.

The basic financial statements are followed by a section of other *required supplementary information* that further explains and supports the information in the financial statements. The remainder of this overview section of *management's discussion and analysis* explains the structure and contents of each of the statements.

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 includes all of the government's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Net position is one way to measure the District's financial health or position. Over time, increases or decreases in the District's net positions are

DICKINSON INDEPENDENT SCHOOL DISTRICT
Management's Discussion and Analysis
August 31, 2018

indicators of whether financial health is improving or deteriorating, respectively. To fully assess the overall health of the District, however, non-financial factors need to be considered as well, such as changes in the District's average daily attendance, its property tax base and the condition of the District's facilities.

The Statement of Activities 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 affect cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused sick leave).

The government-wide financial statements of the District reflect the governmental activities which are principally supported by taxes and intergovernmental revenues. The governmental activities of the District include Instruction, Instructional Resources and Media Services, Curriculum and Instructional Staff Development, Instructional Leadership, School Leadership, Guidance, Counseling, and Evaluation Services, Social Work Services, Student (Pupil) Transportation, Food Services, Extracurricular Activities, General Administration, Facilities Maintenance and Operations, Security and Monitoring Services, Data Processing Services, Community Services, Interest on Long-term Debt, Bond Issuance Costs and Fees, Payments to Shared Services Arrangements, and Payments to Juvenile Justice Alternative Education Programs.

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 three categories: governmental funds, proprietary 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 the near-term inflows and outflows of spendable resources, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the government 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 maintains individual governmental funds for general, special revenue, debt services, and capital projects 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, debt service fund, and capital projects fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual funds data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in the financial statements. The District adopts an annual appropriated budget for its general fund, debt service funds, and National School Breakfast and Lunch Program special revenue fund.

Proprietary Fund

The District maintains individual internal service funds for life insurance and workers' compensation insurance coverage. *Internal service funds*, one type of proprietary fund, are an accounting device used to accumulate and allocate costs internally among the District's various funds and functions. Because this service predominantly benefits governmental functions, it has been included within *governmental activities* in the government-wide financial statements.

Proprietary fund statements provide the same type of information as the government-wide financial statements, only in more detail. The internal service fund financial statements provide information for the life and workers' compensation insurance funds.

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Fiduciary Fund

The fiduciary funds are used to account for resources held for the benefit of students and employees. The fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The funds are custodial in nature (assets equal liabilities) and do not involve current financial resources.

Fund Balance

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- *Nonspendable* – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.
- *Restricted* – includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- *Committed* – includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board.
- *Assigned* – includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed.
- *Unassigned* – includes the residual fund balance for amounts that have not been assigned to other funds or restricted, committed, or assigned to a specific purpose within the *general fund*.

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.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. The required supplementary information relates to comparison of the original adopted budget, the final amended budget, and the actual amounts for the fiscal year. This is required supplementary information for the general fund and any major special revenue funds. The District did not have any major special revenue funds; therefore, only the general fund is presented as required supplementary information.

In addition, information related to the District's proportionate share of its net pension liability, net OPEB liability, and contributions to the Teacher Retirement System of Texas is also presented.

Other Information

The other supplementary information is presented immediately following the required supplementary information and includes schedules required by the Texas Education Agency.

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, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$44,239,187 at the close of the most recent fiscal year.

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

COMPARATIVE SCHEDULE OF NET POSITION
August 31, 2018 and 2017

	Governmental Activities		Change
	2018	2017	2018-2017
Current and other assets	\$ 103,835,252	\$ 137,217,491	\$ (33,382,239)
Capital assets	<u>264,392,373</u>	<u>236,958,836</u>	<u>27,433,537</u>
Total assets	<u>368,227,625</u>	<u>374,176,327</u>	<u>(5,948,702)</u>
Deferred outflows of resources	<u>13,972,669</u>	<u>14,221,131</u>	<u>(248,462)</u>
Other liabilities	21,876,787	18,042,408	3,834,379
Long-term liabilities	<u>386,286,420</u>	<u>360,016,930</u>	<u>26,269,490</u>
Total liabilities	<u>408,163,207</u>	<u>378,059,338</u>	<u>30,103,869</u>
Deferred inflows of resources	<u>18,276,274</u>	<u>1,288,547</u>	<u>16,987,727</u>
Net position:			
Net Investment in Capital Assets	(48,578,716)	(40,484,122)	(8,094,594)
Restricted	14,398,821	11,865,545	2,533,276
Unrestricted	<u>(10,059,292)</u>	<u>37,665,150</u>	<u>(47,724,442)</u>
Total net position	<u>\$ (44,239,187)</u>	<u>\$ 9,046,573</u>	<u>\$ (53,285,760)</u>

Net position is restricted for various purposes as follows:

Federal and state programs	\$ 951,509
Debt service	13,447,312
Other purposes	-
	<u>\$ 14,398,821</u>

Unrestricted net position, which can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, amount to (\$10,059,292) at August 31, 2018. Unrestricted net position reflects a deficit created by a prior period adjustment resulting from the implementation of GASB 75 in the current fiscal year. Although the District reports a deficit, the deficit is primarily due to reporting the District's proportionate share of the net OPEB liability. The District's liability is reported in governmental activities; however, the actual liability does not require the use of current resources at the fund level, which results in a timing difference since the TRS-Care plan is funded on a pay-as-you-go basis. The District has made all contractually required contributions as noted in the required supplementary information and has sufficient fund balance to meet the District's ongoing obligations to students and creditors.

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COMPARATIVE SCHEDULE OF CHANGES IN NET POSITION
August 31, 2018 and 2017

	Governmental Activities		Change
	2018	2017	2018-2017
Revenues			
Program revenues:			
Charge for services	\$ 3,247,034	\$ 3,403,664	\$ (156,630)
Operating grants & contributions	(1,414,831)	18,288,646	(19,703,477)
General revenues:			
Property Taxes	57,038,086	52,543,886	4,494,200
State Aid - formula grants	48,694,652	48,098,196	596,456
Grants and contributions not restricted	3,129,849	1,753,165	1,376,684
Investment earnings	1,878,282	1,222,470	655,812
Other	1,556,236	516,128	1,040,108
Total revenues	<u>114,129,308</u>	<u>125,826,155</u>	<u>(11,696,847)</u>
Expenses:			
Instruction and related services	50,861,921	72,006,915	(21,144,994)
Instructional and school leadership	5,510,607	7,972,492	(2,461,885)
Support services - student	15,287,246	18,974,907	(3,687,661)
Administrative support services	2,728,128	3,436,699	(708,571)
Support services - non-student based	16,330,270	15,547,959	782,311
Ancillary services	678,527	504,739	173,788
Debt service	12,686,237	12,983,344	(297,107)
Intergovernmental charges	308,798	321,271	(12,473)
Total expenses	<u>104,391,734</u>	<u>131,748,326</u>	<u>(27,356,592)</u>
Increase (decrease) in net position	9,737,574	(5,922,171)	15,659,745
Net position, beginning	9,049,573	14,971,744	(5,922,171)
Prior Period Adjustment	<u>(63,026,334)</u>	-	<u>(63,026,334)</u>
Net position, ending	<u>\$ (44,239,187)</u>	<u>\$ 9,049,573</u>	<u>\$ (53,288,760)</u>

Governmental Activities

Changes in revenue and expenses for the year are not comparable to prior year due to the overall effects of GASB 75. Decreases in grants and contribution revenues and functional expenses primarily result from adjustments related to the implementation of GASB 75.

The decrease in Net Position of \$53,288,760 results primarily from the implementation of GASB 75. Similar to GASB 68, *Accounting and Financial Reporting for Pensions*, GASB 75 established accounting and financial reporting requirements for governments that provide their employees with post-employment benefits other than pensions. (GASB 68 established accounting and financial reporting requirements for governments that provide their employees with pensions.) The primary objective of these Statements was to improve accounting and financial reporting by state and local governments.

Governments providing defined benefit pension plans and other post-employment benefits were required to recognize their long-term obligation for pension and OPEB benefits as a liability on their accrual-based, government-wide statement of net position. This provides citizens and other users of these financial reports with a clearer picture of the size and nature of the financial obligations to current and former employees. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI).

The implementation of these standards clearly depicts the government's financial position. While this information will, in some cases, give the appearance that a government is financially weaker than it was previously, the financial reality of the government's situation will not have changed. Reporting the net pension liability and net OPEB liability on the face of the financial statements will more clearly portray the government's financial status because the pension and OPEB liabilities will be placed on an equal footing with other long-term obligations.

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At August 31, 2018, the District reported a net pension liability of \$21,191,236 for its proportionate share of TRS's net pension liability and a net OPEB liability of \$35,943,285 for its proportionate share of the District's Other Post-Employment benefits other than pensions. At August 31, 2017, the District's net pension liability and OPEB liability was \$22,348,037 and \$63,456,055, respectively.

Revenues are generated primarily from three sources. Property taxes, state-aid formula grants, and operating grants and contributions represent 95% of total revenues. The remaining 5% is generated from charges for services, investment earnings, and miscellaneous revenues. In 2018, revenues decreased from the prior year by \$11,696,847. This results primarily from effects of OPEB components implemented during the year.

The primary functional expense of the District is instruction and related services, which represents 55% of total expenses. Support services – student (such as guidance, counseling and evaluation services, student transportation, food services, and extracurricular activities, etc.) represents 14% of total expenses, support services – non-student based (such as facilities maintenance and operations, etc.) represents 12% of total expenses, and the remaining individual functional categories of expenses are each less than 10% of total expenses.

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 \$85,518,235, an decrease of \$35,230,709 in comparison with prior year.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$20,898,617, while total fund balance reached \$53,243,940. As a measure of the general fund's liquidity, it may be useful to compare unassigned, assigned, committed fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 22% of total general fund expenditures, while assigned fund balance represents 25%, committed fund balance represents 9%, and total fund balance represents 55% of that same amount. The fund balance of the District's general fund increased by \$3,272,437 during the current fiscal year. Increase in fund balance resulted from revenues exceeding projected amounts coupled with operating expenditures falling below budgeted expenditures.

The debt service fund has total fund balance of \$13,143,862, all of which is restricted for the payment of debt service. During 2018, the District's debt service fund balance increased by \$2,314,892.

The capital projects fund has a total fund balance of \$17,419,481, all of which is restricted for authorized construction and technology projects/enhancements. The decrease in fund balance during the current year of \$40,947,851 was due to completed and ongoing projects during the year.

DICKINSON INDEPENDENT SCHOOL DISTRICT
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General Fund Budgetary Highlights

The District adopted a deficit budget for fiscal year 2017. Differences between the original budget and the final amended budget of the general fund can be briefly summarized as follows:

	BUDGET	
	Original	Final
Total revenues	\$ 89,856,121	\$ 92,046,121
Total expenditures	(99,807,396)	(103,165,916)
Other sources and (uses)	5,000	5,000
Net change in fund balance	\$ (9,946,275)	\$ (11,114,795)

There were no significant budget amendments affecting total budgeted revenues. The increase in final budgeted expenditures resulted primarily from budget amendments to increase facilities maintenance and operations (\$3.2 million).

For fiscal year 2018, local and intermediate revenue sources did not have any significant variances between budgeted and actual amounts. State program revenues exceeded District's estimates by approximately \$3.8 million. Federal revenues accounted for in the General Fund (SHARS revenues) exceeded the District's estimates by approximately \$1.9 million. Expenditures were less than budgetary estimates by approximately \$7.9 million as instruction and related services, facilities maintenances and operations, and other expenses were less than budgeted amounts. Overall, the general fund exceeded its final budget estimate by approximately \$14.4 million, resulting in an increase in general fund balance of approximately \$3.3 million for the year.

Capital Assets

The District's investment in capital assets for its governmental type activities, as of August 31, 2018, amounts to \$264,392,373 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, and furniture and equipment. The total amount invested in capital assets for the current fiscal year was:

Capital Assets	2018
Land	\$ 8,032,316
Construction in progress	3,485,271
Buildings and improvements	379,148,862
Furniture and equipment	22,741,238
Library books and media	32,389
Total	413,440,076
Accumulated depreciation	(149,047,703)
Net capital assets	\$ 264,392,373

Additional information of the District's capital assets can be found in the notes to the financial statements.

Long-term Liabilities

At the end of the current fiscal year, the District had \$312,435,000 in bonded debt outstanding, a decrease of \$4,570,000 over the prior year. The District's bonds are sold with an "AAA" rating and are guaranteed through the Texas Permanent School Fund Guarantee Program or by a municipal bond insurance policy. The underlying rating of the bonds from Standard and Poor's is "A" and from Moody's Investors Service is "Aa3" for general obligation debt.

Changes in all long-term debt, for the year ended August 31, 2018, are as follows:

Outstanding 9/1/2017	Additions	Reductions	Outstanding 8/31/2018
\$ 317,005,000	\$ -	\$ (4,570,000)	\$ 312,435,000

State statutes limit the amount of general obligation debt a governmental entity may issue to 10% of its total assessed

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valuation. For the fiscal year ended August 31, 2018, the current debt limitation for the District is \$367,815,901. The District's outstanding debt of \$312,435,000 less the reserve for the retirement of the debt of \$13,143,862 totals \$299,291,138 leaving a legal debt margin of \$68,524,763. Additional information on the District's long-term liabilities can be found in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

- Appraised value used for the 2018-2019 budget preparation was increased by \$8 million, or 0.02% from the previous year. This increase was minimal due to a decrease in value as a result of Hurricane Harvey and an increase in construction of new homes.
- The Tax Rate for 2018-2019 is \$1.52 (\$1.06 for M&O; \$.46 for I&S), \$.02 was shifted from I&S to M&O for 2018-2019 only, the total tax rate is the same as 2017-2018.
- The 2018-2019 general fund operating budget projects spending \$9,380 per student.
- The District's 2018-2019 refined average daily attendance is expected to be 10,500.

In August of 2017, Hurricane Harvey hit the Galveston Bay area. Thousands of residences and businesses were damaged or destroyed. Due to the losses it is estimated that 400 students relocated to other school districts. It is uncertain at this time if or when these students will return to Dickinson ISD.

Dickinson ISD is classified as a 6A district and has grown consistently for the past several years. The District received a 'Superior' rating under the Financial Integrity Rating System of Texas for the sixteenth consecutive year. In the TXSmartSchools.org system it was noted that the District has a "very low" spending index and accomplished a 4 Smart Score rating, with 5 being the best.

The Board of Trustees sold \$70 million in bonds for the construction of a junior high school. The school is located on land currently owned by the District just west of Hwy 146. The school opened in August, 2018.

The Board of Trustees approved the construction of a ninth grade center using excess funds from the 2014 and 2016 bond projects. This project is currently under construction and is scheduled to open August 2019.

The tax rate did not increase due to the bond election.

The District is growing and several residential projects are being developed. Lago Mar, a subdivision with 5,000 to 7,500 residential units has recently begun developing.

The Bay Colony subdivision continues to grow. Other subdivisions, on the west side of the District, include plans for approximately 550 new residential homes within the next five to seven years.

Restaurants, banks, department stores and businesses within the District continue to be constructed as the business community grows.

The Tuscan Lakes subdivision construction projects of new homes and additional apartments are adding to the growth of the District. More commercial building is in the planning stages for this area.

Request for Information

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's Business Office at Dickinson Independent School District, 2218 FM 517, Dickinson, Texas 77539.

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

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 31,830,637
1120 Current Investments	61,309,000
1220 Property Taxes - Delinquent	5,445,315
1230 Allowance for Uncollectible Taxes	(2,386,502)
1240 Due from Other Governments	6,403,467
1250 Accrued Interest	445,069
1267 Due from Fiduciary Funds	320
1290 Other Receivables, Net	70,572
1300 Inventories	609,989
1410 Prepayments	107,385
Capital Assets:	
1510 Land	8,032,316
1520 Buildings, Net	247,278,584
1530 Furniture and Equipment, Net	5,579,962
1560 Library Books and Media, Net	16,240
1580 Construction in Progress	3,485,271
1000 Total Assets	368,227,625
DEFERRED OUTFLOWS OF RESOURCES	
1701 Deferred Charge for Refunding	3,928,891
1705 Deferred Outflow Related to TRS Pension	9,439,946
1706 Deferred Outflow Related to TRS OPEB	603,832
1700 Total Deferred Outflows of Resources	13,972,669
LIABILITIES	
2110 Accounts Payable	6,679,975
2160 Accrued Wages Payable	4,651,356
2177 Due to Fiduciary Funds	1,228
2200 Accrued Expenses	766,599
2300 Unearned Revenue	1,949,934
Noncurrent Liabilities:	
2501 Due Within One Year	7,827,695
2502 Due in More Than One Year	329,151,899
2540 Net Pension Liability (District's Share)	21,191,236
2545 Net OPEB Liability (District's Share)	35,943,285
2000 Total Liabilities	408,163,207
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Resource Inflow Related to TRS Pension	3,241,130
2606 Deferred Resource Inflow Related to TRS OPEB	15,035,144
2600 Total Deferred Inflows of Resources	18,276,274
NET POSITION	
3200 Net Investment in Capital Assets	(48,578,716)
3820 Restricted for Federal and State Programs	951,509
3850 Restricted for Debt Service	13,447,312
3900 Unrestricted	(10,059,292)
3000 Total Net Position	\$ (44,239,187)

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

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

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
Codes	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position <u>Primary Gov. Governmental Activities</u>

Primary Government:

GOVERNMENTAL ACTIVITIES:

11 Instruction	\$ 48,689,348	\$ 627,701	\$ (4,569,384)	\$ (52,631,031)
12 Instructional Resources and Media Services	1,125,158	-	(194,555)	(1,319,713)
13 Curriculum and Instructional Staff Development	1,047,415	-	275,257	(772,158)
21 Instructional Leadership	870,917	21,969	(77,291)	(926,239)
23 School Leadership	4,639,690	19,223	(855,210)	(5,475,677)
31 Guidance, Counseling and Evaluation Services	2,393,952	-	(75,067)	(2,469,019)
32 Social Work Services	189,928	-	(32,920)	(222,848)
33 Health Services	743,481	-	(125,429)	(868,910)
34 Student (Pupil) Transportation	4,311,131	167,483	(619,394)	(4,763,042)
35 Food Services	5,339,392	1,128,068	4,348,689	137,365
36 Extracurricular Activities	2,309,362	868,059	(170,625)	(1,611,928)
41 General Administration	2,728,128	-	(381,099)	(3,109,227)
51 Facilities Maintenance and Operations	14,656,332	79,565	(912,929)	(15,489,696)
52 Security and Monitoring Services	587,051	-	-	(587,051)
53 Data Processing Services	1,086,887	-	(248,138)	(1,335,025)
61 Community Services	678,527	334,966	(13,476)	(357,037)
72 Debt Service - Interest on Long-Term Debt	12,654,777	-	2,138,818	(10,515,959)
73 Debt Service - Bond Issuance Cost and Fees	31,460	-	-	(31,460)
93 Payments Related to Shared Services Arrangements	205,371	-	97,922	(107,449)
95 Payments to Juvenile Justice Alternative Ed. Prg.	103,427	-	-	(103,427)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 104,391,734	\$ 3,247,034	\$ (1,414,831)	(102,559,531)

Data Control Codes	General Revenues:		
	Taxes:		
MT	Property Taxes, Levied for General Purposes		39,010,580
DT	Property Taxes, Levied for Debt Service		18,027,506
SF	State Aid - Formula Grants		48,694,652
GC	Grants and Contributions not Restricted		3,129,849
IE	Investment Earnings		1,878,282
MI	Miscellaneous Local and Intermediate Revenue		1,556,236
TR	Total General Revenues		112,297,105
CN	Change in Net Position		9,737,574
NB	Net Position - Beginning		9,049,573
PA	Prior Period Adjustment (GASB 75)		(63,026,334)
NE	Net Position--Ending		\$ (44,239,187)

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

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

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects Fund
ASSETS			
1110 Cash and Cash Equivalents	\$ 16,839,159	\$ 5,581,501	\$ 6,437,079
1120 Investments - Current	36,529,000	7,500,000	16,000,000
1220 Property Taxes - Delinquent	3,921,200	1,524,115	-
1230 Allowance for Uncollectible Taxes	(1,718,532)	(667,970)	-
1240 Due from Other Governments	4,182,750	17,776	-
1250 Accrued Interest	257,079	44,585	137,836
1260 Due from Other Funds	1,877,826	-	-
1290 Other Receivables	7,327	-	-
1300 Inventories	288,424	-	-
1410 Prepayments	107,385	-	-
1000 Total Assets	<u>\$ 62,291,618</u>	<u>\$ 14,000,007</u>	<u>\$ 22,574,915</u>
LIABILITIES			
2110 Accounts Payable	\$ 1,112,205	\$ -	\$ 5,155,434
2160 Accrued Wages Payable	4,496,836	-	-
2170 Due to Other Funds	8,546	-	-
2300 Unearned Revenue	1,227,423	-	-
2000 Total Liabilities	<u>6,845,010</u>	<u>-</u>	<u>5,155,434</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	2,202,668	856,145	-
2600 Total Deferred Inflows of Resources	<u>2,202,668</u>	<u>856,145</u>	<u>-</u>
FUND BALANCES			
Nonspendable Fund Balance:			
3410 Inventories	288,424	-	-
3430 Prepaid Items	107,385	-	-
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	-	-
3470 Capital Acquisition and Contractual Obligation	-	-	17,419,481
3480 Retirement of Long-Term Debt	-	13,143,862	-
Committed Fund Balance:			
3510 Construction	6,000,000	-	-
3530 Capital Expenditures for Equipment	500,000	-	-
3545 Other Committed Fund Balance	1,800,000	-	-
Assigned Fund Balance:			
3550 Construction	20,000,000	-	-
3570 Capital Expenditures for Equipment	340,000	-	-
3580 Self-Insurance	300,000	-	-
3590 Other Assigned Fund Balance	3,009,514	-	-
3600 Unassigned Fund Balance	20,898,617	-	-
3000 Total Fund Balances	<u>53,243,940</u>	<u>13,143,862</u>	<u>17,419,481</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 62,291,618</u>	<u>\$ 14,000,007</u>	<u>\$ 22,574,915</u>

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

Nonmajor Governmental Funds		Total Governmental Funds	
\$	2,249,966	\$	31,107,705
	-		60,029,000
	-		5,445,315
	-		(2,386,502)
	2,202,941		6,403,467
	-		439,500
	8,874		1,886,700
	63,245		70,572
	321,565		609,989
	-		107,385
<u>\$</u>	<u>4,846,591</u>	<u>\$</u>	<u>103,713,131</u>
\$	379,546	\$	6,647,185
	154,520		4,651,356
	1,879,062		1,887,608
	722,511		1,949,934
<u></u>	<u>3,135,639</u>	<u></u>	<u>15,136,083</u>
	-		3,058,813
<u></u>	<u>-</u>	<u></u>	<u>3,058,813</u>
	24,986		313,410
	-		107,385
	926,523		926,523
	-		17,419,481
	-		13,143,862
	-		6,000,000
	-		500,000
	759,443		2,559,443
	-		20,000,000
	-		340,000
	-		300,000
	-		3,009,514
	-		20,898,617
<u></u>	<u>1,710,952</u>	<u></u>	<u>85,518,235</u>
<u>\$</u>	<u>4,846,591</u>	<u>\$</u>	<u>103,713,131</u>

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

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$	85,518,235
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. The cost of these assets is \$413,440,076 and the accumulated depreciation is \$149,047,703. The effect of including the capital assets (net of depreciation) in the governmental activities is to increase net position. (See Note 6.)		264,392,373
2 Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period, and, therefore, are not reported as liabilities in the governmental funds. The effect of these long-term liabilities is a decrease to net position. (See Note 7.)		(336,979,594)
3 Recognizing deferred revenue (property taxes) as revenue in the government-wide statements to convert from modified accrual basis of accounting to the accrual basis of accounting. The net effect is an increase to net position.		3,058,813
4 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68 in the amount of \$21,191,236, a deferred resource inflow related to TRS in the amount of \$3,241,130 and a deferred resource outflow related to TRS in the amount of \$9,439,946. The net effect of these pension related items is a decrease to net position. (See Note 10.)		(14,992,420)
5 Included in the items related to debt is the recognition of the District's proportionate share of the net OPEB liability required by GASB 75 in the amount of \$35,943,285, a deferred inflow related to TRS OPEB in the amount of \$15,035,144, and a deferred resource outflow related to TRS OPEB in the amount of \$603,832. The net effect of these OPEB related items is a decrease to net position. (See Note 9.)		(50,374,597)
6 The District uses internal service funds to charge the costs of self-insurance activities to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. The net effect of this consolidation is to increase net position.		1,209,112
7 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include eliminating interfund transactions and recognizing the bond components associated with outstanding debt. Deferred charges on refundings are not financial resources and therefore, are not reported in governmental funds. Deferred charges are amortized over the life of the debt. The net effect is an increase to net position.		3,928,891
19 Net Position of Governmental Activities	<u>\$</u>	<u>(44,239,187)</u>

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

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

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects Fund
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 42,386,956	\$ 18,151,804	\$ 664,513
5800 State Program Revenues	53,574,185	1,551,563	-
5900 Federal Program Revenues	2,424,225	587,255	-
5020 Total Revenues	<u>98,385,366</u>	<u>20,290,622</u>	<u>664,513</u>
EXPENDITURES:			
Current:			
0011 Instruction	56,520,686	-	-
0012 Instructional Resources and Media Services	1,254,014	-	-
0013 Curriculum and Instructional Staff Development	566,165	-	-
0021 Instructional Leadership	1,018,968	-	-
0023 School Leadership	5,679,730	-	-
0031 Guidance, Counseling and Evaluation Services	2,644,397	-	-
0032 Social Work Services	168,944	-	-
0033 Health Services	829,050	-	-
0034 Student (Pupil) Transportation	5,861,215	-	-
0035 Food Services	668	-	-
0036 Extracurricular Activities	2,031,009	-	-
0041 General Administration	3,154,148	-	-
0051 Facilities Maintenance and Operations	12,624,616	-	-
0052 Security and Monitoring Services	521,910	-	-
0053 Data Processing Services	1,472,165	-	-
0061 Community Services	594,024	-	-
Debt Service:			
0071 Principal on Long-Term Debt	-	4,570,000	-
0072 Interest on Long-Term Debt	-	13,374,270	-
0073 Bond Issuance Cost and Fees	-	31,460	-
Capital Outlay:			
0081 Facilities Acquisition and Construction	62,617	-	41,612,364
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	107,449	-	-
0095 Payments to Juvenile Justice Alternative Ed. Prg.	103,427	-	-
6030 Total Expenditures	<u>95,215,202</u>	<u>17,975,730</u>	<u>41,612,364</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	3,170,164	2,314,892	(40,947,851)
OTHER FINANCING SOURCES (USES):			
7915 Transfers In	102,273	-	-
1200 Net Change in Fund Balances	<u>3,272,437</u>	<u>2,314,892</u>	<u>(40,947,851)</u>
0100 Fund Balance - September 1 (Beginning)	<u>49,971,503</u>	<u>10,828,970</u>	<u>58,367,332</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 53,243,940</u>	<u>\$ 13,143,862</u>	<u>\$ 17,419,481</u>

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

	Nonmajor Governmental Funds	Total Governmental Funds
\$	2,769,600	\$ 63,972,873
	1,160,308	56,286,056
	10,432,395	13,443,875
	14,362,303	133,702,804
	6,472,651	62,993,337
	27,043	1,281,057
	365,525	931,690
	148,437	1,167,405
	296,333	5,976,063
	438,195	3,082,592
	-	168,944
	-	829,050
	1,817	5,863,032
	5,891,623	5,892,291
	423,315	2,454,324
	700	3,154,848
	59,114	12,683,730
	280	522,190
	-	1,472,165
	9,535	603,559
	-	4,570,000
	-	13,374,270
	-	31,460
	-	41,674,981
	97,922	205,371
	-	103,427
	14,232,490	169,035,786
	129,813	(35,332,982)
	-	102,273
	129,813	(35,230,709)
	1,581,139	120,748,944
\$	1,710,952	\$ 85,518,235

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

EXHIBIT C-4

Total Net Change in Fund Balances - Governmental Funds	\$	(35,230,709)
The District uses an internal service fund to charge the costs of the certain activities, such as self-insurance, to appropriate functions in other funds. The net income (loss) of internal service funds is reported with governmental activities. The net effect of this consolidation is to increase net position.		289,685
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of removing the 2018 capital outlays is an increase to net position. (See Note 6.)		40,983,958
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position. (See Note 6.)		(13,548,287)
The governmental funds report bond proceeds as an other financing source, while repayment of bond principal is reported as an expenditure. Also, governmental funds report the effect of premiums when debt is first issued, whereas this amount is deferred and amortized in the statement of activities. The net effect is to increase net position. (See Note 7.)		5,821,127
Changes in the District's proportionate share of the net pension liability, deferred outflows or resources, and deferred inflows of resources related to the Teacher Retirement System of Texas for the current year are not reported in governmental funds but are reported in the Statement of Activities. The net effect of all these changes is a decrease to net position.		(1,169,373)
Changes in the District's proportionate share of the net OPEB liability, deferred outflows of resources, and deferred inflows of resources related to the Texas Public Retired Employees Group Insurance Program (TRS-Care) for the current year are not reported in governmental funds but are reported in the Statement of Activities. The net effect of all these changes is an increase to net position.		12,651,737
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating inter-fund transactions, recognizing the net effect of retirement of capital assets, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net position.		(60,564)
Change in Net Position of Governmental Activities	\$	9,737,574

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

DICKINSON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AUGUST 31, 2018

	Governmental Activities -
	Total Internal Service Funds
<hr/>	
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 722,932
Investments - Current	1,280,000
Accrued Interest	<u>5,569</u>
Total Assets	<u>2,008,501</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	32,790
Accrued Expenses	<u>766,599</u>
Total Liabilities	<u>799,389</u>
NET POSITION	
Unrestricted Net Position	<u>1,209,112</u>
Total Net Position	<u><u>\$ 1,209,112</u></u>

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

DICKINSON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2018

	Governmental Activities -
	Total Internal Service Funds
<hr/>	
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 730,135
Total Operating Revenues	<u>730,135</u>
OPERATING EXPENSES:	
Professional and Contracted Services	268,966
Other Operating Costs	94,916
Total Operating Expenses	<u>363,882</u>
Operating Income	<u>366,253</u>
NONOPERATING REVENUES (EXPENSES):	
Earnings from Temporary Deposits & Investments	<u>25,705</u>
Total Nonoperating Revenues (Expenses)	<u>25,705</u>
Income Before Transfers	391,958
Transfers Out	<u>(102,273)</u>
Change in Net Position	289,685
Total Net Position - September 1 (Beginning)	<u>919,427</u>
Total Net Position - August 31 (Ending)	<u><u>\$ 1,209,112</u></u>

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

DICKINSON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2018

	Governmental Activities -
	Total Internal Service Funds
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 644,501
Cash Payments for Other Operating Expenses	(516,621)
Net Cash Provided by Operating Activities	<u>127,880</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Operating Transfer Out	<u>(102,273)</u>
<u>Cash Flows from Investing Activities:</u>	
Purchase of Investment Securities	(80,000)
Interest and Dividends on Investments	28,297
Net Cash Provided by (Used for) Investing Activities	<u>(51,703)</u>
Net Decrease in Cash and Cash Equivalents	(26,096)
Cash and Cash Equivalents at Beginning of Year	<u>749,028</u>
Cash and Cash Equivalents at End of Year	<u>\$ 722,932</u>
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Provided by Operating Activities:</u>	
Operating Income:	\$ 366,253
Effect of Increases and Decreases in Current Assets and Liabilities:	
Increase (decrease) in Accounts Payable	(5,520)
Increase (decrease) in Accrued Expenses	(147,219)
Increase (decrease) in Deferred Revenue	(85,634)
Net Cash Provided by Operating Activities	<u>\$ 127,880</u>

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

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

	Agency Funds
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 352,833
Due from Other Funds	1,228
Other Receivables	125
Total Assets	<u>\$ 354,186</u>
 LIABILITIES	
Accounts Payable	\$ 44,176
Accrued Wages Payable	30
Due to Other Funds	320
Due to Student Groups	309,660
Total Liabilities	<u>\$ 354,186</u>

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

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

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Dickinson Independent School District (the District) is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the Board) elected by registered voters of the District. The District prepares its basic financial statements in conformity with U.S. generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in *Statement on Auditing Standards No. 69, as amended by Statement on Auditing Standards No.'s 91 and 93* of the American Institute of Certified Public Accountants; and it complies with the requirements of the appropriate version of Texas Education Agency's (TEA) *Financial Accountability System Resource Guide* (the Resource Guide) and the requirements of contracts and grants of agencies from which it receives funds.

Reporting entity – The Board of Trustees (the “Board”), a seven member group, has fiscal responsibility over all activities related to public elementary and secondary education within the jurisdiction of the District. The public elects the Board that corporately has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency (“TEA”) or to the Texas State Board of Education are reserved for the Board, and TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District is not included in any other governmental “reporting entity” as defined by GASB Statement No. 61, “*The Financial Reporting Entity*”: *Omnibus – an amendment by GASB Statements No. 14 and 34*. There are no component units or entities for which the District is considered financially accountable included within the reporting entity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

New GASB Pronouncements - GASB has issued several new pronouncements that the District has reviewed for application to their accounting and reporting.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, is effective for periods beginning after June 15, 2017. This statement replaces the requirements of GASB Statement No. 45 and requires the District to report a liability (including any related deferred outflows or inflows of resources) on the statement of net position for other post-employment benefits administered through trusts or similar arrangement that meet certain criteria. This statement also requires enhanced note disclosures and schedules of required supplementary information.

The District's basic financial statements consist of government-wide statements and fund financial statements which provide a more detailed level of financial information.

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 non-fiduciary activities of the District as a whole. For the most part, the effect of inter-fund activity has been removed from these statements. The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific program. *Program revenues* include 1) charges to students or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements – During the fiscal year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental fund financial statements is on major funds, which are presented in separate columns. Nonmajor governmental funds are aggregated and presented in a single column. Separate financial statements are provided for proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

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

Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions of the District are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

The District reports the following major governmental fund types:

- The *general fund* is the District's primary operating fund. This fund is established to account for resources financing the fundamental operations of the District, in partnership with the community, in enabling and motivating students to reach their full potential. All revenues and expenditures not required to be accounted for in another fund are included here.
- The *debt service fund* is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. This is a budgeted fund and a separate bank account is maintained for this fund. Any unused sinking fund balances are transferred to the General Fund after all of the related debt obligations have been met.
- The *capital projects funds* are used to account for proceeds from sales of bonds and other revenues to be used for authorized construction and equipment purchases.
- The nonmajor governmental funds of the District account for grants and other resources of the District whose uses are restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a special revenue fund. Generally, unused balances are returned to the grantor at the close of the specified project periods. With respect to the food service and campus activity funds, funds are rolled over from year to year for use in the program.

Proprietary Fund

The District utilizes internal service fund accounts for workers' compensation services provided to other funds and/or employees of the District on a cost reimbursement basis. Proprietary funds distinguish operating revenue and expense from non-operating items. Operating revenues and expenses generally result from providing services or producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's internal service fund are charges to the funds for self-funded workers' compensation services. Operating expenses for the internal service fund include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The general fund is contingently liable for liabilities of the internal service fund. Sub-fund accounting is employed to maintain the integrity of the self-insurance activities of the District. See Note 13 for additional discussion of the District's self-insurance plan.

Fiduciary Funds

The District utilizes *agency funds* to account for activities of student groups and other organizational activities requiring clearing accounts. Financial resources of agency funds are recorded as assets and liabilities; therefore, those funds do not include revenues and expenditures and have no fund equity. If any unused resources are declared surplus by the student groups, they are transferred to the general fund with a recommendation to the Board for an appropriate utilization through a budgeted program.

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

Measurement Focus

Government-Wide Financial Statements - The government-wide financial statements are prepared using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. All assets and deferred outflows of resources, and liabilities and deferred inflows of resources associated with the operation of the District are included in the statement of net position.

Fund Financial Statements - Governmental fund financial statements are prepared using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, only current assets and deferred outflows of resources, and current liabilities and deferred inflows of resources, and fund balances are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reflects the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-exchange Transactions

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

Grant revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On the modified accrual basis, revenue from non-exchange transactions must be available before it can be recognized.

Deferred or Unearned Revenues

Deferred or unearned revenues arise when assets are recognized before revenue recognition criteria has been satisfied.

Property taxes for which there is an enforceable legal claim as of January 1, but which were levied to finance fiscal year 2018 operations, are recorded as deferred inflows of resources in the fund financial statements. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue in both the government-wide and fund financial statements.

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

In governmental fund financial statements, receivables that will not be collected within the available period are reported as deferred inflows of resources.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on the decrease in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of costs, such as depreciation and amortization, are not recognized in governmental funds.

Budgetary Data

The Board adopts an “appropriated budget” for the General Fund, Debt Service Fund, and the Child Nutrition Program (which is included in the Nonmajor Governmental Funds). The District compares the final amended budget to actual revenues and expenditures. The Budgetary Comparison Schedules appear in Exhibits F-1, H-2, and H-3.

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

- a) Prior to August 20, the District prepares an operating budget for the next succeeding fiscal year beginning September 1. The budget includes proposed expenditures and the means of financing them.
- b) A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten day’s public notice of the meeting must be given.
- c) Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after the fiscal year end.
- d) Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.
- e) Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year’s budget.

Deposits and Investments

Under Texas state law, a bank serving as the school depository must have a bond, or in lieu thereof, deposited or pledged securities with the District or an independent third party agent, in an amount equal to the highest daily balance of all deposits the District may have during the term of the depository contract, less any applicable FDIC insurance.

Investments consist of balances in privately managed public funds investment pools, commercial paper, municipal bonds, and U.S. agencies. Investments with maturities exceeding 12 months at the date of purchase are stated at fair value based on quoted market prices at year-end date. Investments with maturities of 12 months or less at the date of purchase are held at amortized cost and net asset value (NAV).

Inter-fund Assets/Liabilities

On the fund financial statements, receivables and payables resulting from short-term inter-fund loans are classified as “Due from/(to) other funds”. Inter-fund balances within governmental activities are eliminated on the government-wide statement of net assets. See Note 5 for additional discussion of inter-fund receivables and payables.

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

Capital Assets

Capital assets, which include land, buildings and improvements, and furniture and equipment, and infrastructure (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. The District's infrastructure includes parking lots and roads associated with various buildings. The cost of infrastructure was initially capitalized with the building cost and is being depreciated over the same useful life as the building. The District defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated cost if purchased or self-constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction is not capitalized.

Buildings and improvements and furniture and equipment of the District are depreciated using the straight-line method over the following estimated lives: (See Note 6.)

Assets	Years
Buildings and improvements	5-45
Building equipment	5-20
Buses and vehicles	5-10
Office equipment	5-10
Library books and media	10

Prepayments (i.e., Deferred Expenditures/Expenses)

Certain payments to vendors reflect costs applicable to the next fiscal period and are recorded as prepaid items in both government-wide and fund financial statements. Prepaid items are accounted for using the consumption method and are recognized as expenditures/expenses proportionately over the periods in which the services are provided.

Inventories

Inventories consisting of supplies and materials are valued at weighted average cost and they include maintenance, transportation, office and instructional supplies, and food service commodities. Governmental fund inventories are recorded as expenditures when consumed rather than when purchased. Food service commodity inventory is recorded at fair market value on the date received. Commodities are recognized as revenues in the period received when all eligibility requirements are met. Commodity inventory items are recorded as expenditures when distributed to user locations.

Long-Term Obligations

The District's long-term obligations consist of bonded indebtedness and compensated absences. In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest rate method. Bonds payable are reported net of the applicable bond premium or discount.

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

The current requirements for general obligation bonds principal and interest expenditures are accounted for in the debt service fund. The current requirements for compensated absences are accounted for in the general fund.

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Compensated Absences

Compensated absences are absences for which employees will be paid, such as sick leave. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the government and its employees is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the government and its employees are accounted for in the period in which such services are rendered or such events take place.

In addition to the State sick leave program, certain employees are entitled to sick leave benefits under the District's local sick leave program. Individuals whose date of employment is prior to September 1, 1989 are eligible for sick leave upon resignation, retirement, death or termination. Under the local sick leave policy, eligible employees may earn up to 6.5 local days per year. (See Note 7.)

In the governmental funds, compensated absences that are expected to be liquidated with expendable available financial resources are reported as an expenditure and fund liability in the fund that will pay for them. The remainder of the compensated absences liability is reported as long-term liabilities on the statement of net position.

Pensions

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

Other Post-Employment Benefits

The fiduciary net position of the 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.

Deferred Outflows/Inflows of Resources

Deferred outflows and inflows of resources are reported in the statement of net position and balance sheet as described below:

A deferred outflow of resources is a consumption of a government's net assets (a decrease in assets in excess of any related decrease in liabilities or an increase in liabilities in excess of any related increase in assets) by the government that is applicable to a future reporting period. The District has two items that qualify for reporting in this category:

- Deferred outflow of resources for refunding – Reported in the government-wide statement of net position, this deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Deferred outflow of resources for pension – Reported in the government-wide financial statement of net position, this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the results of differences between expected and actual actuarial experiences. The 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 next fiscal year. The other pension related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.

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- Deferred outflow of resources for OPEB – Reported in the government-wide financial statement of net position, this deferred outflow results from OPEB plan contributions made after the measurement date of the net OPEB liability and the results of differences between expected and actual investment earnings and changes in proportionate share. The deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the next fiscal year. The other OPEB related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with OPEB through the OPEB plan.

A *deferred inflow of resources* in an acquisition of a government's net assets (an increase in assets in excess of any related increase in liabilities or a decrease in liabilities in excess of any related decrease in assets) by the government that is applicable to a future reporting period. The District has two items that qualify for reporting in this category:

- Deferred inflow of resources for unavailable revenues – Reported only in the governmental funds balance sheet, unavailable revenues from property taxes arise under the modified accrual basis of accounting. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- Deferred inflow of resources for pension – Reported in the government-wide financial statement of net position, these deferred inflows result primarily from differences between projected and actual earnings on pension plan investments. These amounts will be amortized over a closed five year period.
- Deferred inflow of resources for OPEB – Reported in the government-wide financial statement of net position, these deferred inflows result primarily from differences between expected and actual experience and from changes in assumptions. These amounts will be amortized over the average expected remaining service life of all members.

Net Position

Net Position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. The classifications used in the government-wide financial statements are as follows:

- *Net position invested in capital assets* – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.
- *Restricted net position* – This amount is restricted by creditors, grantors, contributors, or laws or regulations of other governments.
- *Unrestricted net position* – This amount is the net position that does not meet the definition of “net investment in capital assets” or “restricted net position”.

The District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Fund Balance

Generally, governmental fund balances represent the difference between the current assets and deferred outflows of resources, and current liabilities and deferred inflows of resources. The government fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective government funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- *Nonspendable* – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. (Inventories and Prepaid Items are considered nonspendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year.)

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- *Restricted* – includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- *Committed* – includes amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e., the Board of Trustees). To be reported as committed, amounts cannot be used for any other purposes unless the District takes the same highest level of action to remove or change the constraint. The District establishes (and modifies or rescinds) fund balance commitments by passage of a resolution or ordinance. A fund balance commitment is further indicated in the budget document as a commitment of the fund. The District has committed 100 percent of Fund 461 Campus Activity Funds’ fund balance.
- *Assigned* – includes amounts that are constrained by the District’s intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board or through the Board delegating this responsibility to the Superintendent or Chief Financial Officer through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the *general fund*.
- *Unassigned* – includes the residual fund balance for amounts that have not been assigned to other funds or restricted, committed, or assigned to a specific purpose within the *general fund*. The *Unassigned* classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of *Assigned* fund balance amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board has provided otherwise in its commitment or assignment actions.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the Administration to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The amount of state foundation and available school revenue a school district earns for a year, can and does vary until the time when final values for each of the factors in the formula become available. Availability can be as late as midway into the next fiscal year. It is at least reasonably possible that the foundation revenue estimate as of August 31 will change and those changes could be material.

Data Control Codes

The data control codes refer to the account code structure prescribed by TEA in the Resource Guide. The TEA requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a statewide data base for policy development and funding plans.

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3. DEPOSITS AND INVESTMENTS

A summary of the District's cash and investments at August 31, 2018 is shown below:

	Cash and Deposits	Investment Pools	Total Cash & Cash Equivalents	Investments	Total Cash & Investments
Governmental funds:					
General fund	\$ 6,157,012	\$ 10,682,147	\$ 16,839,159	\$ 36,529,000	\$ 53,368,159
Debt service fund	462,252	5,119,249	5,581,501	7,500,000	13,081,501
Capital projects fund	(28,044)	6,465,123	6,437,079	16,000,000	22,437,079
Nonmajor governmental funds	1,213,714	1,036,252	2,249,966	-	2,249,966
Total governmental funds	<u>7,804,934</u>	<u>23,302,771</u>	<u>31,107,705</u>	<u>60,029,000</u>	<u>91,136,705</u>
Proprietary funds	429,261	293,671	722,932	1,280,000	2,002,932
Fiduciary funds	264,934	87,899	352,833	-	352,833
Total cash and investments	<u>\$ 8,499,129</u>	<u>\$ 23,684,341</u>	<u>\$ 32,183,470</u>	<u>\$ 61,309,000</u>	<u>\$ 93,492,470</u>

As of August 31, 2018, the District had the following investments:

	Cost	Fair Value	Percentage of Investments	Investment Maturity in Years	
				Less Than 1 Year	1-2 Years
Cash in bank	\$ 8,499,129	\$ 8,499,129		\$ 8,499,129	\$ -
Local government investment pools:					
TexasCLASS	12,192,969	12,192,969	14%	12,192,969	-
LOGIC	4,148,076	4,148,076	5%	4,148,076	-
TexPool	379,913	379,913	0%	379,913	-
TexSTAR	290,473	290,473	0%	290,473	-
TexasDAILY	6,672,910	6,672,910	8%	6,672,910	-
Investment pools - subtotal	<u>23,684,341</u>	<u>23,684,341</u>		<u>23,684,341</u>	<u>-</u>
TexasTERM	61,309,000	61,309,000	72%	61,309,000	-
Investments - subtotal	<u>61,309,000</u>	<u>61,309,000</u>	<u>100%</u>	<u>61,309,000</u>	<u>-</u>
Total cash and investments	<u>\$ 93,492,470</u>	<u>\$ 93,492,470</u>		<u>\$ 93,492,470</u>	<u>\$ -</u>

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 depository bank's agent bank. The pledged securities are approved by the TEA and 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.

At August 31, 2018, the carrying amount of the District's deposits (cash) was \$8,499,129 and the bank balance was \$8,923,335. The District's cash deposits at August 31, 2018 were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

Investments

The Public Funds Investment Act (Act) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement,

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and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) securities lending programs, (6) repurchase agreements, (7) bankers acceptances, (8) mutual funds, (9) investment pools, and (10) guaranteed investment contracts.

Texas Cooperative Liquid Assets Securities System (TexasCLASS), Local Government Investment Cooperative (LOGIC), Texas Local Government Investment Pool (TexPool), Texas Short Term Asset Reserve Program (TexSTAR), and Local Government Investment Pool (TexasDAILY) are local government investment “pools” organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The District’s investments in TexasCLASS, LOGIC, TexPool, TexSTAR, and TexasDAILY are reported at amortized cost. Deposits and withdrawals can be made on any business day of the week. The pools have a redemption notice of one day, which may be redeemed daily. The pools may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium, or a national state of emergency that affects the pools liquidity. There are no limits on the number of accounts a participant can have or the number of transactions. The District has no unfunded commitments related to the pools.

The District’s investment in TexasTERM is a fixed-rate, fixed-term portfolio rated AAAs by Standard & Poor’s, that enables investors to lock in a fixed rate for a term of 60 days to 365 days.

The District’s management believes that it has complied with the requirements of the Act and with local policies.

Credit Risk

State law and the District’s investment policy limits investments in all categories to top ratings issued by nationally recognized statistical rating organizations. As of August 31, 2018, the District’s investments in TexasCLASS, TexPool, TexSTAR, and TexasDAILY are rated AAAs and LOGIC is rated AAA by Standard and Poor’s.

Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging institution, or collateralized with securities held by the pledging financial institution’s trust department or agent but not in the District’s name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty’s trust department or agent but not in the District’s name. At year end, the District was not exposed to credit risk.

Concentration of Credit Risk

The District’s investment policy requires the investment portfolio to be diversified in terms of investment instruments, maturity scheduling, and financial institutions in order to reduce the risk of loss resulting from overconcentration of assets in a specific class of investments, specific maturity, or specific issuer. At year end, the District was not exposed to concentration of credit risk.

**DICKINSON INDEPENDENT SCHOOL DISTRICT
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Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the value of an investment. The District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase. The Board may specifically authorize a longer maturity for a given investment, within the legal limits. The weighted average maturity for the District's investment in external investment pools is less than 60 days.

4. RECEIVABLES

Receivables as of year end for the District's individual major and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total
Property taxes	\$ 2,269,050	\$ 962,553	\$ -	\$ 3,231,603
Property taxes - penalty & interest	<u>1,652,150</u>	<u>561,562</u>	-	<u>2,213,712</u>
Subtotal - property taxes	3,921,200	1,524,115	-	5,445,315
Due from other governments - state	2,638,191	-	-	2,638,191
Due from other governments - federal	1,506,292	-	2,021,302	3,527,594
Due from other governments - other	38,267	17,776	181,639	237,682
Other receivables	<u>7,327</u>	<u>-</u>	<u>63,245</u>	<u>70,572</u>
Gross receivables	8,111,277	1,541,891	2,266,186	11,919,354
Less: allowance for doubtful accounts	<u>(1,718,532)</u>	<u>(667,970)</u>	<u>-</u>	<u>(2,386,502)</u>
Total net receivables	<u>\$ 6,392,745</u>	<u>\$ 873,921</u>	<u>\$ 2,266,186</u>	<u>\$ 9,532,852</u>

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

Governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unearned revenues reported in the governmental funds were as follows:

	Unavailable	Unearned	Total
Delinquent property taxes (General Fund)	\$ 2,202,668	\$ -	\$ 2,202,668
Delinquent property taxes (Debt Service Fund)	856,145	-	856,145
Funds received prior to meeting all eligibility requirements:			
(General Fund)	-	1,227,423	1,227,423
(Nonmajor Governmental Funds)	-	<u>722,511</u>	<u>722,511</u>
Total unearned revenues	<u>\$ 3,058,813</u>	<u>\$ 1,949,934</u>	<u>\$ 5,008,747</u>

Property Taxes

The District levies its taxes on October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. The assessed value of the property tax roll, upon which the levy for the 2017-18 fiscal year was based, was \$3.7 billion.

The tax rates assessed for the year ended August 31, 2018, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt, were \$1.04 and \$.48 per \$100 valuation, respectively, for a total of \$1.520 per \$100 valuation.

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Current tax collections for the year ended August 31, 2018 were 98% of the year end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the General and Debt Service Funds are based on historical experience in collecting taxes. The property taxes receivable allowance is equal to approximately 44% of outstanding property taxes receivable at August 31, 2018. A significant portion of delinquent taxes outstanding at any fiscal year end is generally not collected in the ensuing fiscal year. Uncollectible personal property taxes are periodically reviewed and written off. Under Sec. 3305 of the Texas Property Code, the District can cancel and remove from the delinquent tax roll, tax on real property that has been delinquent for more than 20 years or tax on personal property that has been delinquent for more than 10 years if there is no pending litigation concerning the delinquent taxes at the time of cancellation and removal.

5. INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS

Inter-fund balances consist of short-term lending/borrowing arrangements between two or more governmental funds. The composition of inter-fund balances as of August 31, 2018, is as follows:

Fund	Receivable	Payable
General Fund:		
Nonmajor Governmental Funds	\$ 1,877,770	\$ 8,546
Trust & Agency Funds	56	-
Nonmajor Governmental Funds:		
General Fund	8,546	1,877,770
Nonmajor Governmental Funds	64	64
Trust & Agency Funds	264	1,228
Trust & Agency Funds:		
General Fund	-	56
Nonmajor Governmental Funds	1,228	264
	<u>\$ 1,887,928</u>	<u>\$ 1,887,928</u>

District activities in the Nonmajor Governmental Funds (Special Revenue Funds) include expenditures paid from a centralized-pooled operating bank account maintained in the General Fund. Since all cash transactions flow through this account, each fund carries a receivable/payable balance with the General Fund. All balances will be repaid within one year.

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6. CAPITAL ASSETS

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

Governmental activities:	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Capital assets, not being depreciated:					
Land	\$ 8,009,916	\$ 22,400	\$ -	\$ -	\$ 8,032,316
Construction in progress	22,357,630	39,212,679	-	(58,085,038)	3,485,271
Total Capital Assets, not depreciated	30,367,546	39,235,079	-	(58,085,038)	11,517,587
Capital assets, being depreciated:					
Buildings and improvements	321,104,557	-	(40,733)	58,085,038	379,148,862
Furniture and equipment	21,461,319	1,748,879	(468,960)	-	22,741,238
Library books and media	32,389	-	-	-	32,389
Total Capital Assets, being depreciated	342,598,265	1,748,879	(509,693)	58,085,038	401,922,489
Less accumulated depreciation for:					
Buildings and improvements	(119,666,895)	(12,244,116)	40,733	-	(131,870,278)
Furniture and equipment	(16,327,170)	(1,300,932)	466,826	-	(17,161,276)
Library books and media	(12,910)	(3,239)	-	-	(16,149)
Total accumulated depreciation	(136,006,975)	(13,548,287)	507,559	-	(149,047,703)
Capital assets, net	<u>\$ 236,958,836</u>	<u>\$ 27,435,671</u>	<u>\$ (2,134)</u>	<u>\$ -</u>	<u>\$ 264,392,373</u>

Depreciation expense was charged to governmental functions as follows:

11 Instruction	\$ 7,824,356
12 Instructional resources and media services	159,119
13 Curriculum and instructional staff development	115,725
21 Instructional leadership	145,003
23 School leadership	742,283
31 Guidance, counseling, & evaluation services	382,887
32 Social work services	20,984
33 Health services	102,976
34 Student (pupil) transportation	728,243
35 Food services	731,877
36 Extracurricular activities	304,850
41 General administration	391,861
51 Facilities maintenance and operations	1,575,437
52 Security and monitoring services	64,861
53 Data processing services	182,857
61 Community services	74,968
Total depreciation expense - governmental activities	<u>\$ 13,548,287</u>

7. LONG-TERM LIABILITIES

The District has entered into a continuing disclosure undertaking to provide annual reports and material event notices to the State Information Depository of Texas through the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the District.

Long-term liabilities include par bonds and capital appreciation (deep discount) serial bonds. State statutes limit the amount of general obligation debt a governmental entity may issue to 10% of its total assessed valuation. For the fiscal year ended August 31, 2018, the current debt limitation for the District is \$367,815,901. The District's outstanding debt of \$312,435,000 less the reserve for the retirement of the debt of \$13,143,862 totals \$299,291,138 leaving a legal debt margin of \$68,524,763.

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There are a number of limitations and restrictions contained in the general obligation debt indentures. Management has indicated that the District is in compliance with all significant limitations and restrictions as of August 31, 2018.

General Obligation Bonds

General obligation bonds are direct obligations and pledge the full faith and credit of the District. These are issued as current interest bonds, term bonds, variable bonds, and capital appreciation bonds (CAB) with various amounts of principal maturing each year. Bonded debt as of August 31, 2018 is as follows:

Description	Interest Rate Payable	Maturity Date	Original Issue	Outstanding
Unlimited tax schoolhouse & refunding bonds, series 2000	5.40-6.05%	02/15/28	\$ 26,297,916	\$ 13,370,000
Unlimited tax schoolhouse bonds, series 2008	4.625-4.75%	02/15/33	30,000,000	690,000
Unlimited tax schoolhouse & refunding bonds, series 2010A	2.00-4.25%	02/15/34	22,120,000	16,085,000
Unlimited tax schoolhouse bonds, taxable series 2010B	5.941-6.011%	02/15/38	30,000,000	30,000,000
Variable rate unlimited tax refunding bonds, series 2013	Variable	08/01/37	27,940,000	27,940,000
Unlimited tax refunding bonds, series 2013	1.875-5.00%	02/15/30	23,360,000	18,065,000
Unlimited tax schoolhouse bonds, series 2014	4.00-5.00%	02/15/44	54,755,000	53,585,000
Unlimited tax refunding bonds, series 2014	5.00%	02/15/32	63,505,000	60,505,000
Unlimited tax schoolhouse bonds, series 2016A	2.00%-5.00%	02/15/49	64,475,000	64,475,000
Unlimited tax refunding bonds, series 2016B	3.00%-5.00%	02/15/33	27,720,000	27,720,000
			<u>\$ 370,172,916</u>	<u>\$ 312,435,000</u>

Variable Rate Terms – In July 2017, outstanding bonds totaling \$27,940,000 were remarketed to a term rate (1.35%) for a period of two years through July 31, 2019. Thereafter, the bonds will bear interest in a mode and at a rate determined by the remarketing agent (JP Morgan Securities LLC) and may change at the District’s option from time to time to (a) a weekly or term rate of a different duration or (b) a flexible rate not to exceed the lesser of (i) 7% per annum, or (ii) the maximum net effective interest rate permitted under Chapter 1204, Texas Government Code, as amended. In addition, at the option of the District, the bonds bearing interest at a variable rate or flexible rate may be converted in whole or in part to a fixed rate to their maturity.

The following is a summary of changes in the District’s total governmental long-term liabilities for the year ended August 31, 2018:

	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
Bonds payable:					
Unlimited tax schoolhouse & refunding bonds, series 2000	\$ 13,370,000	\$ -	\$ -	\$ 13,370,000	\$ -
Unlimited tax schoolhouse bonds, series 2008	690,000	-	-	690,000	-
Unlimited tax schoolhouse & refunding bonds, series 2010A	16,550,000	-	(465,000)	16,085,000	485,000
Unlimited tax schoolhouse bonds, taxable series 2010B	30,000,000	-	-	30,000,000	-
Variable rate unlimited tax refunding bonds, series 2013	27,940,000	-	-	27,940,000	-
Unlimited tax refunding bonds, series 2013	20,125,000	-	(2,060,000)	18,065,000	2,160,000
Unlimited tax schoolhouse bonds, series 2014	54,130,000	-	(545,000)	53,585,000	575,000
Unlimited tax refunding bonds, series 2014	62,005,000	-	(1,500,000)	60,505,000	4,055,000
Unlimited tax schoolhouse bonds, series 2016A	64,475,000	-	-	64,475,000	-
Unlimited tax refunding bonds, series 2016B	27,720,000	-	-	27,720,000	-
	<u>317,005,000</u>	<u>-</u>	<u>(4,570,000)</u>	<u>312,435,000</u>	<u>7,275,000</u>
Deferred amounts:					
Accrued interest	561,828	-	(9,133)	552,695	552,695
Accumulated accretion on capital appreciation bonds	1,952,646	139,360	-	2,092,006	-
Premium on issuance of bonds	23,613,187	-	(1,363,919)	22,249,268	-
Discount on issuance of bonds	(400,303)	-	35,496	(364,807)	-
Total bonds payable	<u>342,732,358</u>	<u>139,360</u>	<u>(5,907,556)</u>	<u>336,964,162</u>	<u>7,827,695</u>
Other liabilities:					
Compensated absences	68,363	422,890	(475,821)	15,432	-
Total other liabilities	<u>68,363</u>	<u>422,890</u>	<u>(475,821)</u>	<u>15,432</u>	<u>-</u>
Governmental activities long-term liabilities	<u>\$ 342,800,721</u>	<u>\$ 562,250</u>	<u>\$ (6,383,377)</u>	<u>\$ 336,979,594</u>	<u>\$ 7,827,695</u>

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Debt service requirements to maturity are as follows:

Year Ended August 31,	General Obligation Bonds		Total
	Principal	Interest	Requirements
2019	\$ 7,275,000	\$ 13,087,646	\$ 20,362,646
2020	7,635,000	13,744,555	21,379,555
2021	8,985,000	13,353,631	22,338,631
2022	9,410,000	12,924,161	22,334,161
2023	9,075,000	12,484,593	21,559,593
2024-2028	54,100,000	55,036,637	109,136,637
2029-2033	70,495,000	40,700,218	111,195,218
2034-2038	80,585,000	23,571,306	104,156,306
2039-2043	37,200,000	9,373,600	46,573,600
2044-2048	23,500,000	2,848,000	26,348,000
2049-2053	4,175,000	83,500	4,258,500
	<u>\$ 312,435,000</u>	<u>\$ 197,207,847</u>	<u>\$ 509,642,847</u>

Accreted Interest on Capital Appreciation Bonds

With capital appreciation bonds, the interest is paid upon maturity of the bonds. In order to properly reflect the amounts payable on these bonds, the annual interest is added to the long-term liabilities as accretion of interest on capital appreciation bonds.

The interest on these obligations will be paid upon maturity in the fiscal years ending 2023-2025. The values associated with these bonds are reflected in the following table:

	Maturity Value of Bonds	Stated Bond Principal Amount	Accreted Interest on Bonds	Accreted Value of Bond at Year-End
Unlimited tax schoolhouse bonds, series 2008	\$ 3,730,000	\$ 690,000	\$ 2,092,006	\$ 2,782,006
Total	<u>\$ 3,730,000</u>	<u>\$ 690,000</u>	<u>\$ 2,092,006</u>	<u>\$ 2,782,006</u>

Defeased Debt

In prior years, the District defeased certain general obligation debt by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the refunded debt. Accordingly, the trust account assets and the liability for the defeased debt are not included in the District's financial statements. At August 31, 2018, no previously refunded debt outstanding was considered defeased.

Arbitrage

In accordance with the provisions of Section 148(f) of the Internal Revenue Code of 1986, as amended, bonds must satisfy certain arbitrage rebate requirements. Positive arbitrage is the excess of (1) the amount earned on investments purchased with bond proceeds over (2) the amount that such investments would have earned had such investments been invested at a rate equal to the yield on the bond issue. In order to comply with the arbitrage rebate requirements, positive arbitrage must be paid to the U.S. Treasury at the end of each five year anniversary date of the bond issue. The District has estimated that it has no arbitrage liability as of August 31, 2018.

8. OPERATING LEASE

Commitments under operating lease (non-capitalized) agreements for facilities and equipment are subject to fiscal funding clauses. As such, the agreements are cancelable and the District is therefore not obligated for minimum future rental payments as of August 31, 2018. Rental expenditures for the year ended August 31, 2018 approximated \$354,000.

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9. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLAN (OPEB)

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 OPEB plan that has a special funding situation. TRS-Care is administered through a trust by the Teacher Retirement System of Texas (TRS) Board of Trustees. It is established and administered in accordance with the Texas Insurance Code, Chapter 1575.

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

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

Net OPEB Liability	
Total OPEB Liability	\$ 43,885,784,621
Less: Plan Fiduciary Net Position	<u>(399,535,986)</u>
Net OPEB Liability	<u>\$ 43,486,248,635</u>
 Net Position as percentage of Total OPEB Liability	 0.91%

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

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

The premium rates for the optional health insurance are based on years of service of the member. The schedule 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	TRS-Care 2	TRS-Care 3
	Basic Plan	Optional Plan	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.

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Texas Insurance Code, section 1575.202 establishes the state’s contribution rate which is 1.0% of the employee’s salary. Section 1575.203 establishes the active employee’s rate which is .65% of pay. Section 1575.204 establishes an employer contribution rate of not less than .25% or not more than .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:

	Contribution Rates	
	2017	2018
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (NECE) (State)	1.00%	1.25%
Employers	0.55%	0.75%
Federal/private Funding remitted by Employers	1.00%	1.25%
2018 Employer Contributions		\$ 598,207
2018 Member Contributions		\$ 473,782
2017 NECE On-Behalf Contributions		\$ 654,864

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

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$15.6 million in fiscal year 2017. House Bill 21 was passed in special session and provided a supplemental appropriation in the amount of \$212 million in fiscal year 2018. The District’s proportionate share of the \$212 million received during the District’s 2018 fiscal year is reported in the fund level financial statements as an on-behalf contribution as required by GASB 85 and GASB 24.

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

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

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

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Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.50%
Discount Rate*	3.42%*
Aging Factors	Based on plan specific experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Payroll Growth Rate	2.50%
Projected Salary Increases**	3.50% to 9.50%**
Healthcare Trend Rates***	4.50% to 12.00%***
Election Rates	Normal Retirement: 70% participation prior to age 65 and 75% participation after age 65
Ad hoc Post-employment Benefit Changes	None

* Source: Fixed Income municipal bonds with 20 years to maturity that include only federal tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of August 31, 2017.
 ** Includes Inflation at 2.50%
 *** Initial trend rates are 7.00% for non-Medicare retirees; 10.00% for Medicare retirees and 12.00% for prescriptions for all retirees. Initial trend rates decrease to an ultimate trend rate of 4.50% over a period of 10 years.

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

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

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

	1 % Decrease in Discount Rate (2.42%)	Discount Rate (3.42%)	1% Increase in Discount Rate (4.42%)
District's proportionate share of the net OPEB liability	\$ 42,421,999	\$ 35,943,285	\$ 30,735,859

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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 \$35,943,285 for its proportionate share of the TRS's Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective net OPEB liability	\$ 35,943,285
State's proportionate share that is associated with the District	<u>54,775,000</u>
Total	<u>\$ 90,718,285</u>

The Net OPEB Liability was measured as of August 31, 2017 and the Total OPEB Liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of that date. The District's proportion of the Net OPEB Liability was based on the District's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2016 thru August 31, 2017.

At August 31, 2017 the District's proportion of the collective Net OPEB Liability was .0826543714% which was the same proportion measured as of August 31, 2016.

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

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

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

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

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

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

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

For the year ended August 31, 2018, the District recognized OPEB expense of (\$18,329,172) and revenue of (\$18,329,172) for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ -	\$ 750,343
Changes in Actuarial Assumptions	-	14,284,801
Net Difference Between Projected and Actual Investment Earnings	5,460	-
Changes in Proportion and Difference Between the Employer's Contributions and the Proportionate Share of Contributions	165	-
District Contributions Paid to TRS Subsequent to the Measurement Date	598,207	-
Total	\$ 603,832	\$ 15,035,144

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

Year Ended August 31:	OPEB Expense Amount
2019	\$ (1,983,162)
2020	(1,983,162)
2021	(1,983,162)
2022	(1,983,162)
2023	(1,984,527)
Thereafter	(5,112,343)
	\$ (15,029,518)

The State's on-behalf contribution is recorded as revenues and expenditures/expenses in the financial statements.

10. 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 plan's Board of Trustees does not have the authority to establish and 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. Detail information about the TRS's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, Texas 78701-2698; or by calling (512) 542-6592.

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The information provided in the Notes to the Financial Statements in the 2017 Comprehensive Annual Financial Report for TRS provides the following information regarding the pension plan fiduciary net position as of August 31, 2017:

Net Pension Liability	Total
Total Pension Liability	\$ 179,336,534,819
Less: Plan Fiduciary Net Position	(147,361,922,120)
Net Pension Liability	\$ 31,974,612,699
Net Position as percentage of Total Pension Liability	82%

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's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

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

	Contribution Rates	
	2017	2018
Member	7.7%	7.7%
Non-Employer Contributing Entity (NECE) (State)	6.8%	6.8%
Employers	6.8%	6.8%
2018 Employer Contributions	\$ 2,259,990	
2018 Member Contributions	\$ 5,612,356	
2018 NECE On-Behalf Contributions	\$ 3,534,159	

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.

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

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

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
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	3.5% to 9.5% including inflation
Ad hoc Post-employment Benefit Changes	None

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

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

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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	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return*
Global Equity			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Inflation Expectations			2.2%
Alpha			<u>1.0%</u>
Total	<u>100%</u>		<u>8.7%</u>

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

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

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
District's proportionate share of the net pension liability	\$ 35,724,237	\$ 21,191,236	\$ 9,090,154

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 net pension liability of \$21,191,236 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 21,191,236
State's proportionate share that is associated with the District	<u>33,242,675</u>
Total	<u>\$ 54,433,911</u>

The net pension liability was measured as of August 31, 2017 and the total pension plan 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 pension plan for the period September 1, 2016 through August 31, 2017.

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At August 31, 2017, the District's proportion of the collective net pension liability was .066275%, which was an increase of .007135% 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 plan liability during the measurement period.

For the measurement period August 31, 2017, the District recognized pension expense of \$2,535,619 and revenue of \$2,535,619 for support provided by the State in the government-wide financial statements.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 310,037	\$ 1,142,815
Changes in Actuarial Assumptions	965,294	552,609
Difference Between Projected and Actual Investment Earnings	-	1,544,371
Changes in Proportion and Difference Between the Employer's Contributions and the Proportionate Share of Contributions	5,904,626	1,335
Contributions Paid to TRS Subsequent to the Measurement Date (Calculated by District)	2,259,989	-
Total	\$ 9,439,946	\$ 3,241,130

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

Year Ended August 31:	Pension Expense Amount
2019	\$ 608,807
2020	1,961,498
2021	504,873
2022	109,031
2023	498,019
Thereafter	256,599
	\$ 3,938,827

11. MEDICARE PART D – ON BEHALF PAYMENTS

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. Subsidy payments made on behalf of the District for fiscal years 2018, 2017, and 2016 were \$218,306, \$205,894, and \$236,175 respectively.

12. OTHER POST EMPLOYMENT BENEFITS

The District does not provide post employment healthcare benefits except those mandated by the Consolidated Omnibus Budget Reconciliation Act (COBRA) and TRS Care described above (Note 9). The requirements established by COBRA are fully funded by former employees who elect coverage under the Act, and no direct costs are incurred by the District.

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13. RISK MANAGEMENT

General

The District is exposed to various risks of loss related to property/liability losses for which the District carries commercial insurance.

In addition, the District is a member of the Texas Association of School Boards Joint Account Self-Insurance Fund (Fund). The Fund was created to formulate, develop and administer a program of modified self-funding for the property and/or liability coverage for its membership, provide claims administration, and develop a comprehensive loss control program. The District pays contributions to the Fund for its general and educators' liability coverage.

The District's agreement with the Fund provides that the Fund will be self-sustaining through member premiums and will provide, through commercial companies, reinsurance contracts.

Health Insurance

The District participates in the Teacher Retirement System of Texas Active Care health care coverage program. This program is a statewide program for public education employees established by the 77th Texas Legislature.

Unemployment Compensation Pool

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

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

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

Workers' Compensation

The District participates in the Texas Educational Insurance Association, a public entity risk pool operating as a common risk management and insurance program for member school districts. However, the District is a reimbursing member whereby it does not pay premiums but pays for claims and the cost of handling claims. As such, the District is self-insured.

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 also include an estimated 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 claims settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from stop-loss or subrogation, are another component of the claims liability estimate. An excess coverage insurance policy covers individual claims in excess of \$225,000 up to the statutory limits for any given claim. The following is a summary of the change in the balance

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of claims liabilities for workers' compensation for the years ended August 31, 2017, and 2018, respectively:

Fiscal Year	Beginning Balance	Claims Incurred	Claims Payments	Ending Balance
2017	\$ 554,913	\$ 701,918	\$ 343,013	\$ 913,818
2018	913,818	152,298	299,517	766,599

14. CONTINGENT LIABILITIES

The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of management and the District's counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the District.

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

15. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

At August 31, 2018, the District had commitments under construction contracts totaling approximately \$12.2 million.

The District utilizes encumbrance accounting in its governmental funds. Encumbrances represent commitments related to contracts not yet performed (executory contracts), and are used to control expenditures for the year and to enhance cash management. A school district often issues purchase orders or signs contracts for the purchase of goods and services to be received in the future. At the time these commitments are made, which in its simplest form means when a purchase order is prepared, the appropriate accounts are checked for available funds. If an adequate balance exists, the amount of the order is immediately charged to the account to reduce the available balance for control purposes.

Prior to the end of the year, every effort should be made to liquidate outstanding encumbrances. When encumbrances are outstanding at year end, the District likely will honor the open purchase orders or contracts that support the encumbrances. For reporting purposes, outstanding encumbrances are not considered expenditures for the fiscal year, only a commitment to expend resources. If the District allows encumbrances to lapse, even though it plans to honor encumbrances, the appropriations authority expires and the items represented by the encumbrances are usually reappropriated in the following year's budget. Open encumbrances at fiscal year end are included in restricted, committed, or assigned fund balance, as appropriate.

At August 31, 2018, certain amounts which were previously restricted, committed, or assigned for specific purposes have been encumbered in the governmental funds. Significant encumbrances included in governmental fund balances are as follows:

Encumbrances Included in the Following Fund Balance:				
Fund	Restricted	Assigned	Committed	Total
General	\$ -	\$ 3,009,514	\$ -	\$ 3,009,514
Capital Projects	16,291,227	-	-	16,291,227
Nonmajor Governmental Funds	17,430	-	-	17,430
Total	<u>\$ 16,308,657</u>	<u>\$ 3,009,514</u>	<u>\$ -</u>	<u>\$ 19,318,171</u>

16. SHARED SERVICE ARRANGEMENTS / JOINT VENTURES

The District is the fiscal agent for a Shared Service Arrangement ("SSA"), which provides educational services to students of member districts. In addition to the District, other member districts include Texas City ISD, La Marque ISD, Galveston ISD, Clear Creek ISD, and Santa Fe ISD. All services are provided by the fiscal agent. The member districts provide the funds to the fiscal agent. The District also receives funding from Galveston County for the program. According to guidance provided in TEA's Resource Guide, the District has accounted for the fiscal agent's

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activities of the SSA in Special Revenue Fund No. 446, Shared Services Arrangements – Transforming Lives Cooper using Model 3 in SSA section of the FASRG. Expenditures of the SSA are summarized below:

Dickinson Independent School District	\$ 3,759
Texas City Independent School District	5,141
Galveston Independent School District	13,764
Clear Creek Independent School District	<u>663</u>
	23,327
Galveston County (mandatory placement by judicial system)	67,735
Dickinson Independent School District (Per Capita Apportionment)	<u>32,861</u>
	<u>\$ 123,923</u>

The District is the fiscal agent for a Shared Service Arrangement (“SSA”), which provides educational services for students of member districts. In addition to the District, other member districts include Texas City ISD, La Marque ISD, Santa Fe ISD, Galveston ISD, and Friendswood ISD. All services are provided by the fiscal agent. The member districts provide the funds to the fiscal agent. According to guidance provided in TEA’s Resource Guide, the District has accounted for the fiscal agent’s activities of the SSA in Special Revenue Fund No. 447, Shared Services Arrangements – Coastal Alternative Program using Model 3 in SSA section of the FASRG. Expenditures of the SSA are summarized below:

Dickinson Independent School District	\$ 106,186
Texas City Independent School District	113,243
Santa Fe Independent School District	32,005
Galveston Independent School District	216,278
Friendswood Independent School District	30,535
Hitchcock Independent School District	<u>42,215</u>
	<u>\$ 540,462</u>

The District is the fiscal agent for a Shared Service Arrangement (“SSA”), which provides disciplinary alternative education services for students within Galveston County. All services are provided by the fiscal agent. Galveston County provides the funds to the fiscal agent. The District also receives funding from the State of Texas based on student attendance data. The District accounts for the program in Fund No. 448, Shared Services Arrangements – Galveston County Detention Boot C. using Model 3 in SSA section of the FASRG. Expenditures of the SSA are summarized below:

Galveston County (mandatory placement by judicial system)	\$ 146,933
Dickinson Independent School District (Per Capita Apportionment)	<u>72,852</u>
	<u>\$ 219,785</u>

The District is the fiscal agent for a Shared Service Arrangement (“SSA”), which provides an educational environment for all students that ensures academic growth, emotional well-being, and positive social behaviors. All services are provided by the fiscal agent. Galveston County provides the funds to the fiscal agent. The District also receives funding from the State of Texas based on student attendance data. The District accounts for the program in Fund No. 449, Shared Services Arrangements – JJAEP Juvenile Justice AEP using Model 3 in SSA section of the FASRG. Expenditures of the SSA are summarized below:

Galveston County (mandatory placement by judicial system)	<u>\$ 127,685</u>
	<u>\$ 127,685</u>

17. RELATED ORGANIZATIONS

The Dickinson ISD Education Foundation (“Foundation”), a non-profit entity which was organized in 2007 to provide funds for District teaching and education programs, is a “related organization” as defined by GASB Statement No. 61. The members of the Board of Directors of the Foundation serve without financial compensation. The operations of the Foundation are not financially significant to the overall operations of the District, and therefore are not reported in the District’s financial statements.

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18. INSTRUCTIONAL MATERIALS ALLOTMENT

In May 2011, Senate Bill 6 repealed the technology allotment used by Texas schools and created an Instructional Materials Allotment (IMA) for the purchase of instructional materials, technology equipment, and technology related services. Under IMA, instructional material purchases must be made through TEA's online requisition system. Instructional materials purchased from IMA totaling \$729,683 are recorded as revenues and expenditures/expenses in the financial statements.

19. NEGATIVE OPERATING GRANTS AND CONTRIBUTIONS – STATEMENT OF ACTIVITIES

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

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

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

	Operating Grants and Contributions	Negative On-Behalf Accruals	Operating Grants and Contributions (excluding on- behalf accruals)
11-Instruction	\$ (4,569,384)	\$ (12,234,867)	\$ 7,665,483
12-Instructional resources and media services	(194,555)	(228,119)	33,564
13-Curriculum and instructional staff development	275,257	(85,409)	360,666
21-Instructional leadership	(77,291)	(226,360)	149,069
23-School leadership	(855,210)	(1,274,410)	419,200
31-Guidance, counseling and evaluation services	(75,067)	(594,682)	519,615
33-Health services	(32,920)	(38,216)	5,296
34-Student (pupil) transportation	(125,429)	(145,607)	20,178
35-Food services	(619,394)	(719,037)	99,643
36-Extracurricular activities	4,348,689	(593,385)	4,942,074
41-General administration	(170,625)	(259,120)	88,495
51-Facilities maintenance and operations	(381,099)	(488,886)	107,787
52-Security and monitoring services	(912,929)	(1,126,306)	213,377
53-Data processing services	(248,138)	(288,056)	39,918
61-Community Services	(13,476)	(26,712)	13,236
72-Debt service - interest on long term debt	2,138,818	-	2,138,818
93-Payments to Fiscal Agent/Member Districts of SSA	97,922	-	97,922
	<u>\$ (1,414,831)</u>	<u>\$ (18,329,172)</u>	<u>\$ 16,914,341</u>

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20. PRIOR PERIOD ADJUSTMENT

In fiscal year 2018, the District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions (OPEB)*. As such, a prior period adjustment was necessary to record the District’s proportionate share of net OPEB liability and related deferred outflow of resources. Due to the implementation of GASB 75, beginning net position was adjusted as follows:

Beginning Net Position - As Originally Stated	\$	9,049,573
Restatement due to :		
Net OPEB liability (measurement date as of August 31, 2016)		(63,456,055)
Deferred Outflows:		
District contributions made to TRS after August 31, 2016		429,721
 Beginning Net Position - As Restated	 \$	 <u>(53,976,761)</u>

21. HURRICANE HARVEY

On August 25, 2017, Hurricane Harvey, characterized as a Category 4 hurricane at its peak, made landfall in the Texas coast before stalling over the Houston-Galveston region and producing significant flooding. Many residences and commercial properties within the district sustained damage. As a result of Hurricane Harvey and the related flooding, District officials cancelled classes between August 28, 2017 and September 8, 2017 with classes resuming on September 11, 2017. TEA notified districts in the disaster declared areas that they are eligible to apply for missed school day waivers for the time period that the District cancelled classes.

While the District experienced damage to some facilities, such damage did not have a substantial negative affect on the operation of facilities. The District filed insurance claims to cover eligible losses at sites that sustained damage. The District’s windstorm policy carries a 2% deductible, with some sites having varying deductibles for flood and excess flood policies. On August 25, 2017, the President of the United States issued a major disaster declaration where the District is located. The major disaster declaration made federal assistance available for debris removal and emergency protective measures, including direct federal assistance, under the Public Assistance program. The District has utilized general fund balance to cover Hurricane Harvey related expenses. The District has filed for reimbursement from the Federal Emergency Management Agency for eligible disaster-related expenses.

22. SUBSEQUENT EVENTS

In preparing the financial statements, the District has evaluated subsequent events through December 20, 2018, the date the financials were available to be issued. The District is not aware of any events that have occurred subsequent to the statement of financial position date that would require adjustment to, or disclosure in, the financial statements.

APPENDIX C
FORM OF BOND COUNSEL'S OPINION

November 19, 2019

WE HAVE ACTED as Bond Counsel for the Dickinson Independent School District (the “District”) in connection with an issue of bonds (the “Bonds”) described as follows:

DICKINSON INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX REFUNDING BONDS, SERIES 2019, dated November 1, 2019, in the aggregate principal amount of \$12,965,000.

The Bonds mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds and in the order (the “Order”) adopted by the Board of Trustees of the District authorizing their issuance.

WE HAVE ACTED as Bond Counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income under federal income tax law. In such capacity we have examined the Constitution and laws of the State of Texas; federal income tax law; and a transcript of certain certified proceedings pertaining to the issuance of the Bonds and the bonds that are being refunded (the “Refunded Bonds”) with the proceeds of the Bonds, as described in the Order. The transcript contains certified copies of certain proceedings of the District and Wells Fargo Bank, N.A. (the “Escrow Agent”); the report (the “Report”) of Public Finance Partners LLC (the “Verification Agent”), which verifies the sufficiency of the deposits made with the Escrow Agent for the defeasance of the Refunded Bonds and the mathematical accuracy of certain computations of the yield on the Bonds and the obligations acquired with the proceeds of the Bonds; certain certifications and representations and other material facts within the knowledge and control of the District, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds and the firm banking and financial arrangements for the discharge and final payment of the Refunded Bonds. We have also examined executed Bond No. ICI-1 of this issue.

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. 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 Bonds. Our role in connection with the District’s Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

BASED ON SUCH EXAMINATION, it is our opinion as follows:

- (1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect; the Bonds constitute valid and legally binding obligations of the District enforceable in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Bonds may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors of political subdivisions and the exercise of judicial discretion in appropriate cases; and the Bonds have been authorized and delivered in accordance with law;
- (2) The Bonds are payable, both as to principal and interest, from the receipts of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property located within the District, which taxes have been pledged irrevocably to pay the principal of and interest on the Bonds; and
- (3) The escrow agreement between the District and the Escrow Agent (the “Escrow Agreement”) has been duly executed and delivered and constitutes a binding and enforceable agreement in accordance with its terms; the establishment of the Escrow Fund pursuant to the Escrow Agreement and the deposit made therein constitute the making of firm banking and financial arrangements for the discharge and final payment of the Refunded Bonds; in reliance upon the accuracy of the calculations contained in the Report, the Refunded Bonds, having been discharged and paid, are no longer outstanding and the lien on and pledge of ad valorem taxes and other revenues as set forth in the order authorizing their issuance will be appropriately and legally defeased; the holders of the Refunded Bonds may obtain payment of the principal of, redemption premium, if any, and interest in the Refunded Bonds only out of the funds provided therefor now held in escrow for that purpose by the Escrow Agent pursuant to the terms of the Escrow Agreement; and therefore the Refunded Bonds are deemed to be fully paid and no longer outstanding, except for the purpose of being paid from the funds provided therefor in such Escrow Agreement.

BASED ON OUR EXAMINATION AS DESCRIBED ABOVE, it is further our opinion that, subject to the restrictions hereinafter described, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes under existing law and is not an item of tax preference for purposes of the federal alternative minimum income tax. The opinion set forth in the first sentence of this paragraph is subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986, as amended (the “Code”), that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted in the Order to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. The Code and

the existing regulations, rulings and court decisions thereunder, upon which the foregoing opinions of Bond Counsel are based, are subject to change, which could prospectively or retroactively result in the inclusion of the interest on the Bonds in gross income of the owners thereof for federal income tax purposes.

IN PROVIDING THE FOREGOING OPINIONS, we have relied upon representations of the District with respect to matters solely within the knowledge of the District, which we have not independently verified, and have assumed the accuracy and completeness thereof.

EXCEPT AS DESCRIBED ABOVE, we express no opinion as to any federal, state or local tax consequences under present law, or future legislation, resulting from the ownership of, receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations, such as the Bonds, may result in collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who are deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualified for the earned income credit. For the foregoing reasons, prospective purchasers should consult their tax advisors as to the consequences of investing in the Bonds.

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.