

PRELIMINARY OFFERING MEMORANDUM

Dated: January 9, 2020

NEW ISSUE: BOOK-ENTRY-ONLY

In the opinion of Bond Counsel (defined below), interest on the Bonds (defined below) will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein. Additionally, see "THE BONDS - Determination of Interest Rate; Rate Mode Changes" identifying circumstances when an opinion of nationally recognized bond counsel is required as a condition for an interest mode conversion. Bond Counsel expresses no opinion as to the effect on the excludability from gross income for federal income tax purposes of any action requiring such an opinion.

\$15,000,000*

PLAINVIEW INDEPENDENT SCHOOL DISTRICT

(A political subdivision of the State of Texas located in Hale and Floyd Counties, Texas)

ADJUSTABLE RATE UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2020B

INITIAL RATE PERIOD ENDING _____ AT A PER ANNUM INITIAL RATE OF ____%

(PRICED TO YIELD ____% TO MANDATORY TENDER DATE)

Dated Date: February 1, 2020 (interest will accrue from the Closing Date)

Mandatory Tender Date: August 15, 2023*

CUSIP No⁽¹⁾: _____

Stated Maturity: February 15, 2050

The Plainview Independent School District Adjustable Rate Unlimited Tax School Building Bonds, Series 2020B (the "Bonds") are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Sections 45.001 and 45.003(b)(1), as amended, Texas Education Code, an election held in the District on November 5, 2019 and the order (the "Order") to be adopted by the Board of Trustees (the "Board") on January 16, 2020. The Bonds are payable as to principal and interest from the proceeds of an ad valorem tax levied annually, without legal limit as to rate or amount, against all taxable property located within the Plainview Independent School District (the "District"). The District has received conditional approval from the Texas Education Agency for the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined), which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds; provided, however, the Permanent School Fund Guarantee is not effective with respect to the payment of the Purchase Price (defined herein) for mandatorily tendered Bonds. (See "THE BONDS – Permanent School Fund Guarantee" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

During the Initial Rate Period (defined below), interest on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months and will be payable on each February 15 and August 15, commencing August 15, 2020. No physical delivery of the Bonds will be made to the 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 beneficial owners of the Bonds (see "BOOK-ENTRY-ONLY SYSTEM" herein). The initial Tender Agent and Paying Agent/Registrar, respectively, for the Bonds is BOKF, NA, Dallas, Texas (see "THE BONDS – General Description").

The Bonds are issued as a single Term Bond scheduled to mature as shown above and subject to optional, extraordinary optional, and mandatory redemption prior to maturity, in whole or in part, as described herein (see "THE BONDS - Redemption").

The Bonds will bear interest initially at the Initial Rate from the date of the initial delivery of the Bonds to the Underwriters (defined below), anticipated to occur on or about February 13, 2020 (the "Closing Date"), through August 14, 2023* (the "Initial Rate Period"), at the rate of ____% (the "Initial Rate") (being the rate so determined by the Underwriters identified below). Thereafter, the Bonds will convert to a Term Mode of like duration and bear interest at a Term Rate determined by the Remarketing Agent (defined below); provided, however, that the interest rate mode applicable to the Bonds may be (a) changed from time to time to a Term Mode during which the Bonds bear interest at a Term Rate for a period of different duration, or (b) converted to a Fixed Rate until stated maturity or (as and if applicable) prior redemption (as such terms are defined and described herein). This Offering Memorandum describes the Bonds only in the Initial Rate Period during which the Bonds bear interest at the Initial Rate (and, after conclusion of such Initial Rate Period and if at all, the period during which the Bonds bear interest at the Stepped Rate) and not the Bonds remarketed and sold into another interest rate period during which the Bonds bear interest in another interest rate mode.

The Bonds will be subject to mandatory tender without the right of retention on the Conversion Date immediately following the end of the Initial Rate Period, which occurs on August 15, 2023*. During the Initial Rate Period, the Bonds are not subject to the benefit of a liquidity facility provided by a third party. Accordingly, a failure by the Remarketing Agent to remarket Bonds subject to mandatory tender on the Conversion Date at the end of the Initial Rate Period will result in the rescission of the notice of mandatory tender with respect thereto and the District not having any obligation to purchase such Bonds at that time. The occurrence of the foregoing will not result in an event of default under the Order or the Bonds. Until such time as the District redeems or remarkets Bonds that have been unsuccessfully remarketed as described above, such Bonds shall bear interest at the "Stepped Rate", which is defined herein to mean ____% per annum, calculated on the basis of twelve 30-day months and the number of days actually elapsed (see "THE BONDS – Tender Provisions" herein).

All tenders of Bonds must be made to the Tender Agent at its designated office in Dallas, Texas. In the Order, the District has covenanted to identify and enter into a contract with a remarketing agent (the "Remarketing Agent") for the Bonds prior to the commencement of the remarketing period applicable to the Bonds. Bonds tendered for purchase on the initial Conversion Date will be bought from the proceeds derived from the remarketing of the Bonds, if any; provided, however, that should the date for tender of the Bonds occur on an Interest Payment Date, the accrued interest portion of the Purchase Price is to be paid by the District.

Proceeds from the sale of the Bonds will be used for the purpose of (i) construction, renovation, acquisition and equipment of school buildings in the District, including the purchase of new school buses, and (ii) to pay the costs of issuing the Bonds. (See "THE BONDS - Authorization and Purpose".)

Concurrently with the issuance of the Bonds, the District is, pursuant to a separate District order adopted concurrently with the Order, issuing its \$61,620,000* Fixed Rate Unlimited Tax School Building Bonds, Series 2020A (see "INTRODUCTORY STATEMENT" herein).

The Bonds are offered for delivery when, as and if issued, and received by the underwriters named below (the "Underwriters") subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Norton Rose Fulbright US LLP, San Antonio, Texas. The Bonds are expected to be available for initial delivery through the facilities of DTC on or about February 13, 2020.

FHN FINANCIAL CAPITAL MARKETS

HUTCHINSON, SHOCKEY, ERLEY & CO.

* Preliminary, subject to change.

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

PLAINVIEW INDEPENDENT SCHOOL DISTRICT

BOARD OF TRUSTEES

<u>Name</u>	<u>Date Initially Elected</u>	<u>Current Term Expires</u>	<u>Occupation</u>
Sylvia de la Garza, President	2008	2020	MCOT Supervisor
Adam Soto, Vice President	2002	2020	Leak Surveyor
Cheryl Dickerson, Secretary	2016	2022	Retired
Amber Bass, Member	2018	2021	Self Employed - Farmer
Tyler James, Member	2018	2021	Self Employed - Farmer
JoAnn Rey, Member	2018	2021	Self Employed – Licensed Professional Counselor
Sofia Rivera, Member	2018	2021	Office Manager

APPOINTED OFFICIALS

<u>Name</u>	<u>Position</u>	<u>Length of Education Service</u>	<u>Length of Service with District</u>
Dr. H.T. Sanchez	Superintendent	21 Years	1 Year 7 Months
Greg Brown	Assistant Superintendent of Schools	27 Years	27 Years
Dr. Ricardo Garcia	Chief Operations Officer	29 Years	13 Years
Doris Chapa	Chief Financial Officer	16 Years	16 Years

CONSULTANTS AND ADVISORS

McCall, Parkhurst & Horton L.L.P., Dallas, Texas	Bond Counsel
SAMCO Capital Markets, Inc., Plano, Texas	Financial Advisor
Eide Bailly LLP, Plainview, Texas	Certified Public Accountants

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5800 Granite Parkway, Suite 210
Plano, Texas 75024
(214) 765-1469
(214) 279-8683 (Fax)

USE OF INFORMATION IN OFFERING MEMORANDUM

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

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

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

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

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

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Offering Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – PSF Continuing Disclosure Undertaking" and "CONTINUING DISCLOSURE OF INFORMATION" for a description of the Texas Education Agency's ("TEA") and the District's undertakings 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 THE BONDS HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE THE MARKET PRICE 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.

NONE OF THE DISTRICT, ITS FINANCIAL ADVISOR, OR THE UNDERWRITERS MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFERING MEMORANDUM REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM DESCRIBED UNDER "BOOK-ENTRY-ONLY SYSTEM" OR THE AFFAIRS OF THE TEA DESCRIBED UNDER "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM", AS SUCH INFORMATION WAS PROVIDED BY THE DEPOSITORY TRUST COMPANY AND THE TEA, RESPECTIVELY.

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

The agreements of the District and others related to the Bonds are contained solely in the contracts described herein. Neither this Offering Memorandum nor any other statement made in connection with the offer or sale of the Bonds is to be construed as constituting an agreement with the purchaser of the Bonds. INVESTORS SHOULD READ THE ENTIRE OFFERING MEMORANDUM, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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SELECTED DATA FROM THE OFFERING MEMORANDUM

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

The District	The Plainview Independent School District (the "District") is a political subdivision of the State of Texas located in Hale and Floyd Counties, Texas. The District is governed by a seven-member Board of Trustees (the "Board"). Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors.
Rate Periods	The Bonds will initially bear interest at an Initial Rate during the Initial Rate Period, being the rate determined by the Underwriters, which will be in effect from the Closing Date (as defined in the Order, but anticipated to occur on or about February 13, 2020) through August 14, 2023*, with interest being payable on each February 15 and August 15, beginning August 15, 2020. The Initial Rate is ____%, calculated on the basis of a 360-day year of twelve 30-day months. Thereafter, the Bonds will convert to a Term Mode of like duration and bear interest at a Term Rate determined by the Remarketing Agent; provided, however, that the interest rate mode for the Bonds may be (a) changed from time to time to a Term Mode during which the Bonds bear interest at a Term Rate for a period of different duration or (b) converted to a Fixed Rate until stated maturity (as such terms are defined and described herein). (See "THE BONDS - Interest Rate Modes" herein.) In the event of a failed remarketing and conversion, the Bonds will bear interest at the Stepped Rate during the Stepped Rate Period (as defined in the Order). The Stepped Rate for the Bonds is ____%. (See "THE BONDS - Tender Provisions" herein)
Paying Agent/Registrar and Tender Agent	The initial Paying Agent/Registrar and Tender Agent for the Bonds is BOKF, NA, Dallas, Texas. The District intends to use the Book-Entry-Only System of DTC. (See "BOOK-ENTRY-ONLY SYSTEM.")
Security	The Bonds will constitute direct obligations of the District, payable as to principal and interest from ad valorem taxes levied annually against all taxable property located within the District, without legal limitation as to rate or amount.
Redemption	After the Initial Rate Period and prior to conversion to a Fixed Rate, or a new Term Rate, the Bonds are subject to optional redemption at par, on the dates and in the manner, as described herein. In addition, and at all times that the Bonds bear interest at the Initial Rate or at a Term Rate (including during the Initial Rate Period), the Bonds are subject to redemption, on any date and in whole (but not in part), at the District's option upon the occurrence of a hereinafter-defined Extraordinary Event, and at any time during a Stepped Rate Period, at the redemption price of par plus accrued interest to such date of redemption. (See "THE BONDS - Redemption".) During the Initial Rate Period the Bonds are not subject to optional redemption except, as described above, upon the occurrence of an Extraordinary Event or during any Stepped Rate Period following the Initial Rate Period. These provisions are preliminary and subject to change.
Permanent School Fund Guarantee	The District has received conditional approval from the Texas Education Agency for the payment of the scheduled debt service on (but not the Purchase Price of) the Bonds to be guaranteed under the Permanent School Fund Guarantee Program, which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.")
Ratings	The Bonds are rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") based upon the guaranteed repayment thereof under the Permanent School Fund Guarantee Program of the TEA. The District's unenhanced, underlying rating, including the Bonds, is "A1" from Moody's. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "RATINGS" herein.)
Tax Matters	In the opinion of Bond Counsel for the District, interest on the Bonds is excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein. (See "TAX MATTERS" and "Appendix C - Form of Legal Opinion of Bond Counsel.")
Payment Record	The District has never defaulted on the payment of its bonded indebtedness.
Legal Opinion	Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel. (See "Appendix C - Form of Legal Opinion of Bond Counsel".)
Delivery	When issued, anticipated to occur on or about February 13, 2020.
Additional Issuance of Bonds by the District	The Bonds are being sold concurrently with the District's contemplated issuance of \$61,620,000* Plainview Independent School District Fixed Rate Unlimited Tax School Building Bonds, Series 2020A, scheduled to close on or about February 13, 2020 (the "Fixed Rate 2020A Bonds"). This Offering Memorandum describes only the Bonds and not the Fixed Rate 2020A Bonds. Investors interested in making an investment decision concerning the Fixed Rate 2020A Bonds should review the offering document relating thereto.

* Preliminary, subject to change.

INTRODUCTORY STATEMENT

This Offering Memorandum, including Appendices A, B and D, has been prepared by the Plainview Independent School District (the "District"), a political subdivision of the State of Texas (the "State") located in Hale and Floyd Counties, Texas, in connection with the offering by the District of its Adjustable Rate Unlimited Tax School Building Bonds, Series 2020B (the "Bonds").

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

There follows in this Offering Memorandum descriptions of the Bonds and the order adopted on January 16, 2020 by the Board of Trustees of the District (the "Board") authorizing the issuance of the Bonds (the "Order") and certain other information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained upon request by writing the Plainview Independent School District, 2417 Yonkers, Plainview, Texas 79072 and, during the offering period, from the Financial Advisor, SAMCO Capital Markets, Inc., 5800 Granite Parkway, Suite 210, Plano, Texas 75024, by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

This Offering Memorandum speaks only as of its date, and the information contained herein is subject to change. A copy of this Final Offering Memorandum pertaining to the Bonds will be deposited with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) system. See "CONTINUING DISCLOSURE OF INFORMATION" herein for a description of the District's undertaking to provide certain information on a continuing basis.

Concurrently with the issuance of the Bonds, the District is, pursuant to a separate District order adopted concurrently with the Order, issuing its \$61,620,000* Adjustable Rate Unlimited Tax School Building Bonds, Series 2020A (the "2020A Bonds"). The 2020A Bonds are issued for the same purposes as are the Bonds, utilizing the authorization to issue unlimited ad valorem tax bonds approved at the Election, but are separate obligations of the District. This Offering Memorandum describes only the Bonds and not the 2020A Bonds. Investors interested in purchasing the 2020A Bonds should review the offering document relating thereto.

THE BONDS

Authorization and Purpose

The Bonds are being issued in the principal amount of \$15,000,000 (preliminary, subject to change) pursuant to the Constitution and general laws of the State of Texas, particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, an election held in the District on November 5, 2019 (the "Election") and the Order. Proceeds from the sale of the Bonds will be used for the purpose of (i) construction, renovation, acquisition and equipment of school buildings in the District, including the purchase of new school buses, and (ii) to pay the costs of issuing the Bonds.

Security for Payment

The Bonds are direct obligations of the District and are payable as to both principal and interest from ad valorem taxes levied annually on all taxable property within the District, without legal limitation as to rate or amount. The District has received conditional approval from the Texas Education Agency for the payment of the scheduled debt service on (but not the Purchase Price of) the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined), which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM", and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM".)

Permanent School Fund Guarantee

In connection with the sale of the Bonds, the District has received conditional approval from the Commissioner of Education for the guarantee of the Bonds under the Permanent School Fund Guarantee Program (Chapter 45, Subchapter C, of the Texas Education Code, as amended). Subject to meeting certain conditions discussed under the heading "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein, the Bonds will be absolutely and unconditionally guaranteed by the corpus of the Permanent School Fund of the State of Texas; provided, however, the Permanent School Fund Guarantee is not effective with respect to the payment of the Purchase Price for mandatorily tendered Bonds. In the event of a payment default by the District, registered owners will receive all payments due 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 Guarantee. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "REGISTERED OWNERS' REMEDIES").

General Description

Initial Issuance in Initial Rate Period. The Bonds are multimodal adjustable rate bonds (convertible upon mandatory tender and remarketing into a Term Rate interest mode of different duration or a Fixed Rate interest mode), initially issued in an initial period of interest during which the Bonds bear interest at the Initial Rate, which interest rate period is effective upon initial delivery of the Bonds to the Underwriters (anticipated to occur on or about February 13, 2020) and continues through August 14, 2023* (such period referred to herein and in the Order as the "Initial Rate Period"). Upon expiration of the Initial Rate Period, the Bonds will be remarketed into a successive Term Mode interest period of the like duration, unless changed as described herein.

THE BONDS ARE SUBJECT TO CONVERSION AND REMARKETING INTO A SUBSEQUENT TERM RATE OR FIXED RATE INTEREST PERIOD AT THE TIMES AND UPON THE CONDITIONS DESCRIBED IN THE ORDER FOLLOWING A MANDATORY TENDER FOR PURCHASE OF SUCH BONDS. THIS OFFERING MEMORANDUM DESCRIBES THE BONDS ONLY IN THE INITIAL RATE PERIOD AND IS, THEREFORE, NOT INTENDED TO PROVIDE INFORMATION WITH RESPECT TO THE BONDS AFTER CONVERSION TO ANY NEW INTEREST RATE MODE OR INTEREST RATE PERIOD (INCLUDING ANY SUBSEQUENT TERM RATE PERIOD). PURCHASERS OF THE BONDS SHOULD NOT RELY ON THIS OFFERING MEMORANDUM FOR INFORMATION CONCERNING ANY INTEREST RATE MODE OR INTEREST RATE PERIOD FOR THE BONDS OTHER THAN IN THE INITIAL RATE PERIOD.

Authorized Denominations. The Bonds are issued in denominations of \$5,000.

* Preliminary, subject to change.

Calculation of Interest; Interest Payment Dates. Interest on the Bonds will accrue from the Closing Date and will be calculated on the basis of a 360-day year of twelve 30-day months. Interest accruing on the Bonds during the Initial Rate Period will be paid on each February 15 and August 15 commencing August 15, 2020.

Interest Payment Methods. While the Bonds bear interest at the Initial Rate, interest will be paid by check, sent by first class mail, to the owner of record on the Record Date or by such other customary banking arrangement acceptable to the Paying Agent/Registrar requested by and at the risk and expense of the owner.

Book-Entry System of Registration and Payment. The Bonds will be issued as Book-Entry-Only securities through The Depository Trust Company, New York, New York ("DTC"). Use of the DTC Book-Entry-Only System will effect the timing and receipt of payment of interest on and principal of the Bonds. (See "THE BONDS – Book-Entry-Only System".)

Paying Agent/Registrar. The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas. 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 State of Texas or other entity duly qualified 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.

Tender Agent. BOKF, NA, Dallas, Texas, will serve as the initial tender agent (the "Tender Agent") for the Bonds. All notices and Bonds required to be delivered to the Tender Agent shall be delivered to BOKF, NA, Dallas, Texas, Attn: Mr. Tony Hongnoi, 5956 Sherry Lane, Suite 1201, Dallas, Texas 75225. In the event that the Book-Entry-Only System herein is discontinued and registered bonds are issued, all notices and Bonds are required to be delivered to 5956 Sherry Lane, Suite 1201, Dallas, Texas 75225.

Remarketing Agent and Remarketing Agreement. In the Order, the District has covenanted to identify and enter into a contract with a qualified financial institution to serve as remarketing agent for the Bonds (the "Remarketing Agent") prior to the commencement of the remarketing of the Bonds into a new interest rate period prior to expiration of the Initial Rate Period, and to retain such Remarketing Agent for so long, as required by the provisions of the Order. The District anticipates identifying the initial Remarketing Agent for the Bonds at or about the time the Board, prior to the expiration of the Initial Rate Period, adopts the order authorizing the remarketing of the Bonds from the Initial Rate Period into a subsequent interest rate period. The offering memorandum prepared by the District in conjunction with such remarketing of the Bonds will describe the terms of the agreement between the District and the Remarketing Agent, serving the District in such capacity.

Payment Record. The District has never defaulted with respect to the payment of its bonded indebtedness.

Interest Rate Modes

The Bonds may be converted and remarketed into a new Term Rate interest period of the same or different duration or to a Fixed Rate interest period. While the Bonds bear interest at a Term Rate, the interest rate will be determined in effect for a term of one year or any integral multiple of one year selected by the District commencing on the first calendar day of the Term Rate Period, provided that the Initial Rate Period is as set forth on the cover page hereof.

The interest rate mode selected by the District will remain in effect until changed by the District by notice to the Paying Agent/Registrar, the Tender Agent and the Remarketing Agent, in accordance with the Order. Notice of changes in interest rate modes will be given as described below. See "THE BONDS - Determination of Interest Rates; Rate Mode Changes".

Determination of Interest Rates; Rate Mode Changes

Initial Rate. The Bonds will bear interest at the Initial Rate for the Initial Rate Period, beginning on the date of initial authentication and delivery of the Bonds to the Underwriters (anticipated to occur on or about February 13, 2020) and ending on August 14, 2023*. The Interest Payment Dates during the Initial Rate Period will be on each February 15 and August 15, commencing on August 15, 2020. Following the Initial Rate Period, the Bonds will bear interest at the rate or rates, as determined by the Remarketing Agent, dependent upon the interest rate mode in which the Bonds are remarketed and which mode may thereafter be changed from time to time, prior to conversion to a Fixed Rate, in the manner described below.

Rate Mode Changes after Initial Rate. While the Bonds bear interest at the Initial Rate or a Term Rate, the Paying Agent/Registrar is required to give notice to the owners of all Bonds of the conversion from one interest rate mode to another at least 30 days prior to the Conversion Date. Each notice of a change between interest rate modes will be sent by first class mail to each owner's address as it appears in the registration books of the Paying Agent/Registrar and will state: (a) the effective date and the type of interest rate mode to which the change will be made; (b) the date by which the Remarketing Agent will determine the Term Rate and the date by which the owners will be notified thereof; and (c) the procedure by which the Bonds will be subject to mandatory tender on the effective date of the change in the interest rate mode, including the date and time that any notices must be received.

Any conversion to a new interest mode and period will be conditioned on delivery of an opinion of nationally recognized bond counsel to the effect that the conversion will not adversely affect the excludability of interest on the Bonds from gross income of the owners thereof for federal income tax purposes if such conversion results in a reissuance of the remarketed Bonds under applicable federal tax law. The opinion of Bond Counsel expresses no opinion as to the effect on excludability from gross income for federal income tax purposes of any action taken which requires the receipt of an opinion of a nationally recognized bond counsel.

While in the Initial Rate Period or a subsequent Term Rate period, Bonds may be converted to a different interest rate mode only at the expiration of such interest period (which conversion will take place on an Interest Payment Date).

Any owner of Bonds who may be unable to take timely action on any notice should consider whether to make arrangements for another person to act in his or her stead.

Determination of Interest Rates. During each Rate Period after the Initial Rate Period, the rate of interest on the Bonds will be the rate that the Remarketing Agent determines, in conjunction with the District and under prevailing market conditions on the date of such determination, would result in the market value of the Bonds being not less than 100% of the principal amount thereof. The date of such determination is defined herein as the "Rate Determination Date".

The determination by the Remarketing Agent of the rate or rates of interest to be borne by the Bonds will be conclusive and binding on the holders of the Bonds, the District, the Paying Agent/Registrar and the Tender Agent. Failure by the Paying Agent/Registrar to give notice to the Bondholders, or any defect therein, will not affect the interest rate borne by the Bonds or the rights of the owners thereof. In no event will the interest rate borne by the Bonds exceed the "Highest Rate", which (as provided in the Order) is the lesser of ____% and the maximum net effective interest rate permitted under Chapter 1204, Texas Government Code, as amended.

* Preliminary, subject to change.

Notice of Rates. Owners will be notified by the Paying Agent/Registrar first-class mail of the Term Rate applicable to the Bonds promptly after the applicable Rate Determination Date.

Tender Provisions

No Optional Tender. The Bonds are not subject to optional tender.

Mandatory Tender. The Bonds are required to be tendered for purchase to the Tender Agent, without the right of retention, immediately after the end of the Initial Rate Period, on August 15, 2023*.

Payment of the Purchase Price (defined in the Order to mean, with respect to each Bond (or any portion thereof) tendered for purchase, the par amount thereof, plus accrued but unpaid interest thereon to the date of purchase) of Bonds to be purchased upon mandatory tender as described herein will be made by the Tender Agent at its Corporate Trust Office or by wire transfer in immediately available funds.

If the Bonds are not converted and remarketed to new purchasers on the scheduled date of mandatory tender, the District shall have no obligation to purchase the Bonds tendered on such date, the failed conversion and remarketing shall not constitute an event of default under the Order or the Bonds, the mandatory tender will be deemed to have been rescinded for that date with respect to the Bonds subject to such failed remarketing only, and such Bonds (i) will continue to be Outstanding, (ii) will be purchased upon the availability of funds to be received from the subsequent remarketing of such Bonds, (iii) will bear interest at the Stepped Rate during the Stepped Rate Period, (iv) will be subject to redemption and mandatory tender for purchase on any date during the Stepped Rate Period upon which a conversion occurs (which shall occur at the District's discretion upon delivery of at least one day's notice to the holders of Bonds bearing interest at the Stepped Rate), and (v) will be deemed to continue in the then-applicable Initial Rate Period or Term Rate period for all other purposes of the Order, though bearing interest during such time at the Stepped Rate until remarketed or redeemed in accordance with the terms of the Order. In the event of a failed conversion and remarketing as described above, the District has covenanted in the Order to cause the Bonds to be converted and remarketed on the earliest reasonably practicable date on which they can be sold at not less than par, in such interest rate mode or modes as the District directs, at a rate not exceeding the Highest Rate. The Order provides that the Stepped Rate means a rate per annum equal to ____%, calculated on the basis of twelve 30 day months and the number of days actually elapsed.

Interest on any Bond that is not tendered on the mandatory tender date, but for which there has been irrevocably deposited with the Tender Agent an amount sufficient to pay the Purchase Price thereof, will cease to accrue on the mandatory tender date. Thereafter, the owner of such Bond will not be entitled to any payment other than the Purchase Price for such Bond from money held by the Tender Agent for such payment, and such Bond will not otherwise be outstanding or entitled to the benefits of the Order. On the mandatory tender date, the Tender Agent will authenticate and deliver substitute Bonds in lieu of such untendered Bonds.

Remarketing and Purchase. The Remarketing Agent is required to use its best efforts to sell such Bonds at a price equal to not less than 100% of the principal amount thereof plus accrued interest, if any, on the forthcoming mandatory tender date or as quickly as possible thereafter.

The Purchase Price of Bonds tendered for purchase is required to be paid by the Tender Agent from money derived from the remarketing of such Bonds by the Remarketing Agent. If sufficient funds are not available for the purchase of all tendered Bonds, no purchase will be consummated.

Conversion to Fixed Rate

The Order provides that, at the option of the District, the Bonds bearing interest at the Initial Rate or a Term Rate may be converted in whole or in part to a Fixed Rate or Rates on the first Interest Payment Date that occurs after conclusion of such interest period during which the Bonds bear interest at the Initial Rate or Term Rate. In the event of a partial conversion, the Paying Agent/Registrar shall select by lot or other customary random method the Bonds to be converted to a Fixed Rate. Solely and exclusively with respect to the Remarketing Agent's setting of Fixed Rates on the Bonds to be converted on the hereinafter defined Fixed Rate Conversion Date, the Remarketing Agent shall determine the rates for such converted Bonds that will cause such Bonds to have a market value, net of costs of issuance and remarketing fees, at least equal to the principal amount of Bonds. In addition, the District may reserve the right, exercisable at its sole option, to seek competitive bids on the Fixed Rate Conversion Date.

To exercise its option, the District must deliver to the Paying Agent/ Registrar, the Remarketing Agent (if any), and the Tender Agent written notice at least 45 calendar days prior to the Interest Payment Date on which the Fixed Rate mode is to become effective (the "Fixed Rate Conversion Date"). The Bonds converted to a Fixed Rate on a Fixed Rate Conversion Date shall mature, be subject to redemption and have the same terms and features (other than being subject to mandatory tender for purchase) as set forth in the Order with respect to Bonds bearing interest at an Initial Rate or a Term Rate. Notwithstanding the previous sentence, in connection with a conversion to a Fixed Rate, the District may elect, at its sole option, to provide for serial maturities, revised redemption provisions and other terms applicable to the pricing of the Bonds on and after the Fixed Rate Conversion Date.

The Paying Agent/Registrar is required to give notice by mail to all owners of the conversion to a Fixed Rate Mode not less than 30 calendar days prior to the Fixed Rate Conversion Date. Such notice is required to (a) specify the Fixed Rate Conversion Date and the date by which the District will determine and the Paying Agent/Registrar will notify the owners of the Fixed Rate Bonds; and (b) state that the Bonds will be subject to mandatory tender for purchase on the Fixed Rate Conversion Date without the right of the owners to retain their Bonds.

Redemption

Optional Redemption. The Bonds are not subject to optional redemption during the Initial Rate Period (except upon the occurrence of an Extraordinary Event, as described below), but are subject to redemption, at the District's option, on the first Interest Payment Date immediately succeeding the conclusion of the Initial Rate Period (which is also the Conversion Date). During a Stepped Rate Period, the Bonds are subject to redemption on any date.

Extraordinary Optional Redemption*. Upon the occurrence of an Extraordinary Event, the Bonds are subject to redemption prior to Stated Maturity, at the option of the District, on any date, in whole but not in part, in principal amounts of \$5,000 or any integral multiple thereof, at the price of par plus accrued interest to such date of redemption.

The term "Extraordinary Event" shall mean the occurrence of (i) passage of legislation by either house of the United States Congress, the effect of which (if enrolled) would be to impose, directly or indirectly, federal income taxation upon interest received on obligations of the general character of the Bonds, or (ii) the execution by the President of the United States of an executive order that imposes, directly or indirectly, federal income taxation upon interest received on obligations of the general character of the Bonds.

* Preliminary, subject to change

Upon the occurrence of an Extraordinary Event, the District anticipates issuing tax-exempt refunding bonds prior to the effective date of such legislation and exercising the right to redeem and refund the Bonds with the proceeds of the refunding bonds.

Scheduled Mandatory Redemption. The Bonds are subject to mandatory redemption prior to stated maturity following the Initial Rate Period as follows:

Mandatory Redemption*

<u>Date</u>	<u>Amount</u>
February 15, 2047	\$
February 15, 2048	
February 15, 2049	
February 15, 2050 ⁽¹⁾	

**Preliminary, subject to change
(1) Stated Maturity.*

The principal amount of Bonds required to be redeemed pursuant to the operation of such mandatory redemption provisions shall be reduced, at the option of the District, by the principal amount of any Bonds which, at least 50 days prior to the mandatory redemption date (1) shall have been defeased or acquired by the District and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the District with money in the Interest and Sinking Fund, or (3) shall have been redeemed pursuant to the optional redemption provisions set forth above and not theretofore credited against a mandatory redemption requirement.

Notices of Redemption and DTC Notices. The Paying Agent/Registrar is required to cause notice of any redemption of Bonds to be mailed to each owner of the Bonds to be redeemed at the respective addresses appearing in the registration books for the Bonds at least 30 days prior to the redemption date when the Bonds bear interest at the Initial Rate or a Term Rate. All notices of redemption shall (i) specify the date of redemption for the Bonds, (ii) identify the Bonds to be redeemed and, in the case of a portion of the principal amount to be redeemed, the principal amount thereof to be redeemed, (iii) state the redemption price, (iv) state the Bonds, or the portion of the principal amount thereof, to be redeemed, shall become due and payable on the redemption date specified, and the interest thereof, or on the portion of the principal amount thereof to be redeemed, shall cease to accrue from and after the redemption date, and (v) specify the payment of the redemption price for the Bonds, or the principal amount thereof to be redeemed, shall be made at the designated corporate trust office of the Paying Agent/Registrar only upon presentation and surrender thereof by the registered owner. If a Bond is subject by its terms to redemption and has been called for redemption and notice of redemption thereof has been duly given or waived, as provided in the Order, such Bonds (or the principal amount thereof to be redeemed) so called for redemption shall become due and payable, and on the redemption date designated in such notice, interest on such Bonds (or the principal amount thereof to be redeemed) called for redemption shall cease to accrue and such Bonds shall not be deemed to be outstanding. A notice of mandatory tender delivered in connection with the remarketing of any outstanding Bonds shall also serve as notice of redemption if any such Bonds will be redeemed on the Conversion Date.

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 AND THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

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

Legality

The Bonds are offered when, as and if issued, subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel. (See "LEGAL MATTERS" and "Appendix C - Form of Legal Opinion of Bond Counsel").

Payment Record

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

Amendments

The District may amend the Order without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding, amend, add to, or rescind any of the provisions of the Order. However, no amendment may be made without the consent of each Owner affected thereby so as to: (a) change the sinking fund requirements, if any, Interest Payment Dates, rights to tender or the maturity or maturities of the Outstanding Bonds; (b) reduce the rate of interest borne by any of the Outstanding Bonds; (c) reduce the amount of the principal or purchase price of or premium, if any, payable on the Outstanding Bonds; (d) modify the terms of payment of principal or purchase price of, premium, if any, or interest on the Outstanding Bonds, or impose any conditions with respect to such payments; (e) affect the rights of the Owners of fewer than all of the Outstanding Bonds; or (f) decrease the minimum percentage of the principal amount of Outstanding Bonds necessary for consent to any such amendment.

Defeasance

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

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

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

Sources and Uses of Funds

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

Sources	
Par Amount of Bonds	\$
Original Issue Reoffering Premium	
Total Sources of Funds	\$ _____
Uses	
Deposit to Construction Fund	\$
Costs of Issuance	
Underwriters' Discount	
Rounding Deposit to Interest and Sinking Fund	
Total Uses of Funds	\$ _____

REGISTERED OWNERS' REMEDIES

The Order establishes specific events of default with respect to the Bonds and provides that if the District defaults in the payment of principal or interest on the Bonds when due, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, and the continuation thereof for a period of 60 days after notice of default is given by the District by any registered owner, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or the Order covenants and the District's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3rd 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. As a result, bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM"

herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, by general principles of equity which permit the exercise of judicial discretion and by governmental immunity.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by DTC (defined below) while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Offering Memorandum. 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 notices 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 notices 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 Offering Memorandum. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

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

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

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

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

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

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

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District, the Financial Advisor and the Underwriters believe to be reliable, but none of the District, the Financial Advisor or the Underwriters take any responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of this Offering Memorandum

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

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 "REGISTRATION, TRANSFER AND EXCHANGE" below.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

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

Successor Paying Agent/Registrar

Provision is made in the Order for replacing the Paying Agent/Registrar. If the District replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District shall be a commercial bank, trust company, financial institution or other entity duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District has agreed 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.

Initial Registration

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

Future Registration

In the event the Book-Entry-Only System is discontinued, the Bonds will be printed and delivered to the beneficial owners thereof and thereafter may be transferred, registered and assigned on the registration books only upon presentation and surrender of the Bonds to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bond or Bonds being transferred or exchanged at the corporate trust office of the Paying Agent/Registrar, or sent by United States mail, first class postage prepaid to the new registered owner. 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 (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in authorized denominations and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer.

Record Date For Interest Payment

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

Limitation on Transfer of Bonds

Neither the District nor the Paying Agent/Registrar are required (1) to make any transfer or exchange during a period beginning at the opening of business 45 days before the day of the first mailing of a notice of redemption or tender of Bonds and ending at the close of business on the day of such mailing, or (2) to transfer or exchange such Bonds subject to tender or any Bonds so selected for redemption when such redemption is scheduled to occur within 45 calendar days; provided however, that such limitation of transfer is not applicable to an exchange by the registered owner of the uncalled balance of a Bond.

Replacement Bonds

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

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

The information below concerning the State Permanent School Fund and the Guarantee Program for school district bonds has been provided by the Texas Education Agency (the "TEA") and is not guaranteed as to accuracy or completeness by, and is not construed as a representation by the District, the Financial Advisor, or the Underwriters.

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"). (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 2019, preliminary, unaudited distributions to the ASF amounted to an estimated \$246 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 proposed 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 by one or more entities. That constitutional change was approved by State voters at a referendum on November 5, 2019. See "2011 and 2019 Constitutional Amendments."

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 and 2019 Constitutional Amendments" 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 and November 5, 2019 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. In accordance with legislation enacted during the 86th Session and effective September 1, 2019, the PSF has established an investment account for purposes of investing cash received from the GLO to be invested in liquid assets and managed by the SBOE in the same manner it manages the PSF. That cash has previously been included in the PSF valuation, but was held and invested by the State Comptroller.

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, 2019, the Fund's financial assets portfolio was invested as follows: 34.84% in public market equity investments; 13.32% in fixed income investments; 10.55% in absolute return assets; 11.53% in private equity assets; 8.68% in real estate assets; 7.44% in risk parity assets; 6.14% in real return assets; 7.01% in emerging market debt; and 0.49% in unallocated cash. August 31, 2019 data is unaudited, which is subject to adjustment.

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

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

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

Management and Administration of the Fund

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

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

Texas law assigns control of the Fund's land and mineral rights to the SLB. Administrative duties related to the land and mineral rights reside with the GLO, which is under the guidance of the Commissioner of the GLO. In 2007, the Legislature established the real estate special fund account of the PSF (the "Real Estate Account") consisting of proceeds and revenue from land, mineral or royalty interest, real estate investment, or other interest, including revenue received from those sources, that is set apart to the PSF under the Texas Constitution and laws, together with the mineral estate in riverbeds, channels, and the tidelands, including islands. The investment of the Real Estate Account is subject to the sole and exclusive management and control of the SLB and the Land

Commissioner, who is also the head of the GLO. The 2007 legislation presented constitutional questions regarding the respective roles of the SBOE and the SLB relating to the disposition of proceeds of real estate transactions to the ASF, among other questions. Amounts in the investment portfolio of the PSF are taken into account by the SBOE for purposes of determining the Distribution Rate. An amendment to the Texas Constitution was approved by State voters on November 8, 2011, which permits the SLB to make transfers directly to the ASF, see "2011 and 2019 Constitutional Amendments" 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 unaudited cost basis of the Fund at August 31, 2019, the State Law Capacity increased from \$118,511,255,268 on August 31, 2018 to \$123,509,204,770 on August 31, 2019 (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 December 4, 2019, there were 183 active open-enrollment charter schools in the State and there were 798 charter school campuses operating under such charters (though as of such date, 13 of such campuses are not currently 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 purpose 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 August 31, 2019, the amount of outstanding bond guarantees represented 71.94% of the IRS Limit (which is currently the applicable capacity limit) for the Guarantee Program (based on unaudited data). SB 1480 amended the CDBGP Capacity calculation so that the State Capacity Limit is multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population prior to the subtraction of the outstanding bond guarantees, thereby potentially substantially increasing the CDBGP Capacity. However, certain provisions of SB 1480, described below, and other additional factors described herein, could result in less than the maximum amount of the potential increase provided by SB 1480 being implemented by the SBOE or otherwise used by charter districts. Still other factors used in determining the CDBGP Capacity, such as the percentage of the charter district scholastic population to the overall public school scholastic population, could, in and of itself, increase the CDBGP Capacity, as that percentage has grown from 3.53% in September, 2012 to 5.85% in February 2019. TEA is unable to predict how the ratio of charter district students to the total State scholastic population will change over time.

SB 1480 provides that the implementation of the new method of calculating the CDBGP Capacity will begin with the State fiscal year that commences September 1, 2021 (the State's fiscal year 2022). However, for the intervening four fiscal years, beginning with fiscal year 2018, SB 1480 provides that the SBOE may establish a CDBGP Capacity that increases the amount of charter

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

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

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

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the “Charter District Reserve Fund”). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10 percent of the savings to the charter district that is a result of the lower interest rate on its bonds due to the guarantee by the PSF. SB 1480 modified the Act insofar as it pertains to the Charter District Reserve Fund. Effective September 1, 2017, the Act provides that a charter district that has a bond guaranteed must remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 20 percent of the savings to the charter district that is a result of the lower interest rate on the bond due to the guarantee by the PSF. The amount due shall be paid on receipt by the charter district of the bond proceeds. However, the deposit requirement will not apply if the balance of the Charter District Reserve Fund is at least equal to three percent (3.00%) of the total amount of outstanding guaranteed bonds issued by charter districts. As of August 31, 2019, the Charter District Reserve Fund represented approximately 1.12% 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, State funding for charter district facilities construction is limited to a program established by the Legislature in 2017, which provides \$60 million per year for eligible charter districts with an acceptable performance rating for a variety of funding purposes, including for lease or purchase payments for instructional facilities. Since State funding for charter facilities is so limited, 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 August 31, 2019, the Charter District Reserve Fund contained \$21,578,541.

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. 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. 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.

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.

Ratings of Bonds Guaranteed Under the Guarantee Program

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

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations

Fiscal Year Ended 8/31	Book Value ⁽¹⁾	Market Value ⁽¹⁾
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	33,860,358,647	44,074,197,940
2019 ⁽²⁾	35,288,344,220	46,554,515,717

⁽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, 2019, 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, \$216.7 million, \$3,640.2 million, \$7.5 million, and \$4,457.3 million, respectively, and market values of approximately \$3,198.2 million, \$619.7 million, \$3,927.6 million, \$1.3 million, and \$4,457.3 million, respectively. At August 31, 2019, the PSF had a book value of \$35,288,344,220 and a market value of \$46,554,515,717. August 31, 2019 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds

At 8/31	Principal Amount ⁽¹⁾
2015	\$63,955,449,047
2016	68,303,328,445
2017	74,266,090,023
2018	79,080,901,069
2019	84,397,900,203 ⁽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, 2019 (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 \$133,188,149,264, of which \$48,790,249,061 represents interest to be paid. As shown in the table above, at August 31, 2019, there were \$84,397,900,203 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), 97.22% of Program capacity was available to the School District Bond Guarantee Program and 2.78% was available to the Charter District Bond Guarantee Program.

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

Fiscal Year Ended 8/31	School District Bonds		Charter District Bonds		Totals	
	No. of Issues	Principal Amount	No. of Issues	Principal Amount	No. of Issues	Principal Amount
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	3,249	77,647,966,069	44	1,432,935,000	3,293	79,080,901,069
2019 ⁽²⁾	3,297	82,534,755,203	49	1,860,145,000	3,346	84,397,900,203

⁽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⁾ At August 31, 2019 (based on unaudited data, which is subject to adjustment), there were \$84,397,900,203 of bonds guaranteed under the Guarantee Program, representing 3,346 school district issues, aggregating \$82,537,755,203 in principal amount and 49 charter district issues, aggregating \$1,860,145,000 in principal amount. At August 31, 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, and will be updated upon the release of the Annual Report for the year ended August 31, 2019. 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 and 2019 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 to 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 provided 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 PSF to determine whether to transfer an amount each year to the ASF from the revenue derived during the current year from such land or properties. Prior to November 2019, the amount authorized to be transferred to the ASF from the GLO was limited to \$300 million per year. On November 5, 2019, a constitutional amendment was approved by State voters that increased the maximum transfer to the ASF to \$600 million each year from the revenue derived during that year from the PSF from each of the GLO, the SBOE or any other entity that may have the responsibility to manage such properties (at present there are no such other entities). Any amount transferred to the ASF pursuant to this constitutional provision is excluded from the 6% Distribution Rate limitation applicable to SBOE transfers. The exercise of the increased authorization for such transfers is subject to the discretion of the GLO and the SBOE, and such transfers could be taken into account by the SBOE for purposes of its distributions to the ASF that are made pursuant to the Total Return Constitutional Amendment. However, future legal and/or financial analysis may be needed before the impact on the Fund of the constitutional change effected in November 2019 can be determined.

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 Offering Memorandum 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 Offering Memorandum.

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

Compliance with Prior Undertakings

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

SEC Exemptive Relief

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

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

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

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

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

Possible Effects of Changes in Law on District Bonds

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

Although, as a matter of law, the Bonds, upon issuance and delivery, will be entitled to the protections afforded previously existing contractual obligations under the Contract Clauses, the District can make no representations or predictions concerning the effect of future legislation, or any litigation that may be associated with such legislation, on the District's financial condition, revenues or operations. While the enactment of future legislation to address school funding in Texas could adversely affect the financial condition, revenues or operations of the District, the District does not anticipate that the security for payment of the Bonds, specifically, the District's obligation to levy an unlimited debt service tax 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 Offering Memorandum. Prospective investors are encouraged to review HB 3, SB 2, and the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes, the calculation of the defined tax rates, and the administration of the current public school finance system.

Overview

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

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

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

Local Funding for School Districts

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

State Compression Percentage

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

the State Comptroller) has increased by at least 2.5% over the prior year; and (3) the prior year State Compression Percentage. For any year, the maximum State Compression Percentage is 93%.

Maximum Compressed Tax Rate

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

Tier One Tax Rate

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

Enrichment Tax Rate

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

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

State Funding for School Districts

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

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

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

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

Tier One

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

For the 2019-2020 State fiscal year, the Basic Allotment for school districts with a Tier One Tax Rate equal to \$0.93, is \$6,160 for each student in ADA and is revised downward for school districts with a Tier One Tax Rate lower than \$0.93. For the State fiscal year ending in 2021 and subsequent State fiscal years, the Basic Allotment for a school district with a Tier One Tax Rate equal to the school district's MCR, is \$6,160 (or a greater amount as may be provided by appropriation) for each student in ADA and is revised downward for a school district with a Tier One Tax Rate lower than the school district's MCR. The Basic Allotment is then supplemented for all school districts with various weights to account for differences among school districts and their student populations. Such additional allotments include, but are not limited to, increased funds for students in ADA who: (i) attend a qualified special education program, (ii) are diagnosed with dyslexia or a related disorder, (iii) are economically disadvantaged, or (iv) have limited English language proficiency. Additional allotments to mitigate differences among school districts include, but are not limited to: (i) a transportation allotment for mileage associated with transporting students who reside two miles or more from

their home campus, (ii) a fast growth allotment (for school districts in the top 25% of enrollment growth relative to other school districts), and (iii) a college, career and military readiness allotment to further Texas' goal of increasing the number of students who attain a post-secondary education or workforce credential, and (iv) a teacher incentive allotment to increase teacher compensation retention in disadvantaged or rural school districts. A school district's total Tier One funding, divided by \$6,160, is a school district's measure of students in "Weighted Average Daily Attendance" ("WADA"), which serves to calculate Tier Two funding.

Tier Two

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

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

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

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

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

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

Tax Rate and Funding Equity

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

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

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

Local Revenue Level in Excess of Entitlement

A school district that has sufficient property wealth per student in ADA to generate local revenues on the school district's Tier One Tax Rate and Copper Pennies in excess of the school district's respective funding entitlements (a "Chapter 49 school district"), is subject to the local revenue reduction provisions contained in Chapter 49 of Texas Education Code, as amended ("Chapter 49"). Additionally, in years in which the amount of State funds appropriated specifically excludes the amount necessary to provide the guaranteed yield for Golden Pennies, local revenues generated on a school district's Golden Pennies in excess of the school

district's respective funding entitlement are subject to the local revenue reduction provisions of Chapter 49. To reduce local revenue, Chapter 49 school districts are generally subject to a process known as "recapture", which requires a Chapter 49 school district to exercise certain options to remit local M&O tax revenues collected in excess of the Chapter 49 school district's funding entitlements to the State (for redistribution to other school districts) or otherwise expending the respective M&O tax revenues for the benefit of students in school districts that are not Chapter 49 school districts, as described in the subcaption "Options for Local Revenue Levels in Excess of Entitlement". Chapter 49 school districts receive their allocable share of funds distributed from the constitutionally-prescribed Available School Fund, but are generally not eligible to receive State aid under the Foundation School Program, although they may continue to receive State funds for certain competitive grants and certain programs that remain outside the Foundation School Program.

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

Options for Local Revenue Levels in Excess of Entitlement

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

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

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

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

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

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

AD VALOREM TAX PROCEDURES

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

Valuation of Taxable Property

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

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

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

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

State Mandated Homestead Exemptions

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

Local Option Homestead Exemptions

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

State Mandated Freeze on School District Taxes

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

Personal Property

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

Freeport 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. See “Appendix A – Financial Information of the District – Assessed Valuation” for the reduction in taxable valuation, if any, attributable to Goods-in-Transit or Freeport Property exemptions.

Other Exempt Property

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

Tax Increment Reinvestment Zones

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

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

Tax Limitation Agreements

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

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

District and Taxpayer Remedies

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

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

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

Levy and Collection of Taxes

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

District's Rights in the Event of Tax Delinquencies

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

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

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

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

TAX RATE LIMITATIONS

M&O Tax Rate Limitations

A school district is authorized to levy maintenance and operation ("M&O") taxes subject to approval of a proposition submitted to district voters under Section 45.003(d) of the Texas Education Code, as amended. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the next succeeding paragraph. The maximum voted M&O tax rate for the District is \$1.50 per \$100 of assessed valuation as approved by the voters at an election held on December 14, 1955 pursuant to Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended.

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

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

For the 2020 and subsequent tax years, the maximum maintenance tax rate per \$100 of taxable value that may be adopted by an independent school district is the sum of \$0.17 and the school district's MCR. The District's MCR is,

generally, inversely proportional to the change in taxable property values both within the District and the State, and is subject to recalculation annually. For any year, highest possible MCR for an independent school district is \$0.93.

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

I&S Tax Rate Limitations

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

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

Public Hearing and Voter-Approval Tax Rate

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

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

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

For the 2019 tax year, a school district with a Voter-Approval Tax Rate equal to or greater than \$0.97 (excluding the school district's current I&S tax rate) may not adopt tax rate for the 2019 tax year that exceeds the school district's Voter-Approval Tax Rate. At an election held on November 6, 2007, the voters in the District approved an increase in the District's M&O tax rate. For the 2019 tax year, the District's Voter-Approval Tax Rate (excluding its current I&S tax rate) is \$1.0684. 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.

THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT

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

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

The District does not grant a local exemption of 20% of the market value of all residence homesteads.

The District has not granted a local option, additional exemption for persons who are 65 years of age or older and disabled persons above the amount of the State mandated exemption.

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

The District does not collect an additional 20% penalty to defray attorney costs in the collection of delinquent taxes over and above the penalty automatically assessed under the Tax Code.

The District's taxes are collected by each Appraisal District.

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

The District does not participate in a tax increment financing zone. The District has not granted any tax abatements.

The District has not taken action to tax "goods-in-transit".

The District has not granted the freeport exemption.

The District has entered into a tax value limitation agreement under the provisions of Chapter 313, Texas Tax Code ("Chapter 313"), known as the Texas Economic Development Act, as described below:

<u>Company</u>	<u>First Tax Year of Abatement</u>	<u>Estimated Peak Taxable Value for I&S Taxation</u>	<u>Capped Value for M&O Taxation</u>	<u>Type of Project</u>
Plainview BioEnergy, LLC	2009	\$114,150,137	\$30,000,000	Industrial Organic Manufacturing

In accordance with Chapter 313, the agreement provided that the full value of the project was subject to taxation during the first two years of the agreement, and thereafter the District has levied its M&O Tax against a capped value (as set forth above, \$30 million) for eight years. The agreement has not limited the tax value with respect to the District's debt service tax rate during any year. After year ten, the full tax value of the project was subject to taxation by the District for both maintenance and operations and debt service purposes. See "AD VALOREM TAX PROCEDURES – Property Subject to Taxation by the District" for a description of tax limitation agreements.

EMPLOYEES' RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFITS

The District's employees participate in a retirement plan (the "Plan") with the State. The Plan is administered by the Teacher Retirement System of Texas ("TRS"). State contributions are made to cover costs of the TRS retirement plan up to certain statutory limits. The District is obligated for a portion of TRS costs relating to employee salaries that exceed the statutory limit. Aside from the District's contribution to TRS, the District has no pension fund expenditures or liabilities. For fiscal year ended August 31, 2018, the District made a contribution to TRS on a portion of their employee's salaries that exceeded the statutory minimum. For a discussion of the TRS retirement plan, see "Note 11. Defined Benefit Pension Plan" in the audited financial statements of the District that are attached hereto as Appendix D (the "Financial Statements").

In addition to its participation in TRS, the District contributes to the Texas Public School Retired Employees Group Insurance Program (the "TRS-Care Retired Plan"), a cost-sharing multiple-employer defined benefit post-employment health care plan. The TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. For more detailed information concerning the District's funding policy and contributions in connection with the TRS-Care Retired Plan, see "Note 12. Post-Employment Health Benefits" in the audited financial statements of the District that are attached hereto as Appendix D (the "Financial Statements").

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

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

RATINGS

The Bonds are rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") based upon the guaranteed repayment thereof under the Permanent School Fund Guarantee Program of the TEA. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM"). The District's unenhanced, underlying rating, including the Bonds, is "A1" from Moody's.

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

LEGAL MATTERS

The delivery of the Bonds is subject to the approval 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, without legal limit as to rate or amount, upon all taxable property in the District, and the approving legal opinion of McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel to the District ("Bond Counsel"), to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under section 103(a) of the Internal Revenue Code, subject to the matters described under "TAX MATTERS" herein. The form of Bond Counsel's opinion is attached hereto as Appendix C. The District intends to pay the legal fee of Bond Counsel for services rendered in connection with the issuance of the Bonds from the proceeds of the Bonds. Certain legal matters will be passed upon for the Underwriters by their counsel, Norton Rose Fulbright US LLP, San Antonio, Texas. The legal fee to be paid to counsel to the Underwriters for services rendered in connection with the issuance of the Bonds is contingent upon the sale of the delivery of the Bonds.

Though it represents the Financial Advisor and the Underwriters from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the District in the issuance of the Bonds. McCall, Parkhurst & Horton L.L.P. also advises the TEA in connection with its disclosure obligations under the federal securities laws, but such firm has not passed upon any TEA disclosures contained in this Offering Memorandum. Except as noted below, Bond Counsel was not requested to participate, and did not take part in the preparation of the Offering Memorandum, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under the captions or subcaptions "THE BONDS" (except under the subcaptions "Permanent School Fund Guarantee", "Payment Record", and "Sources and Uses of Funds," as to which no opinion will be expressed), "REGISTRATION, TRANSFER AND EXCHANGE", "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM", (except under the subcaption "Possible Effects of Wealth Transfer Provisions on the District's Financial Condition," as to which no opinion will be expressed) "TAX RATE LIMITATIONS", "LEGAL MATTERS" (except for the last two sentences of the first paragraph thereunder), "TAX MATTERS", "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS", "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE" and "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance with Prior Undertakings," as to which no opinion will be expressed) and such firm is of the opinion that the information relating to the Bonds and the Order contained under such captions is a fair and accurate summary of the information purported to be shown and that the information and descriptions contained under such captions relating to the provisions of applicable state and federal laws are correct as to matters of law.

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.

TAX MATTERS

Opinion

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

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

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

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

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

Federal Income Tax Accounting Treatment of Original Issue Discount

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

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

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

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

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

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on Existing Law, which is subject to change or modification, retroactively.

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

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

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

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

Future and Proposed Legislation

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law and could affect the market price or marketability of the Bonds. Any such proposal could limit the value of certain deductions and exclusions, including the

exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

State, Local and Foreign Taxes

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

Information Reporting and Backup Withholding

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

INVESTMENT POLICIES

Investments

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

Legal Investments

Under State law, 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 or its agencies and instrumentalities; (3) collateralized mortgage obligations 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 unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (the "FDIC") 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 that are guaranteed or insured by the FDIC or the National Credit Union Share Insurance Fund (the "NCUSIF") or their respective successors; (8) interest-bearing banking deposits, other than those described in clause (7), that (i) are invested through a broker or institution with a main office or branch office in this state and selected by the District in compliance with the PFIA, (ii) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the District's account, (iii) 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 (iv) the District appoints as its custodian of the banking deposits, in compliance with the PFIA, the institution in clause (8)(i) above, a bank, or a broker-dealer; (9) certificates of deposit and share certificates meeting the requirements of the PFIA (i) that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the FDIC or the NCUSIF, or their respective successors, or are secured as to principal by obligations described in clauses (1) through (8), above, or secured 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 a broker or institution that has a main office or branch office in the State and selected by the District in compliance with the PFIA, (b) the broker or institution arranges for the deposit of the funds 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, in compliance with the PFIA, the institution in clause (9)(ii)(a) above, a bank, or broker-dealer as custodian for the District with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described by clauses (1) or (12), which are pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) certain bankers' acceptances with a stated maturity of 270 days or less, if the short-term obligations of the accepting bank, or of the holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 365 days or less that is rated at least A-1 or P-1 or an equivalent by either (i) two nationally recognized credit rating agencies, or (ii) one nationally recognized credit rating agency if the commercial paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (13) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission and complies with Securities and Exchange Commission Rule 2a-7; (14) no-load mutual funds that are registered and regulated by the Securities and Exchange Commission that have a weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations approved in this paragraph, or (ii) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset backed securities; (15) guaranteed investment contracts that have a defined termination date and are secured by obligations described in clause (1), excluding obligations which the District is explicitly prohibited from investing in, and in an amount at least equal to the amount of bond proceeds invested under such contract; and (16) securities lending programs if (i) the securities loaned under the program are 100% collateralized, including accrued income, (ii) a loan made under the program allows for termination at any time, (iii) a loan made under the program is either secured by (a) obligations described in clauses (1) through (8) 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 (8) above, clauses (12) through (14) above, or an authorized investment pool, (iv) the terms of a loan made under the program require that the securities being held as collateral 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 designated by the District, (v) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State, and (vi) 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 is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Under State law, the District may 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 of 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 has not contracted with, and has no present intention of contracting with, any such investment management firm or the State Securities Board to provide such services.

Investment Policies

Under State 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 includes a list of authorized investments for District funds, maximum allowable stated maturity of any individual investment owned by the District and the maximum average dollar-weighted maturity allowed for pooled fund groups. 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.

Effective September 1, 2019, the investment officer of a local government is allowed to invest bond proceeds or pledged revenue only to the extent permitted by the PFIA and in accordance with (i) statutory provisions governing the debt issuance (or lease, installment sale, or other agreement) and (ii) the local government's investment policy regarding the debt issuance or the agreement.

State law also requires that District 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 investment officers of the District shall submit an investment report detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, 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 strategy statements and (b) State law. No person may invest District funds without express written authority from the Board.

Additional Provisions

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

Current Investments

As of August 31, 2019, the District had approximately \$450,480 (unaudited) invested in Texas Class (operates as money market equivalent) and \$113,125 (unaudited) invested at the local depository bank. The market value of such investments (as determined by the District by reference to published quotations, dealer bids, and comparable information) is approximately 100% of the book value. No funds of the District are invested in derivative securities; i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

No registration statement relating to the Bonds has been filed with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2). The Bonds have not been approved or disapproved by the United States Securities and Exchange Commission, nor has the United States Securities and Exchange Commission passed upon the accuracy or adequacy of the Offering Memorandum. 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 jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

It is the obligation of the Underwriters to register or qualify the sale of the Bonds under the securities laws of any jurisdiction which so requires. The District agrees to cooperate, at the Underwriters' written request and sole expense, in registering or qualifying the Bonds or in obtaining an exemption from registration or qualification in any state where such action is

necessary; provided, however, that the District shall not be required to qualify as a foreign corporation or to execute a general or special consent to service of process in any jurisdiction.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

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

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

FINANCIAL ADVISOR

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

The Financial Advisor has provided the following sentence for inclusion in this Offering Memorandum. The Financial Advisor has reviewed the information in this Offering Memorandum 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.

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 events, to the Municipal Securities Rulemaking Board ("MSRB"). For a description of the continuing disclosure obligations of the TEA, see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM." The information provided to the MSRB will be available to the public free of charge via the electronic EMMA) system at www.emma.msrb.org.

Annual Reports

The District will provide certain updated financial information and operating data annually to the MSRB. The information to be updated includes financial information and operating data with respect to the District of the general type included in this Offering Memorandum in Appendix A (such information being the "Annual Operating Report"). The District will additionally provide financial statements of the District (the "Financial Statements"), that will be (i) prepared in accordance with the accounting principles described in Appendix D or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation and shall be in substantially the form included in Appendix D and (ii) audited, if the District commissions an audit of such Financial Statements and the audit is completed within the period during which they must be provided. The District will update and provide the Annual Operating Report within six months after the end of each fiscal year and the Financial Statements within 12 months of the end of each fiscal year, in each case beginning with the fiscal year ending in and after 2019. The District may provide the Financial Statements earlier, including at the time it provides its Annual Operating Report, but if the audit of such Financial Statements is not complete within 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 SEC Rule 15c2-12 (the "Rule").

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

Notice of Certain Events

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

“Annual Reports”. The District will provide each notice described in this paragraph to the MSRB. Neither the Bonds nor the Order make any provision for a bond trustee, debt service reserves, credit enhancement (except for the Permanent School Fund guarantee), or liquidity enhancement.

For these purposes, any event described in clause (12) of in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District. For the purposes of the above described event notices (15) and (16), the term “financial obligation” means 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) a guarantee of (i) or (ii); provided however, that a “financial obligation” shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

Limitations and Amendments

The District has agreed to update information and to provide notices of events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that has been provided except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell 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 of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

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

Compliance with Prior Undertakings

In the past five years, the District has not entered into a continuing disclosure agreement in accordance with the Rule.

LITIGATION

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

At the time of the initial delivery of the Bonds, the District will provide the Underwriters with a certificate to the effect that except as disclosed in the Offering Memorandum, no litigation of any nature has been filed or is then pending challenging the issuance of the Bonds or that affects the payment and security of the Bonds or in any other manner questioning the issuance, sale or delivery of the Bonds.

FORWARD LOOKING STATEMENTS

The statements contained in this Offering Memorandum, 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 Offering Memorandum are based on information available to the District on the date hereof, and the District assumes no obligation to update any such forward-looking statements. It is important to note that the District’s actual results could differ materially from those in such forward-looking statements.

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

UNDERWRITING

The Underwriters have agreed, subject to certain customary conditions, to purchase the Bonds at a price offered to the public producing the initial yield, as shown on the cover page hereof, less an Underwriters’ discount of \$_____, and no accrued interest. The Underwriters’ obligations are subject to certain conditions precedent, and the Underwriters will be obligated to purchase all of the Bonds, if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

FHN Financial Capital Markets is a division of First Horizon Bank and First Horizon Advisors, Inc., is a wholly owned subsidiary of First Horizon Bank. FHN Financial Capital Markets has entered into a distribution agreement with First Horizon Advisors, Inc., for the distribution of the offered Bonds at the original issue prices. Such arrangement generally provides that FHN Financial Capital Markets will share a portion of its underwriting compensation or selling concession with First Horizon Advisors, Inc.

On November 4, 2019 First Horizon and IberiaBank announced its intention to enter into a merger, pending regulatory approval, creating a leading regional financial services company. The new company will retain the First Horizon name and will have its headquarters in Memphis, TN, while maintaining a significant operating presence in all of the markets in which both companies

operate today. The transaction is expected to be completed in the second quarter of 2020, following the satisfaction of closing conditions, including approval by shareholders of both companies. Until all conditions, including regulatory approvals are provided, First Horizon and IberiaBank will continue to be separate, independent companies and until transaction closing, both companies will operate as they do today.

CONCLUDING STATEMENT

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

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

The Order authorizing the issuance of the Bonds will also approve the form and content of this Offering Memorandum and any addenda, supplement or amendment thereto and will authorize its further use in the re-offering of the Bonds by the Purchaser.

This Offering Memorandum will be approved by the Board in the Order for distribution in accordance with the provisions of the SEC's rule codified at 17 C.F.R. Section 240.15c2-12, as amended.

/s/

President, Board of Trustees

ATTEST:

/s/

Secretary, Board of Trustees

APPENDIX A
FINANCIAL INFORMATION OF THE DISTRICT

PLAINVIEW INDEPENDENT SCHOOL DISTRICT

Financial Information

ASSESSED VALUATION ^{(1) (2)}

2019/20 Total Valuation.....		\$ 1,731,023,103
Less Exemptions & Deductions ⁽³⁾ :		
State Homestead Exemption	\$ 111,997,638	
State Over-65 Exemption	16,924,922	
Disabled Exemption	3,641,099	
Veterans Exemption	875,871	
Disabled Veteran Exemption	128,916	
Pollution Control Exemption Loss	4,171,910	
Productivity Loss	237,533,344	
Homestead Cap Loss	492,775	
	<u>\$ 375,766,475</u>	
2019/20 Net Taxable Valuation		\$ 1,355,256,628

(1) Certified Values from the Hale and Floyd County Appraisal Districts as of July 2019.
(2) The passage of a Texas Constitutional Amendment on November 3, 2015 increased the homestead exemption from \$15,000 to \$25,000.
(3) Excludes the values on which property taxes are frozen for persons 65 years of age or older and disabled taxpayers, which totaled \$37,621,197 for 2018/19.

VOTED GENERAL OBLIGATION DEBT

Unlimited Tax Bonds Outstanding		\$ -
Plus: The Fixed Rate Series 2020A Bonds ⁽¹⁾		61,260,000
Plus: The Adjustable Rate Series 2020B Bonds ⁽¹⁾		<u>15,000,000</u>
Total Unlimited Tax Bonds ⁽¹⁾		76,260,000
Less: Interest & Sinking Fund Balance (As of August 31, 2019) ⁽²⁾		<u>-</u>
Net General Obligation Debt		\$ 76,260,000
Ratio of Net G.O. Debt to Net Taxable Valuation ⁽³⁾	5.63%	
2019 Population Estimate ⁽⁴⁾	25,022	
Per Capita Net Taxable Valuation	\$54,163	
Per Capita Net G.O. Debt	\$3,048	

(1) Preliminary, subject to change.
(2) Source: Plainview ISD estimated ending fund balance.
(3) See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM," "DEBT SERVICE REQUIREMENTS" and the "Audited Financial Report Fiscal Year Ended August 31, 2018" herein for more information relative to the District's long-term obligations other than unlimited tax bonds.
(4) Source: Municipal Advisory Council of Texas.

PROPERTY TAX RATES AND COLLECTIONS

Fiscal Year	Net		% Collections ⁽⁴⁾	
	Taxable Valuation	Tax Rate	Current ⁽⁵⁾	Total ⁽⁵⁾
2006/07	\$ 999,682,181 ⁽¹⁾	\$ 1.5000 ⁽⁶⁾	98.05%	99.97%
2007/08	1,017,755,675 ⁽¹⁾	1.0400 ⁽⁶⁾	98.20%	100.40%
2008/09	1,158,207,140 ⁽¹⁾	1.0400	87.44%	89.59%
2009/10	1,117,258,367 ⁽¹⁾	1.0400	97.90%	103.67%
2010/11	1,167,484,479 ⁽¹⁾	1.0400	98.27%	102.90%
2011/12	1,256,212,630 ⁽¹⁾	1.0400	98.37%	103.07%
2012/13	1,310,076,035 ⁽¹⁾	1.0400	98.40%	101.39%
2013/14	1,258,739,713 ⁽¹⁾	1.0400	98.30%	100.24%
2014/15	1,221,009,266 ⁽¹⁾	1.0400	98.86%	100.42%
2015/16	1,214,225,180 ^{(1) (3)}	1.0400	98.57%	100.13%
2016/17	1,355,005,722 ^{(1) (3)}	1.1700	98.52%	99.74%
2017/18	1,288,445,428 ^{(1) (3)}	1.1700	98.03%	99.31%
2018/19	1,360,082,334 ^{(1) (3)}	1.1700	98.00% ⁽⁸⁾	98.00% ⁽⁸⁾
2019/20	1,355,256,628 ^{(2) (3)}	1.0684 ⁽⁷⁾	(In Process of Collection)	

(1) Source: Comptroller of Public Accounts - Property Tax Division. See the Assessed Valuation section in this Appendix for additional information.
(2) Certified Values from the Hale and Floyd County Appraisal Districts as of July 2019.
(3) The passage of a Texas Constitutional Amendment on November 3, 2015 increased the homestead exemption from \$15,000 to \$25,000.
(4) Source: Plainview ISD Audited Financial Statements.
(5) Excludes penalties and interest.
(6) The decline in the District's Maintenance & Operation Tax from the 2006/07 fiscal year to the 2007/08 fiscal year is a function of House Bill 1 adopted by the Texas Legislature in May 2006. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" herein.
(7) The decline in the District's Maintenance & Operation Tax from the 2018/19 fiscal year to the 2019/20 fiscal year is a function of House Bill 3 adopted by the Texas Legislature in June 2019. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM"- Local Funding for School Districts" herein.
(8) Source: Plainview ISD estimate.

TAX RATE DISTRIBUTION

	2015/16	2016/17 ⁽¹⁾	2017/18	2018/19	2019/20 ⁽²⁾
Maintenance & Operations	\$1.0400	\$1.1700	\$1.1700	\$1.1700	\$1.0684
Debt Service	\$0.0000	\$0.0000	\$0.0000	\$0.0000	\$0.0000
Total Tax Rate	\$1.0400	\$1.1700	\$1.1700	\$1.1700	\$1.0684

(1) On October 6, 2016, the District successfully held a tax ratification election at which the voters of the District approved a maintenance and operations tax not to exceed \$1.17.

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

VALUATION AND FUNDED DEBT HISTORY

Fiscal Year	Net Taxable Valuation	Bond Debt Outstanding ⁽¹⁾	Ratio Debt to A.V. ⁽²⁾
2006/07	\$ 999,682,181	\$ -	0.00%
2007/08	1,017,755,675	-	0.00%
2008/09	1,158,207,140	-	0.00%
2009/10	1,117,258,367	-	0.00%
2010/11	1,167,484,479	-	0.00%
2011/12	1,256,212,630	-	0.00%
2012/13	1,310,076,035	-	0.00%
2013/14	1,258,739,713	-	0.00%
2014/15	1,221,009,266	-	0.00%
2015/16	1,214,225,180	-	0.00%
2016/17	1,355,005,722	-	0.00%
2017/18	1,288,445,428	-	0.00%
2018/19	1,360,082,334	-	0.00%
2019/20	1,355,256,628 ⁽³⁾	76,620,000 ⁽⁴⁾	5.65%

(1) At fiscal year end.

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

(3) Certified Values from the Hale and Floyd County Appraisal Districts as of July 2019.

(4) Includes the Fixed Rate Series 2020A Bonds and Adjustable Rate Series 2020B Bonds.

ESTIMATED OVERLAPPING DEBT STATEMENT

Taxing Body	Amount	Percent Overlapping	Amount Overlapping
Floyd Co	\$ -	0.57%	\$ -
Hale Co	1,675,000	61.20%	1,025,100
Plainview, City of	24,300,000	100.00%	24,300,000
Total Overlapping Debt ⁽¹⁾			\$ 25,325,100
Plainview Independent School District ⁽²⁾			76,260,000
Total Direct & Overlapping Debt ⁽²⁾			\$ 101,585,100
 Ratio of Net Direct & Overlapping Debt to Net Taxable Valuation		7.50%	
Per Capita Direct & Overlapping Debt		\$4,060	

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

(2) Includes the Fixed Rate Series 2020A Bonds and Adjustable Rate Series 2020B Bonds.

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

PRINCIPAL TAXPAYERS

2019/20 Top Ten Taxpayers ⁽¹⁾

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Plainview Bioenergy, LLC ⁽²⁾	Manufacturing	\$ 141,919,660	10.47%
Wal-Mart Distribution Center	Wholesale Supplier/Distribution	76,343,270	5.63%
Gruma Corp.	Food Packaging/Processing	69,976,704	5.16%
Higher Power Electrical	Electric Utility/Power Plant	42,010,403	3.10%
BNSF Railway Co.	Railroad	31,230,521	2.30%
Martin Resources Inc.	Oil & Gas	28,628,992	2.11%
West Central Distribution LLC	Distribution	26,759,181	1.97%
Southwestern Public Service Co.	Electric Utility/Power Plant	25,749,796	1.90%
Pioneer Hi-Bred Int. Inc.	Manufacturing	20,227,140	1.49%
Wal-Mart Stores East, LP	Retail Store	13,673,990	1.01%
		<u>\$ 476,519,657</u>	<u>35.16%</u>

2018/19 Top Ten Taxpayers ⁽³⁾

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Plainview Bioenergy, LLC	Manufacturing	\$ 132,997,580	9.78%
Wal-Mart Distribution Center	Wholesale Supplier/Distribution	85,321,910	6.27%
NextEra Energy Constructors	Wind Farm/Turbines	77,518,550	5.70%
Gruma Corp.	Food Packaging/Processing	62,362,702	4.59%
BNSF Railway Co.	Railroad	29,999,476	2.21%
Pioneer Hi-Bred Int. Inc.	Manufacturing	24,668,545	1.81%
Southwestern Public Service Co.	Electric Utility/Power Plant	24,597,416	1.81%
Martin Resources Inc.	Oil & Gas	18,871,553	1.39%
Wal-Mart Stores East, LP	Retail Store	13,556,230	1.00%
Higher Power Electrical	Electric Utility/Power Plant	10,921,316	0.80%
		<u>\$ 480,815,278</u>	<u>35.35%</u>

2017/18 Top Ten Taxpayers ⁽³⁾

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Wal-Mart Distribution Center	Wholesale Supplier/Distribution	\$ 91,105,430	7.07%
Gruma Corp.	Food Packaging/Processing	63,545,166	4.93%
Plainview Bioenergy, LLC	Manufacturing	45,605,220	3.54%
Pioneer Hi-Bred Int. Inc.	Manufacturing	31,704,100	2.46%
BNSF Railway Co.	Railroad	26,526,826	2.06%
Wal-Mart Stores East, LP	Retail Store	26,135,030	2.03%
Southwestern Public Service Co.	Electric Utility/Power Plant	23,814,186	1.85%
Martin Resources Inc.	Oil & Gas	19,630,193	1.52%
General Electric Co.	Electric Utility/Power Plant	15,998,970	1.24%
Cargill Inc.	Meat Products	11,811,809	0.92%
		<u>\$ 355,876,930</u>	<u>27.62%</u>

(1) Source: Hale and Floyd County Appraisal Districts.

(2) Plainview Bioenergy, LLC has filed a protest of its taxable values. According to the District, the result of the protest will not negatively impact the District.

(3) Source: Comptroller of Public Accounts - Property Tax Division, and Hale and Floyd County Appraisal Districts.

Note: As shown in the tables above, the top ten taxpayers in the District currently account for approximately 35.16% of the District's tax base. Adverse developments in economic conditions, or to a large taxpayer (such as Plainview Bioenergy, whose assets comprise 10.47% of the District's total assessed valuation), could adversely impact the businesses that own properties in the District, and the tax values in the District, resulting in less local tax revenue.

CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY

<u>Category</u>	<u>2019/20</u> ⁽¹⁾	<u>% of Total</u>	<u>2018/19</u> ⁽²⁾	<u>% of Total</u>	<u>2017/18</u> ⁽²⁾	<u>% of Total</u>
Real, Residential, Single-Family	\$ 525,687,748	30.37%	\$ 516,871,428	30.34%	\$ 509,143,857	30.84%
Real, Residential, Multi-Family	25,709,511	1.49%	24,958,792	1.46%	24,712,510	1.50%
Real, Vacant Lots/Tracts	7,724,749	0.45%	8,198,950	0.48%	8,735,701	0.53%
Real, Acreage	305,617,289	17.66%	264,343,657	15.52%	270,703,802	16.40%
Real, Farm & Ranch Improvements	68,989,040	3.99%	72,360,034	4.25%	69,664,124	4.22%
Real, Commercial & Industrial	191,551,723	11.07%	190,651,375	11.19%	208,394,673	12.62%
Oil & Gas	-	0.00%	-	0.00%	-	0.00%
Utilities	87,578,077	5.06%	82,294,687	4.83%	78,057,707	4.73%
Tangible Personal, Commercial	172,321,697	9.95%	108,030,427	6.34%	104,942,690	6.36%
Tangible Personal, Industrial	334,165,916	19.30%	421,000,563	24.71%	362,993,581	21.99%
Tangible Personal, Mobile Homes & Other	1,228,522	0.07%	1,322,460	0.08%	1,334,876	0.08%
Tangible Personal, Special Inventory	10,448,831	0.60%	13,679,878	0.80%	12,355,113	0.75%
Total Appraised Value	\$ 1,731,023,103	100.00%	\$ 1,703,712,251	100.00%	\$ 1,651,038,634	100.00%
Less:						
Homestead Cap Adjustment	\$ 492,775		\$ 508,098		\$ 544,384	
Productivity Loss	237,533,344		206,131,719		225,703,175	
Exemptions	137,740,356 ⁽³⁾		136,990,100 ⁽³⁾		136,345,647 ⁽³⁾	
Total Exemptions/Deductions ⁽⁴⁾	<u>\$ 375,766,475</u>		<u>\$ 343,629,917</u>		<u>\$ 362,593,206</u>	
Net Taxable Assessed Valuation	\$ 1,355,256,628		\$ 1,360,082,334		\$ 1,288,445,428	

<u>Category</u>	<u>2016/17</u> ⁽²⁾	<u>% of Total</u>	<u>2015/16</u> ⁽²⁾	<u>% of Total</u>	<u>2014/15</u> ⁽²⁾	<u>% of Total</u>
Real, Residential, Single-Family	\$ 500,818,467	29.47%	\$ 488,817,827	31.57%	\$ 487,768,468	33.65%
Real, Residential, Multi-Family	24,697,547	1.45%	21,542,553	1.39%	20,335,861	1.40%
Real, Vacant Lots/Tracts	7,772,623	0.46%	7,784,114	0.50%	5,769,036	0.40%
Real, Acreage	270,693,868	15.93%	267,054,513	17.25%	229,430,927	15.83%
Real, Farm & Ranch Improvements	71,572,326	4.21%	72,408,078	4.68%	66,965,042	4.62%
Real, Commercial & Industrial	194,209,248	11.43%	188,061,119	12.15%	174,526,872	12.04%
Oil & Gas	-	0.00%	500	0.00%	500	0.00%
Utilities	76,023,207	4.47%	71,193,364	4.60%	66,666,494	4.60%
Tangible Personal, Commercial	96,606,304	5.68%	90,171,107	5.82%	100,769,505	6.95%
Tangible Personal, Industrial	443,284,017	26.08%	331,054,439	21.38%	287,115,035	19.81%
Tangible Personal, Mobile Homes & Other	1,437,700	0.08%	1,521,902	0.10%	1,691,114	0.12%
Tangible Personal, Special Inventory	12,393,959	0.73%	8,538,686	0.55%	8,543,951	0.59%
Total Appraised Value	\$ 1,699,509,266	100.00%	\$ 1,548,148,202	100.00%	\$ 1,449,582,805	100.00%
Less:						
Homestead Cap Adjustment	\$ 685,581		\$ 535,326		\$ 583,702	
Productivity Loss	207,499,312		197,280,966		132,264,580	
Exemptions	136,318,651 ⁽³⁾		136,106,730 ⁽³⁾		95,725,257	
Total Exemptions/Deductions ⁽⁴⁾	<u>\$ 344,503,544</u>		<u>\$ 333,923,022</u>		<u>\$ 228,573,539</u>	
Net Taxable Assessed Valuation	\$ 1,355,005,722		\$ 1,214,225,180		\$ 1,221,009,266	

(1) Certified Values from the Hale and Floyd County Appraisal Districts as of July 2019

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

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

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

PRINCIPAL REPAYMENT SCHEDULE

Fiscal Year Ending 8/31	Outstanding Bonds	Plus:	Plus:	Total ^{(1) (2)}	Bonds Unpaid At Fiscal Year End	Percent of Principal Retired
		The Fixed Rate Series 2020A Bonds ⁽¹⁾	The Adjustable Rate Series 2020B Bonds ^{(1) (2)}			
2020	\$ -	\$ -	\$ -	\$ -	\$ 76,620,000.00	0.00%
2021		735,000.00	-	735,000.00	75,885,000.00	0.96%
2022		1,860,000.00	-	1,860,000.00	74,025,000.00	3.39%
2023		1,965,000.00	-	1,965,000.00	72,060,000.00	5.95%
2024		1,505,000.00	-	1,505,000.00	70,555,000.00	7.92%
2025		1,585,000.00	-	1,585,000.00	68,970,000.00	9.98%
2026		1,675,000.00	-	1,675,000.00	67,295,000.00	12.17%
2027		1,770,000.00	-	1,770,000.00	65,525,000.00	14.48%
2028		1,865,000.00	-	1,865,000.00	63,660,000.00	16.91%
2029		1,970,000.00	-	1,970,000.00	61,690,000.00	19.49%
2030		2,060,000.00	-	2,060,000.00	59,630,000.00	22.17%
2031		2,135,000.00	-	2,135,000.00	57,495,000.00	24.96%
2032		2,210,000.00	-	2,210,000.00	55,285,000.00	27.85%
2033		2,285,000.00	-	2,285,000.00	53,000,000.00	30.83%
2034		2,365,000.00	-	2,365,000.00	50,635,000.00	33.91%
2035		2,445,000.00	-	2,445,000.00	48,190,000.00	37.11%
2036		2,530,000.00	-	2,530,000.00	45,660,000.00	40.41%
2037		2,620,000.00	-	2,620,000.00	43,040,000.00	43.83%
2038		2,710,000.00	-	2,710,000.00	40,330,000.00	47.36%
2039		2,805,000.00	-	2,805,000.00	37,525,000.00	51.02%
2040		2,900,000.00	-	2,900,000.00	34,625,000.00	54.81%
2041		3,000,000.00	-	3,000,000.00	31,625,000.00	58.72%
2042		3,105,000.00	-	3,105,000.00	28,520,000.00	62.78%
2043		3,210,000.00	-	3,210,000.00	25,310,000.00	66.97%
2044		3,325,000.00	-	3,325,000.00	21,985,000.00	71.31%
2045		3,435,000.00	-	3,435,000.00	18,550,000.00	75.79%
2046		3,550,000.00	-	3,550,000.00	15,000,000.00	80.42%
2047			3,365,000.00	3,365,000.00	11,635,000.00	84.81%
2048			3,610,000.00	3,610,000.00	8,025,000.00	89.53%
2049			3,875,000.00	3,875,000.00	4,150,000.00	94.58%
2050			4,150,000.00	4,150,000.00	-	100.00%
Total	<u>\$ -</u>	<u>\$ 61,620,000.00</u>	<u>\$ 15,000,000.00</u>	<u>\$ 76,620,000.00</u>		

(1) Preliminary, subject to change.

(2) Principal payments in years 2047 through 2050 represents mandatory sinking fund payments for a term bond maturing on February 15, 2050.

OTHER OBLIGATIONS

Fiscal Year Ending 8/31	Maintenance Tax Notes, Series 2006		
	Principal	Interest	Total
2020	<u>\$ 173,133.00</u>	<u>\$ 4,414.89</u>	<u>\$ 177,547.89</u>
Total	<u>\$ 173,133.00</u>	<u>\$ 4,414.89</u>	<u>\$ 177,547.89</u>

DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 8/31	Outstanding Debt Service	Plus: The Fixed Rate Series 2020A Bonds ⁽¹⁾			Plus: The Adjustable Rate Series 2020B Bonds ^{(1) (2)}			Combined Total ^{(1) (2) (3)}
		Principal	Interest	Total	Principal	Interest	Total	
2020	\$ -	\$ -	\$ 1,293,812.94	\$ 1,293,812.94	\$ -	\$ 194,891.67	\$ 194,891.67	\$ 1,488,704.61
2021		735,000.00	2,381,045.00	3,116,045.00	-	385,500.00	385,500.00	3,501,545.00
2022		1,860,000.00	2,310,980.00	4,170,980.00	-	385,500.00	385,500.00	4,556,480.00
2023		1,965,000.00	2,207,705.00	4,172,705.00	-	385,500.00	385,500.00	4,558,205.00
2024		1,505,000.00	2,114,015.00	3,619,015.00	-	1,050,000.00	1,050,000.00	4,669,015.00
2025		1,585,000.00	2,030,585.00	3,615,585.00	-	1,050,000.00	1,050,000.00	4,665,585.00
2026		1,675,000.00	1,942,565.00	3,617,565.00	-	1,050,000.00	1,050,000.00	4,667,565.00
2027		1,770,000.00	1,849,550.00	3,619,550.00	-	1,050,000.00	1,050,000.00	4,669,550.00
2028		1,865,000.00	1,751,405.00	3,616,405.00	-	1,050,000.00	1,050,000.00	4,666,405.00
2029		1,970,000.00	1,647,860.00	3,617,860.00	-	1,050,000.00	1,050,000.00	4,667,860.00
2030		2,060,000.00	1,556,045.00	3,616,045.00	-	1,050,000.00	1,050,000.00	4,666,045.00
2031		2,135,000.00	1,481,125.00	3,616,125.00	-	1,050,000.00	1,050,000.00	4,666,125.00
2032		2,210,000.00	1,407,260.00	3,617,260.00	-	1,050,000.00	1,050,000.00	4,667,260.00
2033		2,285,000.00	1,330,845.00	3,615,845.00	-	1,050,000.00	1,050,000.00	4,665,845.00
2034		2,365,000.00	1,251,795.00	3,616,795.00	-	1,050,000.00	1,050,000.00	4,666,795.00
2035		2,445,000.00	1,170,025.00	3,615,025.00	-	1,050,000.00	1,050,000.00	4,665,025.00
2036		2,530,000.00	1,085,450.00	3,615,450.00	-	1,050,000.00	1,050,000.00	4,665,450.00
2037		2,620,000.00	997,900.00	3,617,900.00	-	1,050,000.00	1,050,000.00	4,667,900.00
2038		2,710,000.00	907,290.00	3,617,290.00	-	1,050,000.00	1,050,000.00	4,667,290.00
2039		2,805,000.00	813,535.00	3,618,535.00	-	1,050,000.00	1,050,000.00	4,668,535.00
2040		2,900,000.00	716,550.00	3,616,550.00	-	1,050,000.00	1,050,000.00	4,666,550.00
2041		3,000,000.00	616,250.00	3,616,250.00	-	1,050,000.00	1,050,000.00	4,666,250.00
2042		3,105,000.00	512,465.00	3,617,465.00	-	1,050,000.00	1,050,000.00	4,667,465.00
2043		3,210,000.00	405,110.00	3,615,110.00	-	1,050,000.00	1,050,000.00	4,665,110.00
2044		3,325,000.00	294,015.00	3,619,015.00	-	1,050,000.00	1,050,000.00	4,669,015.00
2045		3,435,000.00	179,095.00	3,614,095.00	-	1,050,000.00	1,050,000.00	4,664,095.00
2046		3,550,000.00	60,350.00	3,610,350.00	-	1,050,000.00	1,050,000.00	4,660,350.00
2047					3,365,000.00	932,225.00	4,297,225.00	4,297,225.00
2048					3,610,000.00	688,100.00	4,298,100.00	4,298,100.00
2049					3,875,000.00	426,125.00	4,301,125.00	4,301,125.00
2050					4,150,000.00	145,250.00	4,295,250.00	4,295,250.00
	<u>\$ -</u>	<u>\$ 61,620,000.00</u>	<u>\$ 34,314,627.94</u>	<u>\$ 95,934,627.94</u>	<u>\$ 15,000,000.00</u>	<u>\$ 27,693,091.67</u>	<u>\$ 42,693,091.67</u>	<u>\$ 138,627,719.61</u>

(1) Preliminary, subject to change.

(2) Interest calculated at the Initial Rate (% , preliminary, subject to change) through August 14, 2023, and for purposes of illustration, at the Highest Rate thereafter through stated maturity.

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

TAX ADEQUACY WITH RESPECT TO THE DISTRICT'S BONDS

Projected Maximum Debt Service Requirement ⁽¹⁾	\$ 4,669,550.00
Projected State Financial Assistance Debt Service in 2019/20 ⁽²⁾	-
Projected Net Debt Service Requirement	\$ 4,669,550.00
 \$0.35158 Tax Rate @ 98% Collections Produces	\$ 4,669,550.09
 2019/20 Net Taxable Valuation	\$ 1,355,256,628

(1) Includes the Fixed Rate Series 2020A Bonds and Adjustable Rate Series 2020B Bonds.

(2) The amount of state financial assistance for debt service, if any, may differ substantially each year depending on a variety of factors, including the amount, if any, appropriated for that purpose by the state legislature and a school district's wealth per student. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM."

AUTHORIZED BUT UNISSUED BONDS

Following the issuance of the Fixed Rate Series 2020A Bonds and Adjustable Rate Series 2020B Bonds, the District will not have authorized but unissued unlimited ad valorem tax bonds from the November 5, 2019 bond election or any other bond election, however, the District may incur other financial obligations payable from its collection of taxes and other sources of revenue, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes.

COMPARATIVE STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES ⁽¹⁾

	Fiscal Year Ending August 31				
	2014	2015	2016	2017	2018
Beginning Fund Balance	\$ 15,178,439	\$ 16,405,097	\$ 12,750,572	\$ 14,770,871	\$ 20,916,753
Revenues:					
Local and Intermediate Sources	\$ 12,968,898	\$ 12,387,045	\$ 12,041,529	\$ 15,350,093	\$ 20,435,112
State Sources	26,690,804	28,112,351	30,215,159	32,906,589	31,560,604
Federal Sources & Other	411,978	397,539	665,913	887,555	1,117,489
Total Revenues	\$ 40,071,680	\$ 40,896,935	\$ 42,922,601	\$ 49,144,237	\$ 53,113,205
Expenditures:					
Instruction	\$ 22,749,760	\$ 26,197,046	\$ 24,697,789	\$ 24,815,344	\$ 24,516,700
Instructional Resources & Media Services	414,225	464,766	441,299	523,716	498,676
Curriculum & Instructional Staff Development	228,040	279,526	220,776	175,484	253,771
Instructional Leadership	889,127	1,085,952	1,170,380	1,169,657	1,086,825
School Leadership	2,717,730	3,029,580	2,960,134	3,143,094	3,199,032
Guidance, Counseling & Evaluation Services	1,129,089	1,454,036	1,615,654	1,553,497	1,510,467
Social Work Services	76,034	123,323	84,363	80,592	58,575
Health Services	391,580	536,232	478,206	408,562	442,212
Student (Pupil) Transportation	1,287,019	1,575,335	1,591,377	1,591,833	1,615,151
Cocurricular/Extracurricular Activities	1,637,559	1,937,616	1,918,908	1,816,474	2,977,328
General Administration	1,518,656	1,629,185	1,713,039	1,764,975	1,739,710
Facilities Maintenance and Operations	4,282,974	4,526,230	4,456,255	4,429,860	5,005,324
Security and Monitoring Services	114,909	151,580	165,821	163,081	167,359
Data Processing Services	808,257	975,699	972,738	972,920	1,020,508
Community Services	3,368	2,798	1,769	2,870	5,082
Debt Service - Principal on Long Term Debt	128,933	135,127	141,789	148,912	156,487
Debt Service - Interest on Long Term Debt	48,615	42,421	35,759	28,936	21,061
Debt Service - Issuance Costs and Fees	300	300	300	-	300
Facilities Acquisition and Construction	104,493	34,666	-	7,500	5,416,970
Payments to Juvenile Justice Alternative Ed. Prg.	38,988	22,089	15,936	16,058	59,069
Other Intergovernmental Charges	154,543	162,930	174,274	184,990	197,943
Total Expenditures	\$ 38,724,199	\$ 44,366,437	\$ 42,856,566	\$ 42,998,355	\$ 49,948,550
Excess (Deficiency) of Revenues over Expenditures	\$ 1,347,481	\$ (3,469,502)	\$ 66,035	\$ 6,145,882	\$ 3,164,655
Other Resources and (Uses):					
Sale of Real and Personal Property	\$ 4,200	\$ -	\$ -	\$ -	\$ -
Other Uses	(125,023)	(185,023)	-	-	-
Transfers In	-	-	2,079,287	-	-
Transfers Out (Use)	-	-	(125,023)	-	-
Total Other Resources (Uses)	\$ (120,823)	\$ (185,023)	\$ 1,954,264	\$ -	\$ -
Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	\$ 1,226,658	\$ (3,654,525)	\$ 2,020,299	\$ 6,145,882	\$ 3,164,655
Ending Fund Balance ⁽²⁾	\$ 16,405,097	\$ 12,750,572	\$ 14,770,871	\$ 20,916,753	\$ 24,081,408

(1) See "MANAGEMENT'S DISCUSSION AND ANALYSIS - ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES" in Appendix D hereto for a discussion of the 2018/19 budget and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Possible Effects of Wealth Transfer Provisions on the District's Financial Condition" herein.

(2) Estimated General Fund Balance for the period ending August 31, 2019 is \$27,328,655.

CHANGE IN NET ASSETS ⁽¹⁾

	Fiscal Year Ending August 31				
	2014	2015	2016	2017	2018
Revenues:					
Program Revenues:					
Charges for Services	\$ 1,326,869	\$ 1,103,739	\$ 1,378,615	\$ 1,633,529	\$ 1,710,794
Operating Grants and Contributions	9,328,702	8,624,455	9,350,713	9,153,388	15,892,725
General Revenues:					
Property Taxes Levied for General Purposes	12,380,654	11,677,722	11,623,826	14,425,014	14,666,077
State Aid - Formula Grants	24,860,367	26,237,943	28,172,622	30,759,633	29,393,637
Grants and Contributions Not Restricted	135,336	136,671	132,834	79,989	152,694
Investment Earnings	152,924	155,920	129,889	181,949	358,328
Miscellaneous	-	369,605	122,526	543,450	5,258,359
Special Item - Gain on Asset Sale	4,200	-	-	-	-
Total Revenue	\$ 48,189,052	\$ 48,306,055	\$ 50,911,025	\$ 56,776,952	\$ 67,432,614
Expenses:					
Instruction	\$ 28,487,343	\$ 30,274,915	\$ 30,556,138	\$ 30,168,963	\$ 29,467,763
Instruction Resources & Media Services	494,817	539,157	543,289	596,809	607,738
Curriculum & Staff Development	498,113	495,174	387,118	445,579	480,756
Instructional Leadership	1,123,690	1,312,670	1,482,914	1,437,650	1,299,540
School Leadership	2,781,133	3,004,355	3,157,223	3,217,279	3,479,066
Guidance, Counseling & Evaluation Services	1,183,471	1,653,408	1,936,323	1,910,375	1,797,150
Social Work Services	99,208	85,002	88,201	84,430	67,182
Health Services	499,594	579,647	528,974	572,730	648,727
Student Transportation	1,310,033	1,584,639	1,600,681	1,601,044	1,619,526
Food Service	2,854,642	3,190,476	2,916,542	2,842,091	3,421,628
Cocurricular/Extracurricular Activities	2,088,680	2,409,813	2,452,332	2,298,538	2,434,168
General Administration	1,545,899	1,625,150	1,848,527	1,848,908	1,667,807
Plant Maintenance & Operations	4,406,211	4,599,553	4,629,740	4,501,831	(58,487)
Security and Monitoring Services	120,557	155,169	163,007	162,605	213,522
Data Processing Services	811,254	1,002,201	1,047,785	911,981	1,079,235
Community Services	20,798	37,538	22,506	27,678	68,453
Interest on Long-term Debt	46,380	42,141	35,459	28,626	20,708
Bond Issuance Costs and Fees	300	300	300	-	300
Contracted Instructional Services Between Schools	-	-	-	-	-
Payments to Juvenile Justice Alt. Ed. Program	38,988	22,089	15,936	16,058	59,069
Other Intergovernmental Charges	154,543	162,930	174,274	193,478	5,615,901
Total Expenditures	\$ 48,565,654	\$ 52,776,327	\$ 53,587,269	\$ 52,866,653	\$ 53,989,752
Change in Net Assets	\$ (376,602)	\$ (4,470,272)	\$ (2,676,244)	\$ 3,910,299	\$ 13,442,862
Beginning Net Assets	\$ 50,858,358	\$ 50,481,756	\$ 40,783,326	\$ 38,107,082	\$ 42,017,381
Prior Period Adjustment	\$ -	\$ (5,228,158) ⁽²⁾	\$ -	\$ -	\$ (30,674,886) ⁽³⁾
Ending Net Assets	\$ 50,481,756	\$ 40,783,326	\$ 38,107,082	\$ 42,017,381	\$ 24,785,357

(1) The foregoing information represents government-wide financial information provided in accordance with GASB 34.

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

(3) In 2018, the District adopted GASB Statement No. 75 which required the District to assume their proportionate share of the net OPEB liability of the Texas Public School Retired Employees Group Insurance Program administered by the Teacher Retirement System of Texas.

APPENDIX B

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

PLAINVIEW INDEPENDENT SCHOOL DISTRICT

General and Economic Information

Plainview Independent School District (the "District") includes the City of Plainview, the county seat located on Interstate Highway 27. Hale County is a north Texas county, traversed by Interstate Highway 27, U.S. Highway 70, State Highway 194, and nine farm-to-market roads. The current estimated population of the District is approximately 25,022.

Source: *Texas Municipal Report for Plainview ISD and Hale County.*

Enrollment Statistics

<u>Year Ending 8/31</u>	<u>Enrollment</u>
2009	5,660
2010	5,702
2011	5,743
2012	5,694
2013	5,521
2014	5,444
2015	5,529
2016	5,580
2017	5,541
2018	5,414
2019	5,337
Current	5,204

District Staff

Teachers	340
Teachers' Aides & Secretaries	157
Auxiliary Personnel	65
Administrators	45
Other (Counselors/Technology)	110
	<u>717</u>

Facilities

<u>Campus</u>	<u>Grades</u>	<u>Current Enrollment</u>	<u>Capacity</u>	<u>Year Built</u>	<u>Year of Addition/ Renovation</u>
College Hill Elementary	EE-5	346	572	1953	1987/1990
Edgemere Elementary	EE-5	440	616	1964	1987
Highland Elementary	PK-5	395	506	1921	1986
Hillcrest Elementary	PK-5	347	638	1950	1987/2000
La Mesa Elementary	PK-5	506	748	1987	2000
Thunderbird Elementary	PK-5	418	660	1964	1987
Coronado Middle School	6-8	630	680	1980	2010
Estacado Middle School	6-8	632	700	1958	2010
Plainview High School	9-12	1,399	2,040	1950	1999/2010
Ash Program	6-12	74	400	1921	1992

Principal Employers within the District

<u>Name of Company</u>	<u>Type of Business</u>	<u>Number of Employees</u>
Walmart Distribution	Distribution Center	820
Plainview ISD	Public Education	717
Covenant Hospital	Hospital	320
United Supermarket	Grocery Store	280
Azteca Milling Company	Maza Flour	246
City of Plainview	Government	210
Central Plains Center	Behavioral Health Services	190

Unemployment Rates

	October <u>2017</u>	October <u>2018</u>	October <u>2019</u>
Hale County	4.2%	4.5%	4.0%
State of Texas	3.8%	3.5%	3.3%

Source: *Texas Workforce Commission.*

APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

Proposed Form of Opinion of Bond Counsel

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

**PLAINVIEW INDEPENDENT SCHOOL DISTRICT
ADJUSTABLE RATE UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2020B
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$**

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

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

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

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on and assume continuing compliance with, certain representations contained in the federal tax certificate of the Issuer and covenants set forth in the order adopted by the Issuer to authorize the issuance of the Bonds, relating to, among other matters, the use of the project and the investment and expenditure of the proceeds and certain other amounts used to pay or to secure the payment of debt service on the Bonds, and the certificate with respect to arbitrage by the Commissioner of Education regarding the allocation and investment of certain investments in the Permanent School Fund, the accuracy of which we have not independently verified. We call your attention to the fact that if such



representations are determined to be inaccurate or if the Issuer fails to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Bonds, including the amount, accrual or receipt of interest on, the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning 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 (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the Issuer, and, in that capacity, we have been engaged by the Issuer for the sole purpose of rendering our opinions with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Issuer, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the Issuer as to the current outstanding indebtedness of, and assessed valuation of taxable property within the Issuer. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

Respectfully,

APPENDIX D

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



Financial Statements
August 31, 2018

**Plainview Independent School
District**

Plainview Independent School District
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CERTIFICATE OF BOARD

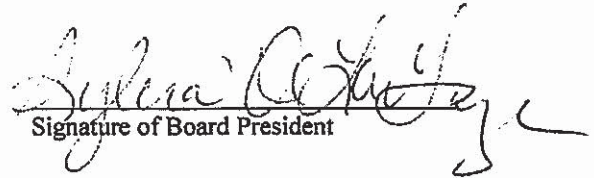
Plainview Independent School District
Name of School District

Hale
County

095905
Co.-Dist. Number

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


Signature of Board Secretary


Signature of Board President



CPAs & BUSINESS ADVISORS

Independent Auditor's Report

The Board of Trustees
Plainview Independent School District
Plainview, Texas

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, 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 conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Notes 4 and 20 to the financial statements, the District has adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which has resulted in a restatement of the net position as of September 1, 2017. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, pension plan schedules and OPEB plan schedules on pages 5 through 11 and 49 through 55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods or 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 financial statements. The combining nonmajor fund financial statements and the TEA required schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated January 11, 2019 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, 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.

Eide Sully LLP

Plainview, Texas
January 11, 2019

Introduction

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

Financial Highlights

- At August 31, 2018, the District's assets and deferred outflows of resources exceeded its liabilities and deferred outflows by \$24,785,357. Unrestricted net position reflects a deficit of \$6,556,396 created by a prior period adjustment resulting from the implementation of GASB 75 in the current fiscal year for OPEB. Although the District reports a deficit, the deficit is primarily due to reporting the District's proportionate share of the net OPEB liability. The total district liability is reported in the 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.
- At August 31, 2018, the District's general fund had total assets of \$27,568,173 for a net change in fund balance of \$3,164,655 and a total fund balance of \$24,081,408.
- Total general fund expenditures for the year ending August 31, 2018 were \$49,948,550 as compared to \$42,998,355 for the previous year that ended August 31, 2017.

Overview of the Financial Statements

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District as a whole, and then proceed to provide an increasingly detailed look at specific financial activities.

Government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 12 and 13). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 14) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside the District.

The notes to the financial statements (starting on page 22) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

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

Reporting the District as a Whole

Government-Wide Financial Statements

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

The two government-wide statements report the District's net position and how it has changed. Net position—the difference between the District's assets and deferred outflows of resources and liabilities—is one way to measure the District's financial health or position.

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

In fiscal year 2018, the District adopted the Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions – which superseded GASB Statement No. 45. Statement No. 75 establishes financial reporting standards and/or accounting standards for state and local government defined other postemployment benefit (OPEB) plans and defined contribution OPEB plans. Statement No. 75 requires that, at transition, a government recognizes a beginning deferred outflow of resources for its OPEB contributions, if any, made subsequent to the measurement date of the beginning net OPEB liability. The effects of the adoption of this statement has no impact on the District's governmental fund financial statements. However, adoption has resulted in certain changes to the presentation of the District's government-wide financial statements. More information on the adoption of this statement and the District's OPEB plan is available in Note 12 and 20.

Governmental activities—The District's basic services are reported here, including instruction, counseling, co-curricular activities, food services, transportation, maintenance, and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds—not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and by bond covenants. The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants. The District has three kinds of funds:

Governmental funds—Most of the District's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between Governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

Proprietary funds—The District reports the activities for which it charges users (other units of the District) in proprietary funds using the same accounting methods employed in the Statement of Net Position and the Statement of Activities. The internal service fund reports activities that provide insurance programs for the District's other programs and activities.

Fiduciary funds—The District is the trustee, or fiduciary, for money raised by student activities programs. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The District implemented GASB Statement No. 34 during the fiscal year ended August 31, 2002. Net position measurements for prior years are presented as required by generally accepted accounting principles. Our analysis of comparative balances and changes therein is limited to two year's operations. We present both current and prior year data and discuss significant changes in the accounts. Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental activities.

Net position of the District's governmental activities decreased from \$42.017 million to \$24.785 million. The decrease in net position is mainly due to reporting the District's proportionate share of the net OPEB liability.

Table I
NET POSITION
in thousands

	Governmental Activities	
	2018	2017
Current and other assets	\$ 29,987	\$ 26,939
Capital assets	30,165	25,339
Total assets	60,152	52,278
Deferred outflows of resources	3,679	4,749
Long-term liabilities	26,304	11,100
Other liabilities	3,507	3,116
Total liabilities	29,811	14,216
Deferred inflows of resources	9,235	794
Net position		
Net investment in capital assets	29,827	24,844
Restricted for federal and state programs	1,514	1,842
Unrestricted	(6,556)	15,331
Total net position	\$ 24,785	\$ 42,017

Table II
CHANGES IN NET POSITION
in thousands

	Governmental Activities	
	2018	2017
Revenues		
Program revenues		
Charges for services	\$ 1,711	\$ 1,633
Operating grants and contributions	15,893	9,153
General revenues		
Maintenance and operations taxes	14,666	14,425
State aid - formula grants	29,394	30,760
Grants & contributions not restricted	153	80
Investment earnings	358	182
Other revenues	5,258	544
	67,433	56,777
Expenses		
Instruction, curriculum and media services	30,556	30,764
Instructional and school leadership	4,779	5,101
Student support services	4,133	4,169
Child nutrition	3,422	2,842
Co-curricular activities	2,434	2,299
General administration	1,668	1,849
Plant maintenance, security, data processing and facilities	1,234	5,576
Community services	68	28
Debt services	21	29
JJAEP payments and other intergovernmental charges	5,675	210
	53,990	52,867
Change in net position before transfers and special items	13,443	3,910
Beginning net position	42,017	38,107
Prior period adjustment	(30,675)	-
Ending net position	\$ 24,785	\$ 42,017

The District's total revenues increased from \$56.777 million in fiscal year 2017 to \$67.433 million in fiscal year 2018, an increase of 18.7 percent. The District's total expenditures increased from \$52.867 million in the preceding year to the current level of \$53.990 million for the year ending August 31, 2018, which reflects an increase of 2.12 percent. The District's revenues exceeded the expenditures by about \$13.443 million.

The District's Funds

Fund Balances

As the District completed the year, its governmental funds (as presented in the balance sheet on page 14) reported a combined fund balance of \$25.781 million, which is higher than last year's total of \$22.934 million.

- General Fund (unassigned) - The balance of the unassigned general fund balance increased from \$19.092 million to \$22.430 million during the 2018 fiscal year.
- General Fund (assigned) - The assigned general fund balance of \$1.500 million for anticipated technology infrastructure and facility upgrades did not change during the 2018 fiscal year.
- Worker's Compensation Insurance and Unemployment Compensation- Reserves for worker's compensation insurance and unemployment compensation are designated to fund future premium payments for worker's compensation insurance coverage provided by TASB Risk Management Fund.

General Fund Budgetary Highlights

Over the course of the year, the District revised its budget to reflect activities in the District. With these adjustments, actual expenditures were \$3,324,796 below the final budgeted amount. The positive variance was an overall saving of approximately 6.2% in the budget.

Resources available were \$8,485,003 above the final budgeted amount. The variance was due to insurance proceeds and state funding that reflected different numbers than those used in budgeting.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At August 31, 2018, the District had \$30.165 million (net of depreciation) invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance.

Debt

On July 15, 2005, the District executed \$ 1,910,480 in maintenance tax notes used to fund capital asset acquisitions. The notes bear interest rates varying from 2.9% to 5.1%. Interest payments are payable semi-annually on February 15 and August 15 of each year through 2020. Principal payments are payable annually on February 15 each year and are scheduled to be paid in full in 2020. At August 31, 2018, the remaining balance of the maintenance tax notes was \$338 thousand.

The District implemented GASB Statement No. 75 during fiscal year August 31, 2018 and must assume its proportionate share of the net OPEB liability. The District's net OPEB liability was \$17.494 million at August 31, 2018.

The following presents the District's long-term obligations as of August 31:

	2018	2017 (restated)
Maintenance tax note	\$ 337,688	\$ 494,175
Net pension liability	8,473,162	10,605,333
Net OPEB liability	17,493,579	30,884,031
Total long-term obligations	\$ 26,304,429	\$ 41,983,539

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's 17-18 budget was purposely very conservative to plan for future years. Several factors were taken into account when adopting the general fund budget for 2018-2019. The budget revenues are \$49.585 million and expenditures are estimated to be \$49.585 million. Amounts available for appropriation in the general fund budget considers all requirements to foresee a successful year for students and staff.

The District has two properties on the market for sale. We are expecting revenues from these sales, but at this time, there are no potential buyers. Plainview High School HVAC system went out in the auditorium and classrooms in the north-east area of the building. The cost is estimated not to exceed \$298,300. The District is also considering employing our own police force. Administration has concluded that incidents in the public schools throughout the United States in recent years demonstrate that there is significant risk of harm to students, employees and stakeholders on campuses and on district property where school related activities are occurring. The District's current budget is adequate to cover these expenses.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office, at Plainview Independent School District, 2417 Yonkers, Plainview, Texas 79072.

Plainview Independent School District
Statement of Net Position (Exhibit A-1)
August 31, 2018

Data Control Codes		Governmental Activities
Assets		
1110	Cash and cash equivalents	\$ 12,757,177
1120	Investments - current	15,220,371
1220	Property taxes receivable (delinquent)	750,844
1230	Allowance for uncollectible taxes	(231,776)
1240	Due from other governments	1,069,326
1290	Other receivables	269,302
1300	Inventories at cost	151,488
Capital assets		
1510	Land	665,266
1520	Buildings and improvements, net	23,474,445
1530	Furniture and equipment, net	626,805
1580	Construction in progress	5,398,273
1000	Total assets	<u>60,151,521</u>
Deferred outflows of resources		
1705	Deferred outflows - pension	3,399,926
1706	Deferred outflows - OPEB	279,308
1700	Total deferred outflows of resources	<u>3,679,234</u>
Liabilities		
2110	Accounts payable	565,095
2140	Interest payable	749
2150	Payroll deductions and withholdings	41,143
2160	Accrued wages payable	2,583,320
2180	Due to other governments	214,440
2190	Due to student groups	118
2300	Unearned revenues	101,524
Noncurrent liabilities		
2501	Due within one year	164,555
2502	Due in more than one year	173,133
2541	Net pension liability	8,473,162
2545	Net OPEB liability	17,493,579
2000	Total liabilities	<u>29,810,818</u>
Deferred inflows of resources		
2605	Deferred inflows - pension	1,916,982
2606	Deferred inflows - OPEB	7,317,598
2600	Total deferred inflows of resources	<u>9,234,580</u>
Net position		
3200	Net investment in capital assets	29,827,101
3820	Restricted for federal and state programs	1,514,652
3900	Unrestricted net position	(6,556,396)
3000	Total net position	<u>\$ 24,785,357</u>

See Notes to Financial Statements

Data Control Codes	Functions/Programs	Program Revenues		
		1 Expenses	3 Charges for Services	4 Operating Grants and Contributions
	Governmental Activities			
11	Instruction	\$ 29,467,763	\$ 1,028,521	\$ 9,015,495
12	Instructional resources and media services	607,738	-	124,590
13	Curriculum and instructional staff development	480,756	-	259,206
21	Instructional leadership	1,299,540	-	522,012
23	School leadership	3,479,066	-	881,570
31	Guidance, counseling, and evaluation services	1,797,150	-	701,375
32	Social work services	67,182	-	14,162
33	Health services	648,727	-	122,848
34	Student transportation	1,619,526	-	-
35	Food services	3,421,628	296,465	2,718,121
36	Extracurricular activities	2,434,168	382,422	215,815
41	General administration	1,667,807	-	317,330
51	Facilities maintenance and operations	(58,487)	3,386	748,061
52	Security and monitoring services	213,522	-	2,785
53	Data processing services	1,079,235	-	183,664
61	Community services	68,453	-	65,691
72	Debt service - interest on long-term debt	20,708	-	-
73	Debt service - bond issuance costs and fees	300	-	-
95	Payments to juvenile justice alternative ed.prg.	59,069	-	-
99	Other intergovernmental charges	5,615,901	-	-
TP	Total primary government	<u>\$ 53,989,752</u>	<u>\$ 1,710,794</u>	<u>\$ 15,892,725</u>
	General revenues			
	Taxes			
MT	Property taxes, levied for general purposes			
SF	State aid - formula grants			
GC	Grants and contributions not restricted			
IE	Investment earnings			
MI	Miscellaneous earnings			
TR	Total general revenues			
CN	Change in net position			
NB	Net position, beginning			
PA	Prior period adjustment			
	Beginning net position, as restated			
NE	Net position, ending			

See Notes to Financial Statements

Plainview Independent School District
Statement of Activities (Exhibit B-1)
Year Ended August 31, 2018

		Net (Expense) Revenue and Changes in Net Position	
		Primary Government	
5		6	8
Capital Grants		Governmental Activities	Total
\$ -		\$ (19,423,747)	\$ (19,423,747)
-		(483,148)	(483,148)
-		(221,550)	(221,550)
-		(777,528)	(777,528)
-		(2,597,496)	(2,597,496)
-		(1,095,775)	(1,095,775)
-		(53,020)	(53,020)
-		(525,879)	(525,879)
-		(1,619,526)	(1,619,526)
-		(407,042)	(407,042)
-		(1,835,931)	(1,835,931)
-		(1,350,477)	(1,350,477)
-		809,934	809,934
-		(210,737)	(210,737)
-		(895,571)	(895,571)
-		(2,762)	(2,762)
-		(20,708)	(20,708)
-		(300)	(300)
-		(59,069)	(59,069)
-		(5,615,901)	(5,615,901)
<u>\$ -</u>		<u>(36,386,233)</u>	<u>(36,386,233)</u>
		14,666,077	14,666,077
		29,393,637	29,393,637
		152,694	152,694
		358,328	358,328
		<u>5,258,359</u>	<u>5,258,359</u>
		<u>49,829,095</u>	<u>49,829,095</u>
		13,442,862	13,442,862
		42,017,381	42,017,381
		<u>(30,674,886)</u>	<u>(30,674,886)</u>
		<u>11,342,495</u>	<u>11,342,495</u>
		<u>\$ 24,785,357</u>	<u>\$ 24,785,357</u>

Plainview Independent School District
Balance Sheet – Governmental Funds (Exhibit C-1)
August 31, 2018

Data Control Codes	10 General Fund	Other Funds	98 Total Governmental Funds	
Assets				
1110	Cash and cash equivalents	\$ 10,780,843	\$ 1,650,457	\$ 12,431,300
1120	Investments - current	15,220,371	-	15,220,371
1220	Property taxes - delinquent	750,844	-	750,844
1230	Allowance for uncollectible taxes (credit)	(231,776)	-	(231,776)
1240	Receivables from other governments	-	1,069,326	1,069,326
1260	Due from other funds	627,101	-	627,101
1290	Other receivables	269,302	-	269,302
1300	Inventory	151,488	-	151,488
1000	Total assets	27,568,173	2,719,783	30,287,956
Deferred outflows of resources				
1700	Deferred outflows	-	-	-
1000a	Total assets and deferred outflows	\$ 27,568,173	\$ 2,719,783	\$ 30,287,956
Liabilities				
2110	Accounts payable	\$ 482,308	\$ 82,787	\$ 565,095
2150	Payroll deductions and withholdings	41,143	-	41,143
2160	Accrued wages payable	2,374,265	209,055	2,583,320
2170	Due to other funds	-	627,101	627,101
2180	Due to other governments	214,440	-	214,440
2190	Due to student groups	-	118	118
2300	Unearned revenues	-	101,524	101,524
2000	Total liabilities	3,112,156	1,020,585	4,132,741
Deferred inflows of resources				
	Unavailable revenue - property taxes	374,609	-	374,609
2600	Total deferred inflows of resources	374,609	-	374,609
Fund balance				
3410	Nonspendable - inventory	151,488	-	151,488
3450	Restricted - federal or state funds	-	1,514,652	1,514,652
3570	Assigned - capital expenditures for equipment	1,500,000	-	1,500,000
3590	Assigned - other	-	184,546	184,546
3600	Unassigned fund balance	22,429,920	-	22,429,920
3000	Total fund balances	24,081,408	1,699,198	25,780,606
4000	Total liabilities, deferred inflows, and fund balances	\$ 27,568,173	\$ 2,719,783	\$ 30,287,956

Plainview Independent School District
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position (Exhibit C-1r)
 August 31, 2018

Total Fund Balances - Governmental Funds \$ 25,780,606

The District uses internal service funds to charge the costs of certain activities, such as printing, 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. 325,877

Capital assets, net of accumulated depreciation are not financial resources and therefore are not reported as assets in governmental funds.

30,164,789

Some liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds:

Maintenance tax note (337,688)

Accrued interest is not due and payable in the current period and therefore is not reported as a liability in the governmental funds.

(749)

Certain assets are not available to pay for current period expenditures and therefore are deferred in the funds. These are:

Deferred resource inflow for property taxes 374,609

The government-wide statements includes the District's proportionate share of the TRS net pension liabilities and TRS-Care net OPEB liabilities, as well as certain pension and OPEB related transactions accounted for as deferred inflows and outflows of resources:

Net pension liability	(8,473,162)	
Deferred outflows of resources - TRS pension	3,399,926	
Deferred inflows of resources - TRS pension	(1,916,982)	
Net OPEB liability	(17,493,579)	
Deferred outflows of resources - OPEB	279,308	
Deferred inflows of resources - OPEB	<u>(7,317,598)</u>	<u>(31,522,087)</u>

Net Position of Governmental Activities (See A-1) \$ 24,785,357

Plainview Independent School District
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds (Exhibit C-2)
Year Ended August 31, 2018

Data Control Codes		10 General Fund	Other Funds	98 Total Governmental Funds
	Revenues			
5700	Total local and intermediate sources	\$ 20,435,112	\$ 596,639	\$ 21,031,751
5800	State program revenues	31,560,604	304,999	31,865,603
5900	Federal program revenues	1,117,489	6,273,019	7,390,508
5020	Total revenues	<u>53,113,205</u>	<u>7,174,657</u>	<u>60,287,862</u>
	Expenditures			
	Current			
0011	Instruction	24,516,700	2,874,377	27,391,077
0012	Instructional resources and media services	498,676	-	498,676
0013	Curriculum and instructional staff development	253,771	217,494	471,265
0021	Instructional leadership	1,086,825	282,808	1,369,633
0023	School leadership	3,199,032	64,751	3,263,783
0031	Guidance, counseling, and evaluation services	1,510,467	325,543	1,836,010
0032	Social work services	58,575	1,158	59,733
0033	Health services	442,212	6,598	448,810
0034	Student (pupil) transportation	1,615,151	-	1,615,151
0035	Food services	-	3,353,742	3,353,742
0036	Extracurricular activities	2,977,328	279,050	3,256,378
0041	General administration	1,739,710	18,695	1,758,405
0051	Facilities maintenance and operations	5,005,324	-	5,005,324
0052	Security and monitoring services	167,359	2,782	170,141
0053	Data processing services	1,020,508	-	1,020,508
0061	Community services	5,082	65,691	70,773
	Debt service			
0071	Principal on long-term debt	156,487	-	156,487
0072	Interest on long-term debt	21,061	-	21,061
	Capital outlay			
0081	Facilities acquisition and construction	5,416,970	-	5,416,970
	Intergovernmental			
0095	Payments to juvenile justice alternative ed.prg.	59,069	-	59,069
0099	Other intergovernmental charges	197,943	-	197,943
6030	Total expenditures	<u>49,948,550</u>	<u>7,492,689</u>	<u>57,441,239</u>
1100	Excess (Deficiency) of revenues over (under) expenditures	<u>3,164,655</u>	<u>(318,032)</u>	<u>2,846,623</u>
1200	Net change in fund balances	3,164,655	(318,032)	2,846,623
0100	Fund balance, September 1 (Beginning)	<u>20,916,753</u>	<u>2,017,230</u>	<u>22,933,983</u>
3000	Fund balance, August 31 (Ending)	<u>\$ 24,081,408</u>	<u>\$ 1,699,198</u>	<u>\$ 25,780,606</u>

Plainview Independent School District

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities (Exhibit C-2r) Year Ended August 31, 2018

Total Net Change in Fund Balances - Governmental Funds	\$ 2,846,623
The District uses internal service funds to charge the costs of certain activities, such as self-insurance, to appropriate functions in other funds. The net loss of internal service funds are reported with governmental activities. The net effect of this consolidation is to decrease net position.	(162,010)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2018 capital outlays of \$6,796,563 and net debt principal payments of \$156,487 is to increase net position.	6,953,050
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.	(1,963,077)
Assets donated to governmental funds by private parties are not recorded in the governmental fund financial statements whereas in the government-wide financial statements are recorded as capital contributions.	32,050
Government-wide financial statements recognize the loss net of the remaining net book value of the disposed assets. This is the net book value that was removed.	(39,348)
Certain expenditures for the pension that are recorded to the fund financial statements must be recorded as deferred outflows of resources. Changes in contributions made after the measurement date caused the change in net position to increase in the amount of \$37,167. The District's share of the unrecognized deferred inflows and outflows for TRS as of the measurement date must be amortized and the District's proportionate shares of the pension expense must be recognized. These cause the change in net position to decrease in the amount of \$377,279. The net effect is a decrease in net position.	(340,112)
Certain expenditures for the pension that are recorded to the fund financial statements must be recorded as deferred outflows of resources. Changes in contributions made after the measurement date caused the change in net position to increase in the amount of \$67,426. The District's share of the unrecognized deferred inflows and outflows for TRS Care as of the measurement date must be amortized and the District's proportionate shares of the OPEB must be recognized. These cause the change in net position to increase in the amount of \$6,075,591. The net effect is a increase in net position.	6,143,017
Interest payable on long-term debt is accrued in the government-wide financial statements, whereas in the fund financial statements, interest expense is reported when due. The current year change in the accrual is a decrease of \$353. The net effect is to increase net position.	353
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting. These include recognizing deferred tax revenue of \$374,609 as revenue, removing the prior year's tax collection of \$402,293, and eliminating interfund transactions.	(27,684)
Change in Net Position of Governmental Activities (See B-1)	<u>\$ 13,442,862</u>

Plainview Independent School District
Statement of Net Position – Proprietary Funds (Exhibit D-1)
August 31, 2018

	<u>Governmental Activities Internal Service Funds</u>
Assets	
Current assets	
Cash and cash equivalents	<u>\$ 325,877</u>
Total assets	<u>325,877</u>
Net Position	
Unrestricted net position	<u>325,877</u>
Total net position	<u><u>\$ 325,877</u></u>

Plainview Independent School District
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds (Exhibit D-2)
Year Ended August 31, 2018

	Governmental Activities
	Internal Service Funds
Operating revenues	
Local and intermediate sources	\$ 1,037
Total operating revenues	1,037
Operating expenses	
Payroll costs	165,119
Total operating expenses	165,119
Operating loss	(164,082)
Nonoperating revenues	
Earnings from temporary deposits and investments	2,072
Total nonoperating revenues	2,072
Change in net position	(162,010)
Total net position - September 1 (Beginning)	487,887
Total net position - August 31 (Ending)	\$ 325,877

Plainview Independent School District
Statement of Cash Flows – Proprietary Funds (Exhibit D-3)
Year Ended August 31, 2018

	Governmental Activities <u>Internal Service Funds</u>
Operating activities	
Cash received from user charges	\$ 1,037
Cash payment for insurance claims	<u>(165,119)</u>
Net cash used for operating activities	<u>(164,082)</u>
Investing activities	
Earnings from temporary deposits and investments	<u>2,072</u>
Net cash used for non-capital financing activities	<u>2,072</u>
Net change in cash and cash equivalents	(162,010)
Cash balances - beginning of the year	<u>487,887</u>
Cash balances - end of the year	<u>\$ 325,877</u>
Reconciliation of Operating loss to net cash used for operating activities	
Operating loss	<u>\$ (164,082)</u>
Net cash used for operating activities	<u>\$ (164,082)</u>

Plainview Independent School District
Statement of Fiduciary Net Position – Fiduciary Funds (Exhibit E-1)
August 31, 2018

	<u>Agency Fund</u>
Assets	
Cash and cash equivalents	\$ 415,767
Total assets	<u>\$ 415,767</u>
Liabilities	
Accounts payable	\$ 2,762
Due to student groups	<u>413,005</u>
Total liabilities	<u>\$ 415,767</u>

Note 1 - Reporting Entity

The Board of Trustees, a seven-member group, has fiscal accountability over all activities related to public elementary and secondary education within the jurisdiction of the Plainview Independent School District (the District). The public elects the members of the Board of Trustees. The trustees as a body corporate have 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 TEA or to the State Board of Education are reserved for the trustees, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the trustees. The District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. There are no component units included within the reporting entity. The financial statements of the District include all activities for which the Board exercises these governance responsibilities.

The District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities.

Note 2 - Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

Note 3 - Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

The Proprietary Fund Types and Fiduciary Funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into net investment in capital assets, restricted net position, and unrestricted net position.

Property taxes and penalties 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 the government receives cash.

The government reports the following major governmental funds:

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

Additionally, the government reports the following fund types:

- The *special revenue funds*, a governmental fund type, accounts for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The District accounts for each federal and state grant in a separate special revenue fund.
- The *internal service fund*, a proprietary fund type, accounts for its self-insurance plan. The general fund is contingently liable for liabilities of this fund. The District's internal service fund is the workers compensation fund.
- *Agency funds*, a fiduciary fund type, accounts for resources held for others in a custodial capacity.

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

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund’s principal ongoing operations. Operating expenses include claims expense. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, and then unrestricted resources, as they are needed.

Note 4 - Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Equity

Deposits and Investments

The District’s cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments are reported at amortized cost.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans).

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental column in the government-wide financial statements. 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 two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

Assets	Years
Buildings and improvements	15-40
Furniture and equipment	5-10

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities.

Deferred Outflows/Inflows of Resources

Deferred outflows/inflows of resources are separate elements of the financial statements. The District has deferred inflows of resources, which arises under the modified accrual basis of accounting, unavailable revenue from property taxes and for its proportionate share of TRS's deferred inflow related to pensions as described in Note 11 and its OPEB liability as described in Note 12. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District has deferred outflows of resources for its proportionate share of TRS's deferred outflow related to pensions as described in Note 11 and for its proportionate share of TRS-Care's deferred outflow related to OPEB as described in Note 12.

Pensions

The fiduciary net position of the 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.

OPEB

The fiduciary net position of the Teacher Retirement System of Texas (TRS) TRS-Care Plan has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources relating 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.

Use of Estimates

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

Implementation of GASB Statement No. 75

As of September 1, 2017, the District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The implementation of this standard replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and requires governments calculate and report the costs and obligations associated with postemployment benefits other than pensions (OPEB) in their basic financial statements. Employers are required to recognize OPEB amounts for all benefits provided through the plan which include the net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expenses. The effect of the implementation of this standard on beginning net position is disclosed in Note 20 and the additional disclosures required by this standard is included in Note 12.

Note 5 - Stewardship, Compliance and Accountability

Budgetary Information

Formal budgetary accounting is employed for all required Governmental Fund Types, as outlined in TEA's Financial Accounting Resource (FAR) module, and is presented on the modified accrual basis of accounting consistent with generally accepted accounting principles. The budget is prepared and controlled at the function level within each organization to which responsibility for controlling operations is assigned.

The official school budget is prepared for adoption for required Governmental Fund Types prior to August 20 of the preceding fiscal year for the subsequent fiscal year beginning September 1. The budget is formally adopted by the Board of Trustees at a public meeting held at least ten days after public notice has been given.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and the Child Nutrition Fund. The remaining special revenue funds adopt project-length budgets that do not correspond to the District's fiscal year.

Note 6 - Fair Value Measurements

Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. Fair value accounting requires characterization of the inputs used to measure fair value into three-level fair value hierarchy as follows:

- Level 1 inputs are based on unadjusted quoted market prices for identical assets or liabilities in an active market the entity has the ability to access.
- Level 2 inputs are observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the entity.
- Level 3 inputs are unobservable inputs that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

There are three general valuation techniques that may be used to measure fair value:

- Market approach – uses prices generated by market transactions involving identical or comparable assets or liabilities.
- Cost approach – uses the amount that currently would be required to replace the service capacity of an asset (replacement cost).
- Income approach – uses valuation techniques to convert future amounts to present amounts based on current market expectations.

Note 7 - Detailed Notes on All Funds

Deposits and Investments

Under Texas state law, the District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the District's agent, bank

approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

The District's investment policies and types of investments are governed by the Public Funds Investment Act (PFIA). The District's management believes that they complied with all significant requirements of the PFIA and the District's investment policies.

Custodial Credit Risk – Deposits

At August 31, 2018, the District's deposits (cash, certificates of deposit and interest bearing savings accounts including temporary investments) were entirely covered by pledged collateral held by the District's agent bank in the District's name or by federal deposit insurance.

Investments

State statutes and Board policy authorize the District to invest in 1) obligations of the U.S. or its agencies and instrumentalities; 2) obligations of the State of Texas or its agencies; 3) other obligations guaranteed by the U.S. or the State of Texas or their agencies and instrumentalities; 4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "A" or its equivalent; 5) guaranteed or secured certificates of deposit issued by state or national banks domiciled in Texas; and 6) fully collateralized repurchase agreements. Temporary investments are reported at cost, which approximates market, and are secured, when necessary, by the FDIC or obligations of items 1-4 above at 102% of the investment's market value.

Concentration of Credit Risk

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

Interest Rate Risk

The District's investment policy states that any internally created pool fund group of the District shall have a maximum dollar weighted maturity of 180 days. The maximum allowable stated maturity of any other individual investment owned by the District shall not exceed one year from the time of purchase. The Board may specifically authorize a longer maturity for a given investment, within legal limits.

The following table presents investments at August 31, 2018.

<u>Investment Type</u>	<u>Amortized Cost</u>	<u>Weighted Average Maturity (Days)*</u>	<u>Rating</u>
Texas Class	\$ 15,220,371	79	AAAm

*To arrive at weighted average maturity, the maturity of floating rate and variable rate securities was deemed to be the final maturity of such securities.

Texas Class

Texas Class is a local government investment pool organized under the authority of the Interlocal Cooperation Act, chapter 791, of the Texas Government Code, and the Public Funds Investment Act, chapter 2256, of the Texas Government Code. Public Trust Advisors LLC (PTA) serves as program administrator and Wells Fargo Bank Texas, N.A. as custodian. Texas Class invests in treasury and agency securities. The pool seeks to preserve principal, maintain the liquidity of the funds, and to maximize yield. Texas Class uses amortized cost rather than market value to report net assets to compute share prices.

Property Tax

In the governmental fund financial statements, property tax revenues are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. 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 January 31 of the year following the October 1 levy date. The assessed value of the property tax roll (net of exemptions), upon which the levy for the August 31, 2017 fiscal year was based, was \$1,249,888,547. Taxes are delinquent if not paid by February 1. Delinquent taxes are subject to both penalty and interest charges plus delinquent collection fees for attorney costs.

Current tax collections for the year ended August 31, 2018 were 98.6% of the year-end adjusted tax levy. Allowances for uncollectible taxes within the General Fund are based on historical experience in collecting taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. As of August 31, 2018, property taxes receivable, net of estimated uncollectible taxes, totaled \$519,068.

The tax rate to finance general governmental services was \$1.17000 per \$100 for the year ended August 31, 2018.

Due from Other Governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2018, are summarized below.

Governmental Activities	State Grants/ Entitlements	Federal Grants	Total
Nonmajor Governmental Funds	\$ -	\$ 1,069,326	\$ 1,069,326
	<u>\$ -</u>	<u>\$ 1,069,326</u>	<u>\$ 1,069,326</u>

Interfund Receivables and Payables

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

	Due From Other Funds	Due To Other Funds
General Fund		
Nonmajor Governmental Funds	\$ 627,101	\$ -
Nonmajor Governmental Funds		
General Fund	-	627,101
Totals	\$ 627,101	\$ 627,101

Interfund receivables and payables were recorded to eliminate cash deficit balances and to record temporary interfund borrowing.

Interfund Transfers

There were no interfund transfers as of August 31, 2018.

Note 8 - Capital Assets

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

Governmental Activities	Balance 9/1/2017	Additions	Deletions	Balance 8/31/2018
Capital assets, not being depreciated				
Land	\$ 665,266	\$ -	\$ -	\$ 665,266
Construction in progress	-	5,398,273	-	5,398,273
Total capital assets, not being depreciated	665,266	5,398,273	-	6,063,539
Capital assets, being depreciated				
Building and improvements	59,902,059	1,197,502	-	61,099,561
Furniture and equipment	4,862,725	232,838	(98,371)	4,997,192
Total capital assets, being depreciated	64,764,784	1,430,340	(98,371)	66,096,753
Less accumulated depreciation for				
Building and improvements	(35,808,391)	(1,816,725)	-	(37,625,116)
Furniture and equipment	(4,283,058)	(146,352)	59,023	(4,370,387)
Total accumulated depreciation	(40,091,449)	(1,963,077)	59,023	(41,995,503)
Total capital assets, being depreciated (net)	24,673,335	(532,737)	(39,348)	24,101,250
Total capital assets (net)	<u>\$ 25,338,601</u>	<u>\$ 4,865,536</u>	<u>\$ (39,348)</u>	<u>\$ 30,164,789</u>

Construction in progress consists of primarily renovations to the administration building and roof repairs on multiple buildings. The estimated cost to completion is \$1,114,763.

Depreciation expense was charged to the District's functions as follows:

Instruction	\$ 1,395,562
Instructional Resources and Media Services	57,523
Social Work Services	3,838
Student Transportation	4,375
Food Service	121,032
Cocurricular/Extracurricular Activities	249,574
General Administration	3,433
Facilities Maintenance and Operations	93,250
Security and Monitoring Services	4,033
Data Processing Services	29,469
Facilities Acquisition and Construction	988
 Total depreciation expense	 <u>\$ 1,963,077</u>

Note 9 - Long-Term Debt

The long-term indebtedness of the District pertains to the Governmental Activities of the District. Expenditures for the debt service requirements of the long-term debt are accounted for in the General Fund.

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

	Interest Rate Payable	Balance 9/1/2017	Debt Issued Additions	Principal Paid Reductions	Balance 8/31/2018	Due Within One Year
Maintenance Tax Notes	4.94%	\$ 494,175	\$ -	\$ (156,487)	\$ 337,688	\$ 164,555
Net Pension Liability	N/A	10,605,333	334,973	(2,467,144)	8,473,162	-
Net OPEB Liability	N/A	30,884,031	2,959	(13,393,411)	17,493,579	-
Total		\$ 11,099,508	\$ 334,973	\$ (2,623,631)	\$ 8,810,850	\$ 164,555

Pension and OPEB liabilities are typically liquidated through contributions to TRS made by the following funds: General Fund, ESEA I- Improving Basic Programs, ESEA I-Education of Migratory Children, IDEA-B Formula, IDEA-B Preschool, Career and Technical, ESEA II-Training and Recruiting, Title IV-B 21st Century Community Learning Centers.

Debt service requirements for the District's long-term debt are as follows:

Year Ended August 31	Principal	Interest	Total Requirements
2019	\$ 164,555	\$ 12,993	\$ 177,548
2020	173,133	4,415	177,548
	\$ 337,688	\$ 17,408	\$ 355,096

Note 10 - Contingencies

The District is not a party to any legal actions that are believed by the administration to have a material effect on the financial condition of the District. Accordingly, no provision for losses has been recorded in the accompanying financial statements for such contingencies.

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

Note 11 - 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 TRS. TRS's defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) as of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension Board of Trustees does not have the authority to establish or amend benefit terms.

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

Pension Plan Fiduciary Net Position

Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at https://www.trs.texas.gov/TRS%20Documents/cafr_2016.pdf; by writing to TRS at 1000 Red River Street, Austin, TX 78701-2698; or by calling (512) 542-6592.

Benefits Provided

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

Contributions

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

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

	Contribution Rates	
	2017	2018
Member	7.70%	7.70%
Non-Employer Contributing Entity (State)	6.80%	6.80%
Employers	6.80%	6.80%
Member Contributions	\$ 2,369,429	\$ 2,368,256
NECE On-Behalf Contributions	2,086,133	1,856,604
Employer Contributions	868,504	905,671

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

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

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

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

- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district or charter school does not contribute to the Federal Old Age, Survivor and Disability Insurance Program (OASDI) 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
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return*	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, including inflation	3.5% to 9.5%
Ad hoc post-employment benefit changes	None

* If a municipal bond rate was to be used, the rate would be 3.42% as of August 2017 (i.e., the weekly rate closest to but not later than the Measurement Date). The source for the rate is the Federal Reserve Statistical Release H.15, citing the Bond Buyer Index of general obligation bonds with 20 years to maturity and an average AA credit rating.

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

Discount Rate

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

Plainview Independent School District
Notes to Financial Statements
August 31, 2018

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

* 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%)
Total TRS net pension liability	\$ 53,902,879,534	\$ 31,974,612,699	\$ 13,715,771,590
District's proportionate share of the net pension liability	\$ 14,284,077	\$ 8,473,162	\$ 3,634,632

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

At August 31, 2018, the District reported a liability of \$8,473,162 for its proportionate share of the TRS's net pension liability measured at August 31, 2017. 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	\$ 8,473,162	
State's proportionate share that is associated with the District	16,277,143	
 Total	 \$ 24,750,305	

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

At August 31, 2017 the employer's proportion of the collective net pension liability was .000264996536 which was a decrease of .000015653 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 date.

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

For the year ended August 31, 2018, the District recognized pension expense of \$1,237,742. Additionally, the District recognized revenue of \$1,659,802 for support provided by the State of Texas.

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	\$ 123,966	\$ 456,946
Changes in actuarial assumptions	385,966	220,957
Difference between projected and actual investment earnings	-	617,505
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	1,984,323	621,574
Contributions paid to TRS subsequent to the measurement date	905,671	-
 Total	 \$ 3,399,926	 \$ 1,916,982

\$905,671 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended August 31, 2019. The other net amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended August 31	Pension Expense Amount
2019	\$ 118,003
2020	658,867
2021	76,448
2022	(101,357)
2023	(105,449)
Thereafter	(69,239)
Total	\$ 577,273

Note 12 - Postemployment Health Benefits

Plan Description

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

OPEB Plan Fiduciary Net Position

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

Benefits Provided

TRS-Care provides a basic health insurance program (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-retirement benefit changes, including automatic COLAs.

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

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

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

**or surviving spouse*

Contributions

Contribution rates for the TRS-Care plan are established 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 changed based on available funding. Funding for TRS-Care is provided by retiree premium contributions and contributions from the state, active employees, and school districts based upon public school district payroll. The TRS Board of Trustees does not have the authority to set or amend contribution rates.

Texas Insurance Code, section 1575.202 establishes the state's contribution rate which is 1.0% of the employee's salary. Section 1575.203 establishes the active employee's rate which is .65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25% or not more than 0.75% of the salary of each active employee of the public. The actual employee 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 on the next page.

	Contribution Rates	
	2017	2018
Member	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.00%	1.25%
Employers	0.55%	0.55%
Federal/private pay Funding remitted by Employers	1.00%	1.25%
Member Contributions		\$ 199,918
NECE On-Behalf Contributions		205,765
Employer Contributions		276,571

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

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

Actuarial Assumptions

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

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 plan actuarial valuation:

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

Additional Actuarial Methods and Assumptions

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.50%
Discount Rate*	3.42%
Aging Factors	Based on plan specific experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Payroll Growth Rate	2.50%
Projected Salary Increases**	3.50% 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 on all retirees. Initial trend rates decrease to an ultimate trend rate of 4.50% over a period of ten years.

Other Information

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

Plainview Independent School District
Notes to Financial Statements
August 31, 2018

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

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

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the 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%)
Total TRS net OPEB liability	\$ 51,324,568,976	\$ 43,486,248,635	\$ 37,186,006,400
District's proportionate share of the net OPEB liability	\$ 20,646,766	\$ 17,493,579	\$ 14,959,128

Healthcare Cost Trend Rate Sensitivity Analysis

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

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Total TRS net OPEB liability	\$ 36,206,646,484	\$ 43,486,248,635	\$ 53,038,004,130
District's proportionate share of the net OPEB liability	\$ 14,565,152	\$ 17,493,579	\$ 21,336,044

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 \$17,493,579 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 pension liability	\$ 17,493,579
State's proportionate share that is associated with the District	23,816,973
Total	\$ 41,310,552

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 employer's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2016 through August 31, 2017.

At August 31, 2017, the District's proportion of the collective Net OPEB Liability was 0.0402278% 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:

1. Significant plan changes were adopted during fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan will exist (instead of three), and all retirees will be required to contribute monthly premiums for coverage. The health plan changes triggered changes to several of the assumptions, including participation rates, retirement rates, and spousal participation rates.
2. The August 31, 2016 valuation had assumed that the savings related to the Medicare Part D reimbursements would phase out by 2022. This assumption was removed for the August 31, 2017 valuation. Although there is uncertainty regarding these federal subsidies, the new assumption better

reflects the current substantive plan. This change was unrelated to the plan amendment, and its impact was included as an assumption change in the reconciliation of the total OPEB liability. This change significantly lowered the OPEB liability.

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

In this valuation, 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:

1. 2018 thresholds of \$850/\$2,292 were indexed annually by 2.50%.
2. Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.
3. 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 benefit of (\$7,969,792) and revenue of \$284,745 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 365,192
Changes in actuarial assumptions	-	6,952,406
Difference between projected and actual investment earnings	2,657	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	80	-
Contributions paid to TRS subsequent to the measurement date	276,571	-
Total	\$ 279,308	\$ 7,317,598

\$276,571 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended August 31, 2019. The other net amounts of the employer's balances of deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended August 31</u>	<u>OPEB Expense Amount</u>
2019	\$ (965,204)
2020	(965,204)
2021	(965,204)
2022	(965,204)
2023	(965,868)
Thereafter	<u>(2,488,177)</u>
 Total	 <u><u>\$ (7,314,861)</u></u>

Medicare Part D

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the TRS-Care to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. These on-behalf payments have been recognized as equal revenues and expenditures by the District in the amount of \$96,232, \$99,701 and \$126,714 for the years ended August 31, 2018, 2017, and 2016, respectively.

Note 13 - Workers' Compensation Coverage

The District changed from a modified self-insured workers compensation plan to a risk-sharing pool of local governments by the Texas Association of School Boards (TASB) beginning September 1, 2015. The reinsurance administrator, Safety National and Government Entities Mutual, Inc., will assist the District with administering the plan. All claims against the District are filed with the third-party administrator who investigates and processes the claims. The third-party administrator in turn bills the District for the claim and any fees associated with the claim. The contract with the reinsurance administrator limits the liability of the District to \$1,500,000 per injury/occurrence.

Note 14 - Revenues from Local and Intermediate Sources

For the year ended August 31, 2018, revenues from local and intermediate sources for governmental fund types consisted of the following:

	General Fund	Nonmajor Governmental Funds	Total
Property taxes	\$ 14,558,479	\$ -	\$ 14,558,479
Food service sales	-	296,465	296,465
Investment income	344,620	11,636	356,256
Campus activity related income	-	288,538	288,538
Penalties, interest, and other tax related income	135,282	-	135,282
Cocurricular student activities	157,610	-	157,610
Insurance proceeds	5,209,884	-	5,209,884
Other	29,237	-	29,237
	\$ 20,435,112	\$ 596,639	\$ 21,031,751
Total			

Note 15 - Vacation and Sick Leave

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

Note 16 - Risk Management

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

Note 17 - Fund Balance

The District classifies governmental fund balance in accordance with Government Accounting Standards Board (GASB) 54, Fund Balance Reporting and Governmental Fund Type Definitions:

- *Nonspendable fund balance* includes fund balance that cannot be spent either because it is not in spendable form or because of legal or contractual constraints. The District had fund balance reserved for nonspendable inventory of \$151,488 at August 31, 2018.

- *Restricted fund balance* includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. As of August 31, 2018, \$1,514,652 was restricted for child nutrition.
- *Committed fund balance* is established and modified by a resolution from the District’s Board, the District’s highest level of decision-making authority, and can be used only for the specific purposes determined by the Board’s resolution. At August 31, 2018, the District did not have any committed fund balance.
- *Assigned fund balance* is intended to be used by the District for specific purposes but does not meet the criteria to be classified as restricted or committed. The Board has delegated the authority to assign fund balance to the Superintendent or the Chief Financial Officer. At August 31, 2018, the District had \$184,546 assigned for Campus Activity Funds and \$1,500,000 for technology infrastructure and facility upgrades.
- *Unassigned fund balance* is the residual classification for the District’s general fund and includes all spendable amounts not contained in the other classifications.

The District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made. The District does not have a formal minimum fund balance policy.

Note 18 - General Fund Federal Source Revenues

Revenues from federal sources, which are reported in the General Fund, consist of:

	CFDA	Amount
School Health and Related Services	N/A	\$ 964,795
Federal in lieu of taxes	N/A	63,973
Indirect costs		
Title I, Part A	84.010	63,089
ESEA Title I, Part C	84.011	12,146
IDEA - Part B, Preschool	84.173	873
ESEA, Title VI, Part B	84.358	2,777
Title III, Part A	84.365	1,618
ESEA Title II, Part A	84.367	8,218
Total		\$ 1,117,489

Note 19 - Tax Abatement Agreements

On December 21, 2006 the District approved a property tax abatement agreements with Hale Wind Energy Project 3, LLC for a Limitation On Appraised Value of Property for School District Maintenance and Operations Taxes pursuant to the Chapter 313 of the Texas Tax Code, i.e. the Texas Economic Development Act, as set forth in Chapter 313 of the Texas Tax Code, as amended. Trinity Hills Wind Farm qualified for a tax limitation agreement under Texas Tax Code §313.024 (b)(5), as a renewable energy electric generation project.

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

In order to qualify for a value limitation agreement, each applicant, including Hale Wind Energy Project 3, LLC has been required to meet a series of capital investment, job creation, and wage requirements specified by state law. At the time of the application's approval, the agreement was found to have done so by both the District's Board of Trustees and the Texas Comptroller's Office, which recommended approval of the project. The application, the agreements and state reporting requirement documentation can be viewed at the Texas Comptroller's website: <https://comptroller.texas.gov/economy/local/ch313/agreement-docs.php>. The agreement and all supporting documentation were assigned Texas Comptroller Application No. 46.

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

In the event that Hale Wind Energy Project 3, LLC terminates this Agreement without the consent of the District, or in the event that the company or its successor-in-interest fails to comply in any material respect with the terms of this Agreement or to meet any material obligation under this Agreement, then the District shall be entitled to the recapture of all ad valorem tax revenue lost as a result of this Agreement together with the payment of penalty and interest, on that recaptured ad valorem tax revenue. Penalties on said amounts shall be calculated in accordance with the methodology set forth in Texas Tax Code §33.01(a), or its successor statute. Interest on said amounts shall be calculated in accordance with the methodology set forth in Texas Tax Code § 33.01(c), or its successor statute. The agreement provides an administrative procedure to determine any company liability. Ultimately, enforcement of any payment obligation is through the local state district court.

Under the terms of the agreement, Hale Wind Energy Project 3, LLC was to invest capital of \$227,500,000 on a long-term basis for a valuation limitation of \$30,000,000. For fiscal year 2018, which is qualifying time period two of the agreement, with the M&O tax rate \$1.17 per \$100, with property valued at \$0 without considering the limit and \$0 with the limit. When calculated, the district forgoes collecting \$0 in tax revenue; however, that will be offset by the increase in state funding through the FSP funding formula and a possible Revenue Protection Payment. In addition to the tax abatement, Hale Wind Energy 3, LLC has committed to pay supplemental payments to the district in the amount of \$100 per ADA based on the District's 2014-15 ADA of \$5,127 in the amount of \$512,700 annually.

Note 20 - Prior Period Adjustment

As of September 1, 2017, the District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The implementation of this standard replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and requires governments calculate and report the cost and obligations associated with other postemployment benefits other than pensions in their financial statements, including additional note disclosures and required supplementary information. Beginning net position for governmental activities was restated to adopt the provisions of GASB Statement No. 75 to report the beginning net OPEB liability, and deferred outflows of resources related to contributions made after the measurement date as follows:

Net position - August 31, 2017, as previously reported	\$ 42,017,381
Add net OPEB liability under GASB Statement No. 75 at August 31, 2017	(30,884,031)
Deferred outflows of resources related to contributions made during the year ended August 31, 2017	209,145
Net position - September 1, 2017, as restated	\$ 11,342,495



Required Supplementary Information
August 31, 2018

**Plainview Independent School
District**

Plainview Independent School District
 Budgetary Comparison Schedule – General Fund (Exhibit G-1)
 Year Ended August 31, 2018

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance with Final Budget Positive or (Negative)
		Original	Final		
	Revenues				
5700	Total local and intermediate sources	\$ 13,473,202	\$ 13,473,202	\$ 20,435,112	\$ 6,961,910
5800	State program revenues	30,375,670	30,375,670	31,560,604	1,184,934
5900	Federal program revenues	779,330	779,330	1,117,489	338,159
5020	Total revenues	44,628,202	44,628,202	53,113,205	8,485,003
	Expenditures				
	Current				
0011	Instruction	24,975,121	25,701,650	24,516,700	1,184,950
0012	Instructional resources and media services	496,018	512,215	498,676	13,539
0013	Curriculum and instructional staff development	242,332	262,268	253,771	8,497
0021	Instructional leadership	1,195,443	1,165,632	1,086,825	78,807
0023	School leadership	3,177,229	3,284,640	3,199,032	85,608
0031	Guidance, counseling, and evaluation services	1,593,857	1,654,174	1,510,467	143,707
0032	Social work services	89,919	99,929	58,575	41,354
0033	Health services	429,229	446,730	442,212	4,518
0034	Student (pupil) transportation	1,621,158	1,672,677	1,615,151	57,526
0036	Extracurricular activities	2,265,480	3,182,421	2,977,328	205,093
0041	General administration	1,826,995	1,857,733	1,739,710	118,023
0051	Facilities maintenance and operations	4,864,803	5,452,885	5,005,324	447,561
0052	Security and monitoring services	162,000	187,025	167,359	19,666
0053	Data processing services	1,297,413	1,104,911	1,020,508	84,403
0061	Community services	3,214	6,726	5,082	1,644
	Debt service				
0071	Principal on long-term debt	178,300	183,649	156,487	27,162
0072	Interest on long-term debt	-	-	21,061	(21,061)
0071	Bond issuance cost and fees	-	-	300	(300)
0081	Facilities acquisition and construction	-	6,231,320	5,416,970	814,350
	Intergovernmental				
0095	Payments to juvenile justice alternative ed. prg.	25,000	62,830	59,069	3,761
0099	Other intergovernmental charges	184,991	203,931	197,943	5,988
6030	Total expenditures	44,628,502	53,273,346	49,948,550	3,324,796
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(300)	(8,645,144)	3,164,655	11,809,799
1200	Net Change in Fund Balances	(300)	(8,645,144)	3,164,655	11,809,799
0100	Fund Balance - September 1 (Beginning)	20,916,753	20,916,753	20,916,753	-
3000	Fund Balance - August 31 (Ending)	\$ 20,916,453	\$ 12,271,609	\$ 24,081,408	\$ 11,809,799

Plainview Independent School District
Schedule of District's Proportionate Share of the Net Pension Liability (Exhibit G-2)
August 31, 2018

	2018	2017	2016	2015
District's proportion of the net pension liability	0.00264997%	0.00280650%	0.00304174%	0.00172751%
District's proportionate share of net pension liability	\$ 8,473,162	\$ 10,605,333	\$ 10,752,146	\$ 4,614,417
State's proportionate share of the net pension liability associated with the District	<u>16,277,143</u>	<u>19,463,189</u>	<u>18,923,122</u>	<u>16,523,251</u>
Total	<u>\$ 24,750,305</u>	<u>\$ 30,068,522</u>	<u>\$ 29,675,268</u>	<u>\$ 21,137,668</u>
District's covered payroll	\$ 30,771,811	\$ 30,640,304	\$ 30,342,392	\$ 28,785,298
District's proportionate share of net pension liability as a percentage of its covered payroll	27.54%	34.61%	35.44%	16.03%
Plan fiduciary net position as a percentage of the total pension liability	82.17%	78.00%	78.43%	83.25%

Note: The information disclosed for each fiscal year is reported as of the measurement date of the net pension liability which is August 31 of the preceeding fiscal year.

Note: Plan information was unavailable prior to 2014.

Plainview Independent School District
Schedule of District's Contributions to the Pension Plan (Exhibit G-3)
Year Ended August 31, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 905,671	\$ 868,504	\$ 891,696	\$ 900,671
Contribution in relation to the contractually required contribution	<u>(905,671)</u>	<u>(868,504)</u>	<u>(891,696)</u>	<u>(900,671)</u>
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	30,756,574	30,771,811	30,640,304	30,342,392
Contributions as a percentage of covered payroll	2.94%	2.82%	2.91%	2.97%

Note: GASB 68 requires that the date in this schedule should be presented as of the District's current fiscal year as opposed to the time period covered by the measurement dates of the plan.

Note: Plan information was unavailable prior to 2014.

Plainview Independent School District
Schedule of District's Proportionate Share of the Net OPEB Liability (Exhibit G-4)
Year Ended August 31, 2018

	2018
District's proportion of the net OPEB liability	0.0402278%
District's proportionate share of net OPEB liability	\$ 17,493,579
State's proportionate share of the net OPEB liability associated with the District	23,816,973
Total	\$ 41,310,552
District's covered employee payroll	\$ 30,771,811
District's proportionate share of Net OPEB liability as a percentage of its covered employee payroll	56.85%
Plan fiduciary net position as a percentage of the total OPEB liability	0.91%

Note: The information disclosed for each fiscal year is reported as of the measurement date of the net OPEB liability which is August 31 of the preceeding fiscal year.

Note: Plan information was unavailable prior to 2018.

Plainview Independent School District
Schedule of District's Contributions to the OPEB Plan (Exhibit G-5)
Year Ended August 31, 2018

	<u>2018</u>
Contractually required contribution	\$ 276,571
Contribution in relation to the contractually required contribution	<u>(276,571)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>
District's covered employee payroll	\$ 30,756,574
Contributions as a percentage of covered employee payroll	0.90%

Note: The information disclosed for each fiscal year is reported as of the District's fiscal year-end date.

Note: Plan information was unavailable prior to 2018.

Note 1 - Budget

Budgetary Information

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

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

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

Once a budget is approved, it can be amended by function and fund level only 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. Such amendments are made before the fact, are reflected in the official minutes of the Board and are not made after fiscal year end as required by law. Each amendment is controlled by the budget coordinator at the revenue and expenditure function/object level. Budget amounts are as amended by the Board. All budget appropriations lapse at year end.

Note 2 - Net Pension Liability – Teachers Retirement System

Changes of Benefit Terms

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

Changes in the Size or Composition of the Population Covered by the Benefit Terms

There are no changes in the size or composition of the population covered by the benefit terms during the measurement period.

Changes of Assumptions

There were no changes of assumptions during the measurement period.

Note 3 - OPEB

Changes of Benefit Terms

There was a significant plan change adopted in the 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.

Changes in the Size or Composition of the Population Covered by the Benefit Terms

There were no changes in the size or composition of the population covered by the benefit terms during the measurement period.

Changes of Assumptions

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.



Other Supplementary Information
August 31, 2018

Plainview Independent School District

Data Control Codes		211	212	224	225
		ESEA I, A Improving Basic Program	ESEA Title I Part C Migrant	IDEA - Part B Formula	IDEA - Part B Preschool
Assets					
1110	Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
1240	Receivables from other governments	373,502	35,281	311,056	10,275
1000	Total assets	<u>\$ 373,502</u>	<u>\$ 35,281</u>	<u>\$ 311,056</u>	<u>\$ 10,275</u>
Liabilities					
2110	Accounts payable	\$ -	\$ 30	\$ -	\$ -
2160	Accrued wages payable	100,546	-	103,672	2,124
2170	Due to other funds	272,956	35,251	207,384	8,151
2190	Due to student groups	-	-	-	-
2300	Unearned revenues	-	-	-	-
2000	Total liabilities	<u>373,502</u>	<u>35,281</u>	<u>311,056</u>	<u>10,275</u>
Fund Balances					
3450	Restricted - federal or state funds grant	-	-	-	-
3590	Assigned - other	-	-	-	-
3000	Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	Total liabilities, deferred inflows and fund balances	<u>\$ 373,502</u>	<u>\$ 35,281</u>	<u>\$ 311,056</u>	<u>\$ 10,275</u>

Plainview Independent School District
Combining Balance Sheet – Nonmajor Governmental Funds (Exhibit H-1)
August 31, 2018

240	242	244	255	263	265	270	289
National Breakfast and Lunch Program	Summer Feeding Program	Career & Technical - Basic Grant	ESEA II, A Training and Recruiting	Title III, A English Lang. Acquisition	Twenty-First Century Community Learning Centers	ESEA VI, Pt B Rural & Low Income	Other Federal Special Revenue Funds
\$ 1,441,126	\$ -	\$ -	\$ -	\$ -	\$ 11,510	\$ -	\$ 3,517
156,999	-	3,986	70,885	11,626	-	7,349	-
<u>\$ 1,598,125</u>	<u>\$ -</u>	<u>\$ 3,986</u>	<u>\$ 70,885</u>	<u>\$ 11,626</u>	<u>\$ 11,510</u>	<u>\$ 7,349</u>	<u>\$ 3,517</u>
\$ 82,757	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	2,713	-	-	-	-
716	-	3,986	68,172	11,626	11,510	7,349	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	3,517
<u>83,473</u>	<u>-</u>	<u>3,986</u>	<u>70,885</u>	<u>11,626</u>	<u>11,510</u>	<u>7,349</u>	<u>3,517</u>
1,514,652	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>1,514,652</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 1,598,125</u>	<u>\$ -</u>	<u>\$ 3,986</u>	<u>\$ 70,885</u>	<u>\$ 11,626</u>	<u>\$ 11,510</u>	<u>\$ 7,349</u>	<u>\$ 3,517</u>

Plainview Independent School District
Combining Balance Sheet – Nonmajor Governmental Funds (Exhibit H-1)
August 31, 2018

Data Control Codes	397	410	429	461	Total Nonmajor Governmental Funds	
	IDEA Part B Discretionary	Textbook & Kindergarten Material	Other Special Revenue Funds	Campus Activity Revenue Funds		
Assets						
1110	Cash and cash equivalents	\$ -	\$ 9,508	\$ 132	\$ 184,664	\$ 1,650,457
1240	Receivables from other governments	-	88,367	-	-	1,069,326
1000	Total assets	\$ -	\$ 97,875	\$ 132	\$ 184,664	\$ 2,719,783
Liabilities						
2110	Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 82,787
2160	Accrued wages payable	-	-	-	-	209,055
2170	Due to other funds	-	-	-	-	627,101
2190	Due to student groups	-	-	-	118	118
2300	Unearned revenues	-	97,875	132	-	101,524
2000	Total liabilities	-	97,875	132	118	1,020,585
Fund Balances						
3450	Restricted - federal or state funds grant	-	-	-	-	1,514,652
3590	Assigned - other	-	-	-	184,546	184,546
3000	Total fund balances	-	-	-	184,546	1,699,198
4000	Total liabilities, deferred inflows and fund balances	\$ -	\$ 97,875	\$ 132	\$ 184,664	\$ 2,719,783

		211	212	224	225
Data Control Codes		ESEA I, A Improving Basic Program	ESEA Title I Part C Migrant	IDEA - Part B Formula	IDEA - Part B Preschool
Revenues					
5700	Local and intermediate sources	\$ -	\$ -	\$ -	\$ -
5800	State program revenues	-	-	-	-
5900	Federal program revenues	1,524,949	287,414	1,216,597	27,016
5020	Total revenues	1,524,949	287,414	1,216,597	27,016
Expenditures					
Current					
0011	Instruction	1,333,586	58,156	914,056	27,016
0013	Curriculum and instructional staff development	96,118	3,500	952	-
0021	Instructional leadership	3,238	220,302	1,458	-
0023	School leadership	34,766	342	-	-
0031	Guidance, counseling and evaluation services	624	-	292,995	-
0032	Social work services	-	-	-	-
0033	Health services	450	150	4,076	-
0034	Student (pupil) transportation	-	-	-	-
0035	Food services	-	-	-	-
0036	Extracurricular activities	-	-	-	-
0041	General administration	-	-	-	-
0052	Security and monitoring services	-	-	-	-
0061	Community services	56,167	4,964	3,060	-
6030	Total expenditures	1,524,949	287,414	1,216,597	27,016
1100	Excess (Deficiency) of revenues over (under) expenditures	-	-	-	-
1200	Net change in fund balance	-	-	-	-
0100	Fund balance - September 1 (Beginning)	-	-	-	-
3000	Fund balance - August 31 (Ending)	\$ -	\$ -	\$ -	\$ -

Plainview Independent School District
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental
Funds (Exhibit H-2)
Year Ended August 31, 2018

240	242	244	255	263	265	270	289
National Breakfast and Lunch Program	Summer Feeding Program	Career & Technical - Basic Grant	ESEA II, A Training and Recruiting	Title III, A English Lang. Acquisition	Twenty-First Century Community Learning Centers	ESEA VI, Pt B Rural & Low Income	Other Federal Special Revenue Funds
\$ 307,979	\$ 122	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
15,424	-	-	-	-	556	-	-
<u>2,682,427</u>	<u>20,270</u>	<u>64,569</u>	<u>203,264</u>	<u>37,345</u>	<u>130,316</u>	<u>66,209</u>	<u>12,643</u>
<u>3,005,830</u>	<u>20,392</u>	<u>64,569</u>	<u>203,264</u>	<u>37,345</u>	<u>130,872</u>	<u>66,209</u>	<u>12,643</u>
-	-	26,313	71,774	16,751	127,792	36,049	7,622
-	-	4,528	64,219	9,420	-	3,500	1,500
-	-	-	39,590	6,753	-	10,728	739
-	-	1,804	23,986	2,921	-	932	-
-	-	31,924	-	-	-	-	-
-	-	-	-	-	1,158	-	-
-	-	-	-	-	1,922	-	-
-	-	-	-	-	-	-	-
3,333,350	20,392	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	3,695	-	-	15,000	-
-	-	-	-	-	-	-	2,782
-	-	-	-	1,500	-	-	-
<u>3,333,350</u>	<u>20,392</u>	<u>64,569</u>	<u>203,264</u>	<u>37,345</u>	<u>130,872</u>	<u>66,209</u>	<u>12,643</u>
<u>(327,520)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(327,520)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>1,842,172</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 1,514,652</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Plainview Independent School District
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental
Funds (Exhibit H-2)
Year Ended August 31, 2018

Data Control Codes	397	410	429	461	Total Nonmajor Governmental Funds
Revenues	IDEA Part B Discretionary	Textbook & Kindergarten Material	Other Special Revenue Funds	Campus Activity Revenue Funds	Total Nonmajor Governmental Funds
5700 Local and intermediate sources	\$ -	\$ -	\$ -	\$ 288,538	\$ 596,639
5800 State program revenues	616	283,252	5,151	-	304,999
5900 Federal program revenues	-	-	-	-	6,273,019
5020 Total revenues	<u>616</u>	<u>283,252</u>	<u>5,151</u>	<u>288,538</u>	<u>7,174,657</u>
Expenditures					
Current					
0011 Instruction	-	255,262	-	-	2,874,377
0013 Curriculum and instructional staff development	616	27,990	5,151	-	217,494
0021 Instructional leadership	-	-	-	-	282,808
0023 School leadership	-	-	-	-	64,751
0031 Guidance, counseling and evaluation services	-	-	-	-	325,543
0032 Social work services	-	-	-	-	1,158
0033 Health services	-	-	-	-	6,598
0034 Student (pupil) transportation	-	-	-	-	-
0035 Food services	-	-	-	-	3,353,742
0036 Extracurricular activities	-	-	-	279,050	279,050
0041 General administration	-	-	-	-	18,695
0052 Security and monitoring services	-	-	-	-	2,782
0061 Community services	-	-	-	-	65,691
6030 Total expenditures	<u>616</u>	<u>283,252</u>	<u>5,151</u>	<u>279,050</u>	<u>7,492,689</u>
1100 Excess (Deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,488</u>	<u>(318,032)</u>
1200 Net change in fund balance	-	-	-	9,488	(318,032)
0100 Fund balance - September 1 (Beginning)	<u>-</u>	<u>-</u>	<u>-</u>	<u>175,058</u>	<u>2,017,230</u>
3000 Fund balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 184,546</u>	<u>\$ 1,699,198</u>



Required TEA Schedules
August 31, 2018

Plainview Independent School District

Last Ten Years Ended August 31	1	2	3
	Tax Rates		Assessed/ Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2009 (and prior years)	Various	Various	Various
2010	1.040000	0.000000	\$ 1,117,364,152
2011	1.040000	0.000000	1,166,976,850
2012	1.040000	0.000000	1,192,811,310
2013	1.040000	0.000000	1,247,746,160
2014	1.040000	0.000000	1,212,650,298
2015	1.040000	0.000000	1,116,170,192
2016	1.040000	0.000000	1,109,103,365
2017	1.170000	0.000000	1,231,732,735
2018 (school year under audit)	1.170000	0.000000	1,249,888,547
1000 Totals			

Plainview Independent School District
Schedule of Delinquent Taxes Receivable (Exhibit J-1)
Year Ended August 31, 2018

10	20	31	32	40	50
Beginning Balance September 1, 2017	Current Year's Total Levy	Maintenance Total Collections	Debt Service Total Collections	Entire Year's Adjustments	Ending Balance August 31, 2018
\$ 160,797	\$ -	\$ 1,922	\$ -	\$ (16,012)	\$ 142,863
21,165	-	616	-	(48)	20,501
21,233	-	1,082	-	(206)	19,945
22,779	-	1,567	-	(468)	20,744
28,790	-	2,763	-	156	26,183
37,796	-	6,915	-	(8)	30,873
59,433	-	16,087	-	(197)	43,149
88,806	-	27,111	-	(4,458)	57,237
210,832	-	61,389	-	(46,974)	102,469
<u>-</u>	<u>14,623,696</u>	<u>14,261,145</u>	<u>-</u>	<u>(75,671)</u>	<u>286,880</u>
<u>\$ 651,631</u>	<u>\$ 14,623,696</u>	<u>\$ 14,380,597</u>	<u>\$ -</u>	<u>\$ (143,886)</u>	<u>\$ 750,844</u>

Plainview Independent School District
 Budgetary Comparison Schedule – Child Nutrition Fund (Exhibit J-4)
 Year Ended August 31, 2018

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance with Final Budget
		Original	Final		Positive or (Negative)
Revenues					
5700	Total local and intermediate sources	\$ 304,641	\$ 304,641	\$ 307,979	\$ 3,338
5800	State program revenues	16,000	16,000	15,424	(576)
5900	Federal program revenues	2,630,149	2,630,149	2,682,427	52,278
5020	Total revenues	2,950,790	2,950,790	3,005,830	55,040
Expenditures					
Current					
0035	Food service	3,025,790	3,540,599	3,333,350	207,249
6030	Total expenditures	3,025,790	3,540,599	3,333,350	207,249
1100	Excess (Deficiency) of revenue over (under) expenditures	(75,000)	(589,809)	(327,520)	262,289
1200	Change in fund balance	(75,000)	(589,809)	(327,520)	262,289
0100	Fund balance - September 1 (Beginning)	1,842,172	1,842,172	1,842,172	-
3000	Fund balance - August 31 (Ending)	\$ 1,767,172	\$ 1,252,363	\$ 1,514,652	\$ 262,289



Federal Award Section
August 31, 2018

**Plainview Independent School
District**



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

The Board of Trustees
Plainview Independent School District
Plainview, Texas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Plainview Independent School District (the District) as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 11, 2019.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs, that we consider to be significant deficiencies: Finding 2018-A and Finding 2018-B.

Compliance and Other Matters

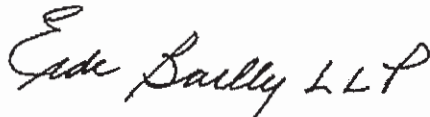
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

Plainview Independent School District's Response to Finding

The District's response to the finding identified in our audit is described in the accompanying corrective action plan. The District's response was not subjected to auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Plainview, Texas
January 11, 2019



Independent Auditor's Report on Compliance for the Major Program; Report on Internal Control over Compliance Required by the Uniform Guidance

The Board of Trustees
Plainview Independent School District
Plainview, Texas

Report on Compliance for the Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on the Major Federal Program

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

Report on Internal Control over Compliance

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

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

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

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



Plainview, Texas
January 11, 2019

A. Section I - Summary of Auditor's Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None Reported
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	No

Identification of Major Programs:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
National School Lunch Program (Child Nutrition Cluster)	10.555
Summer Feeding (Child Nutrition Cluster)	10.559
Dollar threshold used to distinguish between type A and type B federal programs	\$750,000
Auditee qualified as a low-risk auditee?	Yes

Section II – Financial Statement Findings

Finding 2018-A:	Financial Statement Preparation and Significant Adjusting Entries
Type of Finding:	Significant Deficiency
Criteria or Specific Requirement:	Management is responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting principles (GAAP). This includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement in a timely manner.
Statement of Condition:	In conjunction with the completion of our audit, we were required to draft the financial statements and accompanying notes to the financial statements. Additionally, after initially closing its books, the District subsequently recorded adjustments to correct a bank account that was closed, correct accounts payable and cash due to a void, and to adjust inventory to the actual count as a result of audit procedures, which if not recorded, would have resulted in a misstatement of the District's financial statements.
Cause:	The District does not prepare its financial statements and failed to record certain entries.
Effect:	The preparation of financial statements and the adjustments may result in financial statements and related information not being available for management purposes in a timely manner.
Recommendations:	It is the responsibility of management and those charged with governance to determine whether to accept the degree of risk associated with the condition because of cost or other considerations.
View of Responsible Officials:	Management agrees with the finding. Refer to Corrective Action Plan.
Finding 2018-B:	Segregation of Duties
Type of Finding:	Significant Deficiency
Criteria or Specific Requirement:	Management of the District is responsible for the design, implementation, and maintenance of internal controls including segregation of duties.

Statement of Condition:	An effective system of internal control depends on adequate segregation of duties with respect to the execution and recording of transactions, as well as the custody of an entity's assets. Accordingly, an effective system of internal control will be designed such that these functions are performed by different employees, so that no one individual handles a transaction from its inception to its completion.
Cause:	The limited number of employees at the District prevents a proper segregation of accounting functions necessary to ensure effective internal control.
Effect:	This is not unusual in an organization of your size; however, the lack of segregation of duties increases the risk of financial statement misstatement.
Recommendations:	Auditing standards require that auditors communicate this deficiency. It is the responsibility of management and those charged with governance to determine whether to accept the degree of risk associated with the condition because of cost or other considerations.
View of Responsible Officials:	Management agrees with the finding. Refer to Corrective Action Plan.

Section III – Federal Award Findings and Questioned Costs

No findings or questioned costs for federal awards.

Plainview Independent School District
Schedule of Expenditures of Federal Awards (Exhibit K-1)
Year Ended August 31, 2018

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education			
Passed through Texas Education Agency			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	186101101095905	\$ 1,469,612
ESEA, Title I, Part A - Improving Basic Programs	84.010A	196101101095905	<u>118,426</u>
Total CFDA Number 84.010A			1,588,038
ESEA, Title I, Part C - Migratory Children	84.011A	186150010195905	274,006
ESEA, Title I, Part C - Migratory Children	84.011A	196150010195905	<u>25,554</u>
Total CFDA Number 84.011A			299,560
Special Education Cluster			
IDEA - Part B, Formula	84.027A	186600010959056000	1,112,925
IDEA - Part B, Formula	84.027A	196600010959056000	<u>103,672</u>
Total CFDA Number 84.027A			1,216,597
IDEA - Part B Preschool	84.173	186610010959056610	25,765
IDEA - Part B Preschool	84.173	196610010959056610	<u>2,124</u>
Total CFDA Number 84.173			27,889
Total Special Education Cluster			<u>1,244,486</u>
Career and Technical - Basic Grant	84.028	18420006095905	64,569
Twenty-First Century Community Learning Centers	84.287	19695024711004	130,316
ESEA, Title VI, Part B - Rural & Low Income Prog.	84.358B	18696001095905	68,986
Title III, Part A - English Language Acquisition	84.365A	18671001095905	38,963
ESEA, Title II, Part A - Teacher/Principal Training	84.367A	18694501095905	196,171
ESEA, Title II, Part A - Teacher/Principal Training	84.367A	19694501095905	<u>15,311</u>
Total CFDA Number 84.367A			211,482
Summer School LEP	84.369A	69551702	1,187
Title IV, Part A	84.424A	18680101095905	11,456
Total passed through Texas Education Agency			<u>3,659,043</u>
Total Department of Education			<u>3,659,043</u>

Plainview Independent School District
Schedule of Expenditures of Federal Awards (Exhibit K-1)
Year Ended August 31, 2018

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture			
Child Nutrition Cluster			
Passed through Texas Education Agency			
National School Lunch Program - cash assistance	10.555		2,491,850
National School Lunch Program - noncash assistance	10.555		<u>190,577</u>
Total CFDA Number 10.555			2,682,427
Summer Feeding	10.559		<u>20,270</u>
Total passed through Texas Education Agency			2,702,697
Total Child Nutrition Cluster			<u>2,702,697</u>
Total Department of Agriculture			<u>2,702,697</u>
Total Expenditures of Federal Awards			<u><u>\$ 6,361,740</u></u>

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the District under programs of the federal government for the year ended August 31, 2018. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the District.

Note 2 - Summary of Significant Accounting Policies

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All federal expenditures were accounted for in the General Fund and Special Revenue Funds, components of the Governmental Fund type. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, whereas certain types of expenditures are not allowed or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Federal grants are considered to be earned to the extent of expenditures made under the provisions of the grant.

School Health and Related Services (SHARS) revenues are considered earned income at the local government level and thus are not included in the Schedule of Expenditures of Federal Awards. The following is a reconciliation of Federal Revenues on Exhibit C-2 to the Schedule of Expenditures of Federal Awards:

Federal Awards per Schedule of Expenditures of Federal Awards	\$ 6,361,740
School Health and Related Services (SHARS) Reimbursements	964,795
Federal in lieu of taxes	<u>63,973</u>
Federal program revenues - Exhibit C-2	<u>\$ 7,390,508</u>

Note 3 - Indirect Cost Rate

The District is not eligible to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance because the District has previously received a negotiated indirect cost rate for its federal awards.

Plainview Independent School District
Schedule of Required Responses to Selected School First Indicators (Exhibit L-1)
August 31, 2018

<u>Data Control Codes</u>	<u>Responses</u>
SF2 Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4 Did the district receive a clean audit? Was there an unqualified opinion in the Annual Financial Report?	Yes
SF5 Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF6 Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7 Did the District make timely payments to the Teacher Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8 Did the District not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10 Total accumulated accretion on capital appreciation bonds included in government-wide financial statements at fiscal year-end.	\$ -
SF11 Net Pension Assets (1920) at fiscal year end	\$ -
SF12 Net Pension Liabilities (2540) at fiscal year end	\$ 8,473,162
SF13 Pension Expense (6147) at fiscal year end	\$ -

Plainview Independent School District
912 Portland St.
Plainview, Texas 79072
Phone (806) 293-6000 FAX (806) 296-4014

H. T. Sanchez, Ed. D.
Superintendent of Schools



**Management's Response to Auditor's Findings:
Summary Schedule of Prior Audit Findings and
Corrective Action Plan
August 31, 2018**

Prepared by Management of
Plainview Independent School District

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H. T. Sanchez, Ed. D.
Superintendent of Schools



Plainview Independent School District - Summary Schedule of Prior Audit Findings

There were no findings in the prior year audit.

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Superintendent of Schools



Plainview Independent School District – Corrective Action Plan

Financial Statement Preparation and Significant Audit Adjustment in the Financial Statements

Finding 2018-A

Finding Summary:

We requested that Eide Bailly LLP draft the financial statements and accompanying notes to the financial statements. Additionally, Eide Bailly LLP proposed audit adjustments that would not have been identified as a result of our existing controls and, therefore, could have resulted in a misstatement of our financial statements.

Responsible Individuals:

Doris Chapa, Executive Director of Finance

Corrective Action Plan:

It is not cost effective to have an internal control system designed to provide for the preparation of the financial statements and accompanying notes. We requested that our auditors, Eide Bailly LLP, prepare the financial statements and the accompanying notes to the financial statements as a part of their annual audit. We have designated a member of management to review the drafted financial statements and accompanying notes, and we have reviewed with and agree with the adjustment proposed during the audit.

Anticipated Completion Date:

Ongoing

Segregation of Duties

Finding 2018-B

Finding Summary:

The limited number of employees at the District prevents a proper segregation of accounting functions necessary to ensure effective internal control.

Responsible Individuals:

Doris Chapa, Executive Director of Finance

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H. T. Sanchez, Ed. D.
Superintendent of Schools



Corrective Action Plan:

The District believes it has an adequate segregation of duties over high risk areas. The District has determined that the benefits do not outweigh the costs of additional staff.

Anticipated Completion Date:

Ongoing

Financial Advisory Services
Provided By:

