

OFFICIAL STATEMENT
Dated: May 19, 2020

NEW ISSUE: BOOK-ENTRY-ONLY

In the opinion of Orrick, Herrington & Sutcliffe LLP, Tax Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Tax Counsel, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Tax Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See “TAX MATTERS” herein.

THE BONDS HAVE BEEN DESIGNATED AS “QUALIFIED TAX-EXEMPT OBLIGATIONS” FOR FINANCIAL INSTITUTIONS.

\$6,015,000
SKIDMORE-TYNAN INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Bee and San Patricio Counties, Texas)
UNLIMITED TAX REFUNDING BONDS, SERIES 2020

Dated Date: May 15, 2020

Due: August 15, as shown on page 2

Interest Accrual Date: Date of Delivery (defined below)

The Skidmore-Tynan Independent School District (the “District”) is issuing its \$6,015,000 Unlimited Tax Refunding Bonds, Series 2020 (the “Bonds”) in accordance with the Constitution and general laws of the State of Texas, including, particularly, Chapter 1207, Texas Government Code, as amended, and a bond order (the “Bond Order”) adopted by the Board of Trustees (the “Board”) of the District on April 13, 2020, in which the Board delegated pricing of the Bonds and certain other matters to a “Pricing Officer” who approved and executed a “Pricing Certificate” on May 19, 2020, which completed the sale of the Bonds (the Bond Order and the Pricing Certificate are collectively referred to as the “Order”).

The Bonds constitute direct obligations of the District and are payable as to principal and interest from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, against all taxable property located within the District. **Conditional approval has been received by the District from the Texas Education Agency for the Bonds to be guaranteed by the Texas Permanent School Fund Guarantee Program (see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).**

Interest on the Bonds will accrue from the date they are initially delivered to the initial purchaser thereof named below (the “Underwriter”), and will be payable on August 15, 2020, and semiannually thereafter on each succeeding February 15 and August 15 of each year until stated maturity or prior redemption. The Bonds will be issued in principal denominations of \$5,000 or any integral multiple thereof within a maturity. Interest accruing on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months (see “THE BONDS – General Description”).

The District intends to use the Book-Entry-Only System of The Depository Trust Company (“DTC”), but use of such system could be discontinued. The principal of and interest on the Bonds at maturity or on a prior redemption date will be payable to Cede & Co., as nominee for DTC, by BOKF, NA, Dallas, Texas, as the initial Paying Agent/Registrar (the “Paying Agent/Registrar”) for the Bonds. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer of the Bonds (see “BOOK-ENTRY-ONLY SYSTEM”).

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

CUSIP PREFIX: 830626 / MATURITY SCHEDULE & 9 DIGIT CUSIP – See Schedule on Page 2

The Bonds are offered when, as and if issued, and accepted by the Underwriter, subject to the approving opinion of the Attorney General of the State of Texas and the opinions of Sara Leon & Associates, LLC, Austin, Texas, and Orrick, Herrington & Sutcliffe LLP, Houston, Texas, Co-Bond Counsel. Certain legal matters will be passed upon for the Underwriter by its counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas. The Bonds are expected to be available for initial delivery through the services of DTC on or about June 18, 2020 (the “Date of Delivery”).

MATURITY SCHEDULE

Maturity Date (8/15)	Principal Amount	Interest Rate	Initial Yield	CUSIP Suffix^(A)
2020	\$ 95,000	4.000%	0.530%	HS(9)
2021	75,000	4.000	0.560	HT(7)
2022	85,000	4.000	0.670	HU(4)
2023	90,000	4.000	0.790	HV(2)
2024	85,000	4.000	0.910	HW(0)
2025	180,000	4.000	1.000	HX(8)
2026	185,000	4.000	1.090	HY(6)
2027	195,000	4.000	1.160	HZ(3)
2028	205,000	4.000	1.230	JA(6)
2029	215,000	4.000	1.290	JB(4)
2030	220,000	4.000	1.370 ^(B)	JC(2)
2031	225,000	4.000	1.460 ^(B)	JD(0)
2032	235,000	4.000	1.510 ^(B)	JE(8)
2033	385,000	4.000	1.530 ^(B)	JF(5)
2034	400,000	3.000	1.770 ^(B)	JG(3)
2035	410,000	3.000	1.820 ^(B)	JH(1)
2036	425,000	3.000	1.860 ^(B)	JJ(7)
2037	435,000	3.000	1.910 ^(B)	JK(4)
2038	445,000	3.000	1.950 ^(B)	JL(2)
2039	460,000	3.000	1.990 ^(B)	JM(0)
2040	475,000	3.000	2.030 ^(B)	JN(8)
2041	490,000	3.000	2.070 ^(B)	JP(3)

(Interest to accrue from the Date of Delivery)

OPTIONAL REDEMPTION... The Bonds maturing on and after August 15, 2030, are subject to redemption prior to stated maturity, at the option of the District, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2029, or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption (see “THE BONDS – Redemption Provisions”).

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

^(B) Yield for the Bonds denoted and sold at a premium is calculated to their first optional redemption date, August 15, 2029, at the redemption price of par, plus accrued interest to the redemption date.

USE OF INFORMATION IN OFFICIAL STATEMENT

No dealer, broker, salesperson or other person has been authorized to give any information, or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the District, the Financial Advisor or the Underwriter.

Certain information set forth herein has been obtained from the District and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and it is not to be construed as a representation by the Financial Advisor or the Underwriter.

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

Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – PSF Continuing Disclosure Undertaking" and "CONTINUING DISCLOSURE OF INFORMATION" for a description of the undertakings of the Texas Education Agency ("TEA") and the District, respectively, 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 FOR THE PURCHASE THEREOF.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER 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, the Financial Advisor, or the Underwriter makes any representation or warranty with respect to the information contained in this Official Statement regarding DTC 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 has been provided by DTC and TEA, respectively.

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

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

Neither the United States Securities and Exchange Commission nor any state securities commission has approved or disapproved of the Bonds or passed upon the adequacy or accuracy of this document. Any representation to the contrary is a criminal offense.

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

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

SELECTED DATA FROM THE OFFICIAL STATEMENT

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

The District	Skidmore-Tynan Independent School District (the “District”) is a political subdivision of the State of Texas (the “State”) located in Bee and San Patricio 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. For more information regarding the District, see “Appendix A – FINANCIAL INFORMATION REGARDING THE DISTRICT” and “Appendix B – GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY.”
Authority for Issuance	The District’s Unlimited Tax Refunding Bonds, Series 2020 (the “Bonds”) are being issued pursuant to the Constitution and general laws of the State, including, particularly, Chapter 1207, Texas Government Code, as amended, and an order authorizing the issuance of the Bonds (the “Bond Order”) adopted by the Board on April 13, 2020. In the Bond Order, the Board delegated to an officer (the “Pricing Officer”) of the District authority to complete the sale of the Bonds. The terms of the sale are included in a “Pricing Certificate,” which was approved and executed by the Pricing Officer on May 19, 2020, which completed the sale of the Bonds (the Bond Order and the Pricing Certificate are collectively referred to as the “Order”) (see “THE BONDS – Authorization”).
The Bonds	The Bonds shall mature on the dates and in the amounts set forth on page 2 of this Official Statement (see “THE BONDS – General Description”).
Payment of Interest	Interest on the Bonds will accrue from the date of their initial delivery (the “Date of Delivery”) to the initial purchaser thereof (the “Underwriter”) and will be payable on August 15, 2020, and semiannually thereafter on each succeeding February 15 and August 15 of each year until stated maturity or prior redemption (see “THE BONDS – General Description”).
Security	The Bonds constitute direct obligations of the District, payable as to principal and interest from an annual ad valorem tax levied against all taxable property located within the District, without legal limit as to rate or amount (see “THE BONDS – Security”). Also see “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS” and “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” for a discussion of recent developments in State law affecting the financing of school districts in the State. Additionally, the District has received conditional approval from the Texas Education Agency for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of the State of Texas (see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).
Use of Proceeds	Proceeds from the sale of the Bonds will be used (i) to refund a portion of the District’s outstanding bonds (the “Refunded Bonds”) (see “Schedule I – SCHEDULE OF BONDS TO BE REFUNDED”) and (ii) to pay costs of issuance related to the Bonds (see “THE BONDS – Purpose”). The refunding is being undertaken to lower the District’s debt service payments and will result in a present value savings to the District.
Redemption Provisions	The Bonds maturing on and after August 15, 2030, are subject to redemption prior to stated maturity, at the option of the District, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2029, or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption (see “THE BONDS – Redemption Provisions”).

Tax Exemption	In the opinion of Orrick, Herrington & Sutcliffe LLP, Tax Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Tax Counsel, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Tax Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See “TAX MATTERS” herein.
Qualified Tax-Exempt Obligations	The District has designated the Bonds as “Qualified Tax-Exempt Obligations” for the purpose of the calculation of interest expense by financial institutions which may own the Bonds (see “TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions”).
Ratings	S&P Global Ratings, a division of Standard & Poor’s Financial Services LLC (“S&P”), has assigned a municipal bond rating of “AAA” to the Bonds based upon the Permanent School Fund Guarantee. S&P generally rates all bond issues guaranteed by the Permanent School Fund of the State of Texas “AAA” (see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” and “RATINGS”). The District’s underlying rating for the Bonds (without consideration of the Permanent School Fund Guarantee or other credit enhancement) is “A” by S&P (see “RATINGS”).
Book-Entry-Only System	The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. The principal of and interest on the Bonds at maturity or on a prior redemption date will be payable by the Paying Agent/Registrar (defined below) to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see “BOOK-ENTRY-ONLY SYSTEM”).
Paying Agent/Registrar	The initial Paying Agent/Registrar for the Bonds is BOKF, NA, Dallas, Texas (see “REGISTRATION, TRANSFER AND EXCHANGE – Paying Agent/Registrar”).
Continuing Disclosure of Information	Pursuant to the Order, the District is obligated to provide certain updated financial information and operating data annually, and to provide timely notice of certain specified events which will be available to investors as described in the section captioned “CONTINUING DISCLOSURE OF INFORMATION.” Also see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – PSF Continuing Disclosure Undertaking” for a description of the undertaking of the Texas Education Agency to provide certain information on a continuing basis.
Payment Record	The District has never defaulted on the payment of its bonded indebtedness.
Legality	Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the rendering of opinions as to legality by Sara Leon & Associates, LLC, Austin, Texas, and Orrick, Herrington & Sutcliffe LLP, Houston, Texas, Co-Bond Counsel (see “LEGAL MATTERS”).

For additional information regarding the District, please contact:

<p>Dr. Dustin Barton Superintendent of Schools Skidmore-Tynan Independent School District or 224 West Main Street Skidmore, Texas 78389 Phone: (361) 287-3426</p>	<p>Joshua McLaughlin or Alison Long BOK Financial Securities, Inc. 333 West Campbell Road, Suite 350 Richardson, Texas 75080 Phone: (214) 576-0878</p>
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**SKIDMORE-TYNAN INDEPENDENT SCHOOL DISTRICT
OFFICIALS, STAFF AND CONSULTANTS**

ELECTED OFFICIALS

<u>Name</u>	<u>Term Expires</u>	<u>Occupation</u>
James Bennett, President	November 2020	Special Ranger, Texas and Southwestern Cattle Raisers Association
Edward Polasek, Vice President	November 2020	Farmer
Will Carriger, Secretary	November 2022	Farmer
Rick Olivares, Member	November 2020	Employee, Texas Department of Criminal Justice
Luke Hardin, Member	November 2022	Refinery Operator
Joe Menchaca, Member	November 2022	Project Manager
April Alvarado, Member	November 2022	Office Manager

CERTAIN DISTRICT OFFICIALS

<u>Name</u>	<u>Position</u>
Dr. Dustin Barton	Superintendent of Schools
Robin Moore	Business Manager

CONSULTANTS AND ADVISORS

Auditors	Cameron L. Gulley, CPA Eastland, Texas
Co-Bond Counsel	Sara Leon & Associates, LLC Austin, Texas
	Orrick, Herrington & Sutcliffe LLP Houston, Texas
Financial Advisor	BOK Financial Securities, Inc. Richardson, Texas

OFFICIAL STATEMENT RELATING TO
\$6,015,000
SKIDMORE-TYNAN INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Bee and San Patricio Counties, Texas)
UNLIMITED TAX REFUNDING BONDS, SERIES 2020

INTRODUCTORY STATEMENT

This Official Statement, including Schedule I and Appendices A, B and D, has been prepared by the Skidmore-Tynan Independent School District located in Bee and San Patricio Counties, Texas (the “District”), in connection with the offering by the District of its Unlimited Tax Refunding Bonds, Series 2020 (the “Bonds”), identified on the cover page hereof.

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

There follows in this Official Statement descriptions of the Bonds and the Order (as defined herein), 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 electronic mail or upon payment of reasonable copying, mailing, and handling charges by writing the District’s Financial Advisor, BOK Financial Securities, Inc., 333 West Campbell Road, Suite 350, Richardson, Texas 75080 (the “Financial Advisor”).

This Official Statement speaks only as of its date and the information contained herein is subject to change. A copy of the final Official Statement will be submitted to the Municipal Securities Rulemaking Board (the “MSRB”) and will be available through its Electronic Municipal Market Access (“EMMA”) system. See “CONTINUING DISCLOSURE OF INFORMATION” for information regarding the EMMA system and for a description of the District’s undertaking to provide certain information on a continuing basis.

THE BONDS

Authorization

The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the “State”), including, particularly, Chapter 1207, Texas Government Code, as amended, and an order authorizing the issuance of the Bonds (the “Bond Order”) adopted by the Board of Trustees (the “Board”) of the District on April 13, 2020. In the Bond Order, the Board delegated to an officer (the “Pricing Officer”) of the District authority to complete the sale of the Bonds. The terms of the sale are included in a “Pricing Certificate,” which was approved and executed by the Pricing Officer on May 19, 2020, which completed the sale of the Bonds (the Bond Order and the Pricing Certificate are collectively referred to as the “Order”). Capitalized terms used herein have the same meanings assigned to such terms in the Order, except as otherwise indicated.

Purpose

The Bonds will be used to refund a portion of the District’s currently outstanding bonds (the “Refunded Bonds”) (see “THE BONDS – Refunded Bonds” and “Schedule I – SCHEDULE OF BONDS TO BE REFUNDED” for a more complete description of the Refunded Bonds) and to pay costs of issuance related to the Bonds. The refunding is being undertaken to lower the District’s debt service payments and will result in a present value savings to the District.

Refunded Bonds

A description and identification of the Refunded Bonds appears in Schedule I attached hereto. The Refunded Bonds and the interest due thereon are to be paid on their redemption date from funds to be deposited pursuant to an Escrow Agreement (the “Escrow Agreement”) between the District and BOKF, NA, Dallas, Texas (the “Escrow Agent”).

The Order provides that from the proceeds of the sale of the Bonds to the initial purchaser thereof (the “Underwriter”), the District will deposit with the Escrow Agent an amount which, when added to the investment earnings thereon, will be sufficient to accomplish the discharge and final payment of the Refunded Bonds on their redemption date. Such funds will be held by the Escrow Agent in an escrow account (the “Escrow Fund”) and used to purchase direct noncallable obligations of the United States, including obligations

that are unconditionally guaranteed by the United States (the “Escrow Securities”). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of, premium, if any, and interest on the Refunded Bonds.

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

By the deposit of the Escrow Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of all of the Refunded Bonds pursuant to the terms of Chapter 1207, Texas Government Code, as amended, and the order authorizing the issuance of the Refunded Bonds. As a result of such defeasance, the Refunded Bonds will be outstanding only for the purpose of receiving payments from the Escrow Securities and any cash held for such purpose by the Escrow Agent, such Refunded Bonds will not be deemed as being outstanding obligations of the District, payable from the sources and secured in the manner provided in the order authorizing their issuance or for any other purpose, and the District will have no further responsibility with respect to amounts available in the Escrow Fund for the payment of the Refunded Bonds from time to time, including any insufficiency therein caused by the failure to receive payment when due on the Escrow Securities. Upon defeasance of the Refunded Bonds, the payment of such Refunded Bonds will no longer be guaranteed by the Permanent School Fund of Texas.

General Description

The Bonds shall be dated May 15, 2020, and interest accruing on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months. Interest on the Bonds will accrue from the date of their initial delivery (the “Date of Delivery”) to the Underwriter, at the interest rates shown on page 2 hereof and such interest shall be payable to the registered owners thereof commencing on August 15, 2020, and semiannually thereafter on each succeeding February 15 and August 15 until stated maturity or prior redemption. The Bonds are to mature on the dates and in the principal amounts shown on page 2 hereof. The Bonds will each be issued as fully registered obligations in principal denominations of \$5,000 or any integral multiple thereof within a maturity. The paying agent and transfer agent for the Bonds is initially BOKF, NA, Dallas, Texas (the “Paying Agent/Registrar”).

Initially, the Bonds will be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. No physical delivery of the Bonds will be made to the beneficial owners. The principal of and interest on the Bonds at maturity or upon prior redemption will be payable by the Paying Agent/Registrar to Cede & Co., which will distribute the amounts paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “BOOK-ENTRY-ONLY SYSTEM” for a more complete description of such system.

Interest on the Bonds will be payable to the registered owner whose name appears on the bond registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined) and such accrued interest will be paid by (i) check sent by United States mail, first class, postage prepaid, to the address of the registered owner appearing on such registration books of the Paying Agent/Registrar or (ii) such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. The record date for determining the party to whom interest is payable on any interest payment date for the Bonds is the close of business on the last business day of the month next preceding such interest payment date (the “Record Date”) (see “REGISTRATION, TRANSFER AND EXCHANGE – Record Date for Interest Payment”). The principal of the Bonds at maturity or on a prior redemption date will be payable only upon presentation of such Bonds at the designated office of the Paying Agent/Registrar upon maturity or prior redemption, as applicable; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under “BOOK-ENTRY-ONLY SYSTEM” herein.

Security

The Bonds are direct obligations of the District and are payable as to principal and interest from an annual ad valorem tax levied on all taxable property within the District, without legal limit as to rate or amount, as provided in the Order. Additionally, the District has applied for and received from the Texas Education Agency conditional approval for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of the State of Texas (see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM,” “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS” and “CURRENT PUBLIC SCHOOL FINANCE SYSTEM”).

Permanent School Fund Guarantee

In connection with the sale of the Bonds, the District has made application to and received conditional approval from the Texas Commissioner of Education for guarantee of the Bonds under the Texas Permanent School Fund Guarantee Program (Chapter 45, Subchapter C of the Texas Education Code, as amended). Subject to satisfying 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.

In the event of default, registered owners will receive all payments due on the Bonds from the corpus of the Permanent School Fund. The Permanent School Fund Guarantee will terminate with respect to Bonds that are defeased (see “THE BONDS – Defeasance of Bonds”).

Redemption Provisions

The Bonds maturing on and after August 15, 2030, are subject to redemption prior to stated maturity, at the option of the District, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2029, or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. If less than all of the Bonds are to be redeemed, the District shall determine the principal amount and maturities to be redeemed and shall direct the Paying Agent/Registrar to select by lot or other customary method that results in a random selection, the Bonds or portions thereof within a maturity, to be redeemed.

Notice of Redemption

At least 30 days prior to the date fixed for any such redemption of the Bonds, the District shall cause a written notice of such redemption to be deposited in the United States mail, first-class postage prepaid, addressed to each registered owner at the address shown on the Registration Books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice.

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. UPON THE GIVING OF THE NOTICE OF REDEMPTION AND ANY OTHER CONDITION TO REDEMPTION SATISFIED, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND INTEREST ON SUCH BONDS OR PORTION THEREOF SHALL CEASE TO ACCRUE, IRRESPECTIVE OF WHETHER SUCH BONDS ARE SURRENDERED FOR PAYMENT.

With respect to any optional redemption of the Bonds, unless moneys sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed shall have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice may state that said redemption is conditional upon the receipt of such moneys by the Paying Agent/Registrar on or prior to the date fixed for such redemption, or upon the satisfaction of any prerequisites set forth in such notice of redemption; and, if sufficient moneys are not received or such prerequisites are not satisfied, such notice shall be of no force and effect, the District shall not redeem such Bonds and the Paying Agent/Registrar shall give notice, in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

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

Legality

The Bonds are offered when, as and if issued, and subject to the approval of legality by the Attorney General of the State and the opinions of Sara Leon & Associates, LLC, Austin, Texas, and Orrick, Herrington & Sutcliffe LLP, Houston, Texas, Co-Bond Counsel (see “LEGAL MATTERS” and “Appendix C – FORMS OF LEGAL OPINIONS OF CO-BOND COUNSEL”).

Payment Record

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

Defeasance of Bonds

The Order provides for the defeasance of the Bonds in any manner permitted by law. Under current State law, defeasance would include when payment of the principal amount of and interest on the Bonds to their due date (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with the Paying Agent/Registrar, or a trust company or commercial bank authorized to serve as an escrow agent, (a) cash in an amount sufficient to make such payment or (b) pursuant to an escrow or trust agreement, cash and/or (1) direct, non-callable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (2) non-callable 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 are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (3) non-callable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, the principal and interest on which will, when due or redeemable at the option of the holder, without further investment or reinvestment of either the principal amount thereof of the interest earnings thereon, provide money in an amount which, together with other money, if any, held in such escrow, will be sufficient to provide for the timely payment of the principal of and interest on such Bonds to their due date.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid obligations for purposes of applying any limitation on indebtedness or for purposes of taxation and such defeased Bonds will no longer be guaranteed by the Texas Permanent School Fund. After firm banking and financial arrangements for the discharge and final payment or redemption 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, that the right to call the Bonds for redemption is not extinguished, if the District (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call 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.

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 are deemed to have consented to defeasance with such other investments may not be of the same investment quality as those currently permitted under State law.

Amendments

The District may amend the Order without the consent of or notice to any registered owner in any manner not detrimental to the interest of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the consent of the holders who own in the aggregate 51% of the principal amount of the Bonds then outstanding, amend, add to, or rescind any of the provisions of the Order; provided that, without the consent of all registered owners of outstanding Bonds, no such amendment, addition, or rescission shall (i) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof or the rate of interest thereon, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (ii) give any preference to any Bond over any other Bond, or (iii) reduce the aggregate principal amount of Bonds required to be held by registered owners for consent to any such amendment, addition, or rescission.

Sources and Uses of Funds

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

Sources:

Principal Amount of the Bonds	\$ 6,015,000.00
Original Issue Reoffering Premium on the Bonds	<u>765,827.60</u>
Total Sources of Funds	<u>\$ 6,780,827.60</u>

Uses:

Deposit to Escrow Fund	\$ 6,646,259.60
Costs of Issuance and Underwriter's Discount	<u>134,568.00</u>
Total Uses of Funds	<u>\$ 6,780,827.60</u>

INFECTIOUS DISEASE OUTBREAK – COVID-19

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been characterized as a pandemic (the “Pandemic”) by the World Health Organization and is currently affecting many parts of the world, including the United States and the State. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States and on March 13, 2020, the President of the United States declared the outbreak of COVID-19 in the United States a national emergency. Subsequently, the President’s Coronavirus Guidelines for America and the United States Centers for Disease Control and Prevention called upon Americans to take actions to slow the spread of COVID-19 in the United States.

On March 13, 2020, the Governor of Texas (the “Governor”) declared a state of disaster for all counties in the State in response to the Pandemic. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency (including TEA) that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has since issued a number of executive orders relating to COVID-19 preparedness and mitigation. These include, for example, the issuance on May 18, 2020 of Executive Order GA-23 which, among other things, maintained the previously ordered closure of in-person classroom attendance at school districts through the remainder of the 2019-2020 school year, maintained certain mandates regarding the minimization of in-person contact with people who are not in the same household, and reopened certain services under certain conditions and limitations (as provided therein). Public education teachers and staff are encouraged to continue to work remotely from home if possible, but may return to schools to conduct remote video instruction, as well as perform administrative duties, under the minimum standard health protocols found in guidance issued by the TEA. Beginning June 1, 2020, public school districts may offer, and public education students may accordingly visit school campuses for, in-person classroom instructional activities and learning options, such as summer school programs, special education evaluations, specialized assessments, and individualized tutoring, under the minimum standard health protocols found in guidance issued by the TEA. Executive Order GA-23 remains in place until 11:59 p.m. on June 3, 2020 unless otherwise modified, amended, rescinded or superseded by the Governor. In addition to the actions by the State and federal officials, local officials have declared a local state of disaster. Many of the federal, state and local actions and policies under the aforementioned disaster declarations are focused on limiting instances where the public can congregate or interact with each other, which affects the operation of schools.

TEA has informed Texas school districts that COVID-19 related school closings and/or absenteeism will not impact ADA calculations and school funding so long as a school district commits to support students instructionally while they are at home. The District has developed remote instructional resources for its students and has begun delivering remote instruction. Therefore, the District does not anticipate a reduction in State funding as a result of the school closures at this time (see “CURRENT PUBLIC SCHOOL FINANCE SYSTEM”).

The District continues to monitor the spread of COVID-19 and is working with local, State and national agencies to address the potential impact of the Pandemic upon the District. While the potential impact of the Pandemic on the District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District’s operations and financial condition.

The Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide. These negative impacts may reduce or negatively affect property values within the District (see “AD VALOREM PROPERTY TAXATION”). The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District’s share of operations and maintenance expenses payable from ad valorem taxes.

Additionally, State funding of District operations and maintenance in future fiscal years could be adversely impacted by the negative effects on economic growth and financial markets resulting from the Pandemic as well as ongoing disruptions in the global oil markets (see “CURRENT PUBLIC SCHOOL FINANCE SYSTEM”).

For a discussion of the impact of the Pandemic on the PSF, see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – Infectious Disease Outbreak.”

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

The information below concerning the Permanent School Fund and the Guarantee Program for School District Bonds has been provided by the Texas Education Agency and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the District, the Financial Advisor or the Underwriter.

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 five member board, the membership of which consists of the Commissioner of the Texas General Land Office (the “Land Commissioner”) and four citizen members appointed by the Governor. (See “2019 Texas Legislative Session” for a description of legislation that changed the composition of the SLB). As of August 31, 2019, the General Land Office (the “GLO”) managed approximately 26% 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 Texas voters of the 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 (the “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, distributions to the ASF amounted to an estimated \$306 per student and the total amount distributed to the ASF was \$1,535.8 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, 2019, 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, 2019 is derived from the audited financial statements of the PSF, which are included in the Annual Report as 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, 2019 and for a description of the financial results of the PSF for the year ended August 31, 2019, the most recent year for which audited financial information regarding the Fund is available. The 2019 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2019 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, as approved by State voters at the November 5, 2019 referendum.

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 exceeded 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 large cap equities at 14%, emerging market 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: 34.91% in public market equity investments; 13.35% in fixed income investments; 10.58% in absolute return assets; 11.31% in private equity assets; 8.71% in real estate assets; 7.46% in risk parity assets; 6.16% in real return assets; 7.03% in emerging market debt; and 0.49% in unallocated cash.

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

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

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

Management and Administration of the Fund

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

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

Texas law assigns control of the Fund’s land and mineral rights to the SLB. Administrative duties related to the land and mineral rights reside with the GLO, which is under the guidance of the Commissioner of the GLO. In 2007, the Legislature established the real estate special fund account of the PSF (the “Real Estate Account”) consisting of proceeds and revenue from land, mineral or royalty interest, real estate investment, or other interest, including revenue received from those sources, that is set apart to the PSF under the Texas Constitution and laws, together with the mineral estate in riverbeds, channels, and the tidelands, including islands. The investment of the Real Estate Account is subject to the sole and exclusive management and control of the SLB and the Land Commissioner, who is also the head of the GLO. The 2007 legislation presented constitutional questions regarding the respective roles of the SBOE and the SLB relating to the disposition of proceeds of real estate transactions to the ASF, among other questions. Amounts in the investment portfolio of the PSF are taken into account by the SBOE for purposes of determining the Distribution Rate. An amendment to the Texas Constitution was approved by State voters on November 8, 2011, which permits the SLB to make transfers directly to the ASF, see “2011 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. 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 March 20, 2020 (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 6.15%. At March 24, 2020, there were 183 active open-enrollment charter schools in the State and there were 790 charter school campuses operating under such charters (though as of such date, four 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. As a result of SB 1480, the amount of charter district bonds eligible for guarantee in fiscal years 2018, 2019 and 2020 increased by the full 20% increase permitted by SB 1480, which increased 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 CDBG Capacity, SB 1480 provides that the Commissioner, in making a determination as to whether to approve a guarantee for a charter district, may consider any additional reasonable factor that the Commissioner determines to be necessary to protect the Bond Guarantee Program or minimize risk to the PSF, including: (1) whether the charter district had an average daily attendance of more than 75 percent of its student capacity for each of the preceding three school years, or for each school year of operation if the charter district has not been in operation for the preceding three school years; (2) the performance of the charter district under certain performance criteria set forth in Education Code Sections 39.053 and 39.054; and (3) any other indicator of performance that could affect the charter district's financial performance. Also, SB 1480 provides that the Commissioner's investigation of a charter district application for guarantee may include an evaluation of whether the charter district bond security documents provide a security interest in real property pledged as collateral for the bond and the repayment obligation under the proposed guarantee. The Commissioner may decline to approve the application if the Commissioner determines that sufficient security is not provided. The Act and the CDBG Rules previously required the Commissioner to make an investigation of the accreditation status and certain financial criteria for a charter district applying for a bond guarantee, which remain in place.

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the "Charter District Reserve Fund"). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10 percent of the savings to the charter district that is a result of the lower interest rate on its bonds due to the guarantee by the PSF. SB 1480 modified the Act insofar as it pertains to the Charter District Reserve Fund. Effective September 1, 2017, the Act provides that a charter district that has a bond guaranteed must remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 20 percent of the savings to the charter district that is a result of the lower interest rate on the bond due to the guarantee by the PSF. The amount due shall be paid on receipt by the charter district of the bond proceeds. However, the deposit requirement will not apply if the balance of the Charter District Reserve Fund is at least equal to three percent (3.00%) of the total amount of outstanding guaranteed bonds issued by charter districts. As of February 29, 2020, the Charter District Reserve Fund contained \$35,183,564, which represented approximately 1.49% 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.

Infectious Disease Outbreak

A respiratory disease named “2019 novel coronavirus” (“COVID-19”) has recently spread to many parts of the world, including Texas and elsewhere in the U.S. On March 13, 2020, the U.S. president declared a national emergency and the Governor of Texas (the “Governor”) declared COVID-19 as a statewide public health disaster (the “COVID-19 Declarations”). Subsequent actions by the Governor imposed temporary restrictions on certain businesses and ordered all schools in the State to temporarily close. This situation is rapidly developing; for additional information on these events in the State, reference is made to the website of the Governor, <https://gov.texas.gov/>, and, with respect to public school events, the website of TEA, <https://tea.texas.gov/texas-schools/safe-and-healthy-schools/coronavirus-covid-19-support-and-guidance>.

Potential Impact of COVID-19 in the State and Investment Markets. The anticipated continued spread of COVID-19, and measures taken to prevent or reduce its spread, will likely adversely impact State, national and global economic activities and, accordingly, materially adversely impact the financial condition and performance of the State. The continued spread of COVID-19, and measures taken to prevent or reduce its spread, may also adversely affect the tax bases of school districts in the State, including districts that have bonds that are guaranteed under the Guarantee Program.

As noted herein, the PSF investments are in diversified investment portfolios and it is expected that the Fund will reflect the general performance returns of the markets in which it is invested. Stock values, crude oil prices and other investment categories in the U.S. and globally in which the Fund is invested or which provide income to the Fund, have seen significant volatility attributed to COVID-19 concerns, which could adversely affect the Fund’s values.

TEA Continuity of Operations. Since 2007, Texas Labor Code Section 412.054 has required each State agency to develop and submit to the State Office of Risk Management an agency-level continuity of operations plan to keep the agency operational in case of disruptions to production, finance, administration or other essential operations. Such plans may be implemented during the occurrence or imminent threat of events such as extreme weather, natural disasters and infectious disease outbreaks. TEA has adopted a continuity of operations plan, which provides for, among other measures and conditions, steps to be taken to ensure performance of its essential missions and functions under such threats and conditions in the event of a pandemic event. TEA annually conducts risk assessments and risk impact analysis that include stress testing and availability analysis of system resources, including systems that enable TEA employees to work remotely, as is occurring as a result of the COVID-19 declarations. As noted above, under “The School District Bond Guarantee Program,” the Guarantee Program is in significant part an intercept program whereby State funding for school districts and charter districts reimburse the Fund for any guarantee payment from the Fund for a non-performing district. In addition to the continuity of operations plan provisions noted above, the Fund maintains cash positions in its portfolios that are intended to provide liquidity to the Fund for payments under the Guarantee Program pending reimbursement of the Fund by the Comptroller. Fund management is of the view that its liquidity position, which changes from time to time in light of then current circumstances, is sufficient for payment of claims made on the Guarantee Program.

Impact of COVID-19 on School Districts and Charter Districts. TEA cannot predict whether any school or charter district may experience short- or longer-term cash flow emergencies as a direct or indirect effect of COVID-19 that would require a payment from the PSF to be made to a paying agent for a guaranteed bond. Most school district bonds in the State are issued as fixed rate debt, with semiannual payments in February and August. Taxes levied by school districts for payment of bonds are generally collected by the end of January in each year. Consequently, PSF management is of the view that scheduled bond payments for school districts for the 2020 calendar year are unlikely to be affected by COVID-19. TEA has issued guidance to school districts and charter districts regarding, among other matters, the closure of schools, and TEA has established waivers for payment to school districts and charter districts, as such payments are in large part based on school attendance. Those waivers are intended to provide continued funding during the period of closure, although certain of the waivers require schools to provide on-line or at home curriculum in order to benefit from waivers. Reference is made to “Charter School Risk Factors” herein for a description of unique circumstances that pertain to the funding of charter districts.

Ratings of Bonds Guaranteed Under the Guarantee Program

Moody’s Investors Service, Inc., S&P Global Ratings, a division of Standard & Poor’s Financial Services LLC, 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		
<u>Fiscal Year Ended 8/31</u>	<u>Book Value⁽¹⁾</u>	<u>Market Value⁽¹⁾</u>
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⁾	35,288,344,219	46,464,447,981

⁽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 February 29, 2020, the PSF had a book value of \$35,908,691,818 and a market value of \$46,992,040,588. February 29, 2020 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds	
<u>At 8/31</u>	<u>Principal Amount⁽¹⁾</u>
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 and charter districts over the remaining life of the bonds guaranteed by the Guarantee Program was \$133,188,149,265, of which \$48,790,249,062 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	
	Number of Issues	Principal Amount	Number of Issues	Principal Amount	Number 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	82,537,755,203	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 February 29, 2020 (based on unaudited data, which is subject to adjustment), there were \$87,684,853,251 of bonds guaranteed under the Guarantee Program, representing 3,361 school district issues, aggregating \$85,321,228,251 in principal amount and 54 charter district issues, aggregating \$2,363,625,000 in principal amount. At February 29, 2020, the capacity allocation of the Charter District Bond Guarantee Program was \$4,551,091,422 (based on unaudited data, which is subject to adjustment).

Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2019

The following discussion is derived from the Annual Report for the year ended August 31, 2019, including the Message of the Executive Administrator of the Fund and the Management’s Discussion and Analysis contained therein. Reference is made to the Annual Report, as filed with the MSRB, 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, 2019, 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 2019, the Fund balance was \$46.5 billion, an increase of \$2.4 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 and restatements of fund balance. 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, 2019, net of fees, were 4.17%, 5.25% and 8.18%, 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) externally managed real assets, net of fees and including cash, were 5.84%, 6.13%, and 6.41%, 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, 2019, 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, 2019, the SBOE has approved and the Fund made capital commitments to externally managed real estate investment funds in a total amount of \$5.1 billion and capital commitments to private equity limited partnerships for a total of \$6.3 billion. Unfunded commitments at August 31, 2019, totaled \$1.9 billion in real estate investments and \$2.3 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, 2019, the remaining commitments totaled approximately \$2.5 billion.

The PSF(SBOE)'s investment in domestic large cap, domestic small/mid cap, international large cap, and emerging market equity securities experienced returns, net of fees, of 3.14%, -8.99%, -2.93%, and -4.15%, respectively, during the fiscal year ended August 31, 2019. The PSF(SBOE)'s investment in domestic fixed income securities produced a return of 10.54% during the fiscal year and absolute return investments yielded a return of 2.28%. The PSF(SBOE) real estate and private equity investments returned 7.22% and 11.93%, respectively. Risk parity assets produced a return of 10.89%, while real return assets yielded 0.71%. Emerging market debt produced a return of 10.40%. Combined, all PSF(SBOE) asset classes produced an investment return, net of fees, of 4.17% for the fiscal year ended August 31, 2019, out-performing the benchmark index of 3.76% by approximately 41 basis points. All PSF(SLB) externally managed investments (including cash) returned 6.41% net of fees for the fiscal year ending August 31, 2019.

For fiscal year 2019, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled \$3.7 billion, a decrease of \$0.3 billion from fiscal year 2018 earnings of \$4.0 billion. This decrease reflects the performance of the securities markets in which the Fund was invested in fiscal year 2019. In fiscal year 2019, 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 10.0% for the fiscal year ending August 31, 2019. 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 2018 and 2019, the distribution from the SBOE to the ASF totaled \$1.2 billion and \$1.2 billion, respectively. Distributions from the SLB to the ASF for fiscal years 2018 and 2019 totaled \$0 and \$300 million, respectively.

At the end of the 2019 fiscal year, PSF assets guaranteed \$84.4 billion in bonds issued by 863 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 7,443 school district and charter district bond issues totaling \$186.2 billion in principal amount. During the 2019 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program totaled 3,346. The dollar amount of guaranteed school and charter bond issues outstanding increased by \$5.3 billion or 6.7%. The State Capacity Limit increased by \$5.0 billion, or 4.2%, during fiscal year 2019 due to continued growth in the cost basis of the Fund used to calculate that Program capacity limit. The effective capacity of the Program did not increase during fiscal year 2019 as the IRS Limit was reached during the prior fiscal year, and it is the lower of the two State and federal capacity limits for the Program.

2011 and 2019 Constitutional Amendments

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 2012-2013 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 2012-2013 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, 2019, certain lawsuits were pending against the State and/or the GLO, which challenge the Fund's title to certain real property and/or past or future mineral income from that property, and other litigation arising in the normal course of the investment activities of the PSF. Reference is made to the Annual Report, when filed, for a description of such lawsuits that are pending, which may represent contingent liabilities of the Fund.

PSF Continuing Disclosure Undertaking

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

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

Annual Reports

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

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

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

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

Event Notices

The TEA will also provide timely notices of certain events to the MSRB. Such notices will be provided not more than ten business days after the occurrence of the event. The TEA will provide notice of any of the following events with respect to the Guarantee Program: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if such event is material within the meaning of the federal securities laws; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax-exempt status of the Guarantee Program, or other material events affecting the tax status of the Guarantee Program; (7) modifications to rights of holders of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (8) bond calls, if such event is material within the meaning of the federal securities laws, and tender offers; (9) defeasances; (10) release,

substitution, or sale of property securing repayment of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the Guarantee Program (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Guarantee Program in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Guarantee Program, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Guarantee Program); (13) the consummation of a merger, consolidation, or acquisition involving the Guarantee Program or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) the appointment of a successor or additional trustee with respect to the Guarantee Program or the change of name of a trustee, if such event is material within the meaning of the federal securities laws; (15) the incurrence of a financial obligation of the Guarantee Program, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Program, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Guarantee Program, any of which reflect financial difficulties. (Neither the Act nor any other law, regulation or instrument pertaining to the Guarantee Program make any provision with respect to the Guarantee Program for bond calls, debt service reserves, credit enhancement, liquidity enhancement, early redemption or the appointment of a trustee with respect to the Guarantee Program.) In addition, the TEA will provide timely notice of any failure by the TEA to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports.”

Availability of Information

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

Limitations and Amendments

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

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

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

Compliance with Prior Undertakings

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

SEC Exemptive Relief

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

REGISTERED OWNERS’ REMEDIES

The Order does not specify events of default with respect to the Bonds. If the District defaults in the payment of principal or interest on the Bonds when due, or if it fails to make payments into any fund or funds created in the Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, and the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, 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, as well as enforce rights of payment under the Permanent School Fund Guarantee, 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.3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in “clear and unambiguous” language. Because it is unclear whether the Texas legislature has effectively waived the District’s sovereign immunity from a suit for money damages, bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants in the absence of District action. 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 United States Bankruptcy Code (“Chapter 9”). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinions of Co-Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, principles of governmental immunity and by general principles of equity which permit the exercise of judicial discretion.

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

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and principal of, premium, if any, interest and redemption payments on the Bonds are to be paid to and credited by DTC while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District, the Financial Advisor and the Underwriter believe the source of such information to be reliable, but none of the District, the Financial Advisor or the Underwriter takes any responsibility for the accuracy or completeness thereof.

The District, the Financial Advisor and the Underwriter cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The

current rules applicable to DTC are on file with the United States Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered 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 certificate will be issued for each stated maturity of the Bonds, as set forth on page 2 hereof, 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 rating from S&P Global Ratings 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 the 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 Paying Agent/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 the 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 the 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 dates 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 in 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. Payments on 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 transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

Use of Certain Terms in Other Sections of this Official Statement

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

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the District, the Financial Advisor or the Underwriter.

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

BOKE, NA, Dallas, Texas, has been named to serve as initial Paying Agent/Registrar for the Bonds. In the Order, the District retains the right to replace 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 legally qualified bank, trust company, financial institution or other agency 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 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.

In the event the Book-Entry-Only System should be discontinued, interest on the Bonds will be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date, and such interest will be paid (i) by check sent United States mail, first class, postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Bonds at maturity or on a prior redemption date will be paid to the registered owner at the stated maturity or earlier redemption, as applicable, upon presentation to the designated payment/transfer office of the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under “BOOK-ENTRY-ONLY SYSTEM” herein. If the date for the payment of the principal of or interest on the Bonds is a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the principal corporate trust office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment will be the next succeeding day which is not such a day, and payment on such date will have the same force and effect as if made on the date payment was due.

Future Registration

In the event the Book-Entry-Only System is discontinued, printed Bond certificates will be delivered to the owners of the Bonds and thereafter the Bonds may be transferred, registered and assigned on the registration books only upon presentation and surrender of such printed certificates 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 designated 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 kind and aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer. See "BOOK-ENTRY-ONLY SYSTEM" for a description of the system to be utilized initially in regard to the ownership and transferability of the Bonds.

Record Date for Interest Payment

The Record Date for determining the person to whom is payable the interest on the Bonds on any interest payment date means the close of business on the last business day of the month next preceding such interest payment date. In the event of a nonpayment 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 (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

The Paying Agent/Registrar shall not be required to make any transfer or exchange with respect to Bonds during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or with respect to any Bond or any portion thereof called for redemption prior to maturity, within 30 days prior to its redemption date, provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

Replacement Bonds

If any Bond is mutilated, destroyed, stolen or lost, a new Bond in the same principal amount, maturity and interest rate 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 in substitution for a Bond which has been destroyed, stolen or lost, such new Bond will be delivered only (a) upon filing with the Paying Agent/Registrar of satisfactory evidence 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.

LEGAL MATTERS

The District will furnish to the Underwriter a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approving legal opinions of Sara Leon & Associates, LLC and Orrick, Herrington & Sutcliffe LLP, Co-Bond Counsel, with respect to the Bonds being issued in compliance with the provisions of applicable law and the opinion of Orrick, Herrington & Sutcliffe LLP, Tax Counsel, 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 of 1986, subject to the matters described under "TAX MATTERS" herein. The forms of Co-Bond Counsel's opinions are attached hereto as Appendix C.

Though it represents the Financial Advisor and the Underwriter from time to time in matters unrelated to the issuance of the Bonds, Co-Bond Counsel has been engaged by and only represents the District in connection with the issuance of the Bonds. Except as noted below, Co-Bond Counsel did not take part in the preparation of the Official Statement, and such firms have not assumed any

responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Co-Bond Counsel, such firms have reviewed the information appearing under the captions, "THE BONDS" (except under the subcaptions "Permanent School Fund Guarantee," the fourth paragraph under "Notice of Redemption," "Payment Record" and "Sources and Uses of Funds"), "REGISTRATION, TRANSFER AND EXCHANGE," "LEGAL MATTERS" (except for the last three sentences of this paragraph), "TAX MATTERS" (Tax Counsel only), "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE," "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM," "TAX RATE LIMITATIONS" (except for the last sentence of the second paragraph under the subcaption "I&S Tax Rate Limitations"), "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS" and "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance with Prior Undertakings") and such firms are of the opinion that the information relating to the Bonds and legal matters contained under such captions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. The legal fee to be paid to Co-Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriter by its counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas. The legal fee of such firm is contingent upon the sale and delivery 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 Official Statement.

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

In the opinion of Orrick, Herrington & Sutcliffe LLP, Tax Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Tax Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. A complete copy of the proposed form of opinion of Tax Counsel is set forth in Appendix C hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriter, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Certificate, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Tax Counsel assumes the accuracy of these representations and compliance with these covenants. Tax Counsel has not undertaken to

determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Tax Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Tax Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Tax Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Tax Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislature proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Tax Counsel is expected to express no opinion.

The opinion of Tax Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Tax Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Tax Counsel cannot give and has not given any opinion or assurance about the future activities of the District or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Tax Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Tax Counsel is not obligated to defend the District or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the District and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the District or the Beneficial Owners to incur significant expense.

Qualified Tax-Exempt Obligations for Financial Institutions

The District has designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3)(B) of the Internal Revenue Code of 1986, as amended. Pursuant to that section of the Code, a qualifying financial institution will be allowed a deduction from its own federal corporate income tax for the portion of interest expense the financial institution is able to allocate to designated "bank-qualified" investments.

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 (the "SEC") 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 SEC, nor has the SEC passed upon the accuracy or adequacy of the Official Statement. 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 Underwriter 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 Underwriter's 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.

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

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

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

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

Possible Effects of Changes in Law on District 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 State Legislature could enact future changes to the Finance System. Any such changes could benefit or be a detriment to the District. If the State 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 State 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 Official Statement. Prospective investors are encouraged to review HB 3, SB 2, and the Property Tax Code (as defined herein) for definitive requirements for the levy and collection of ad valorem taxes, the calculation of the defined tax rates, and the administration of the current public school finance system.

Overview

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

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

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

Local Funding for School Districts

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

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

Maximum Compressed Tax Rate. Pursuant to the 2019 Legislation, beginning with the State fiscal year ending in 2021 (the 2020-2021 school year) the Maximum Compressed Tax Rate (the "MCR") is the tax rate per \$100 of valuation of taxable property at which a school district must levy its Tier One Tax Rate to receive the full amount of the Tier One funding to which the school district is entitled. The MCR is equal to the lesser of three alternative calculations: (1) the school district's prior year MCR; (2) a percentage determined by formula if the school district experienced a year-over-year increase in property value of at least 2.5%; or (3) the product of the State Compression Percentage for the current year multiplied by \$1.00. However, each year the TEA shall evaluate the MCR for each school district in the State, and for any given year, if a school district's MCR is calculated to be less than 90% of any

other school district's MCR for the current year, then the school district's MCR is instead equal to the school district's prior year MCR, until TEA determines that the difference between the school district's MCR and any other school district's MCR is not more than 10%. These compression formulas are intended to more closely equalize local generation of Tier One funding among districts with disparate tax bases and generally reduce the Tier One Tax Rates of school districts as property values increase.

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

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

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

State Funding for School Districts

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

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

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

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

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

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

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

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

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

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

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

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

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

Local Revenue Level in Excess of Entitlement

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

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

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

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

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

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

AD VALOREM PROPERTY TAXATION

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

Valuation of Taxable Property

The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the "Appraisal Review Board") responsible for appraising property for all taxing units within the county. The appraisal of property within the District is the collective responsibility of the Bee County Appraisal District and San Patricio 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 PROPERTY TAXATION – District and Taxpayer Remedies”).

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

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

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

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

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

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

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

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

Temporary Exemption for Qualified Property Damaged by a Disaster. The Property Tax Code entitles the owner of certain qualified (i) tangible personal property used for the production of income, (ii) improvements to real property, and (iii) manufactured homes located in an area declared by the governor to be a disaster area following a disaster and is at least 15 percent damaged by the disaster, as determined by the chief appraiser, to an exemption from taxation of a portion of the appraised value of the property. The amount of the exemption ranges from 15 percent to 100 percent based upon the damage assessment rating assigned by the chief appraiser. Except in situations where the territory is declared a disaster on or after the date the taxing unit adopts a tax rate for the year in which the disaster declaration is issued, the governing body of the taxing unit is not required to take any action in order for the taxpayer to be eligible for the exemption. If a taxpayer qualifies for the exemption after the beginning of the tax year, the amount of the exemption is

prorated based on the number of days left in the tax year following the day on which the governor declares the area to be a disaster area. For more information on the exemption, reference is made to Section 11.35 of the Tax Code. Section 11.35 of the Tax Code was enacted during the 2019 legislative session, and there is no judicial precedent for how the statute will be applied. Texas Attorney General Opinion KP-0299, issued on April 13, 2020, concluded a court would likely find the Texas Legislature intended to limit the temporary tax exemption to apply to property physically harmed as a result of a declared disaster.

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 ten-year term of a tax limitation agreement, a school district may only levy and collect M&O taxes on the agreed-to limited appraised property value. For the purposes of calculating its Tier One and Tier Two entitlements, the portion of a school district’s property that is not fully taxable is excluded from the school district’s taxable property values. Therefore, a school district will not be subject to a reduction in Tier One or Tier Two State funds as a result of lost M&O tax revenues due to entering into a tax limitation agreement (see “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts”).

For a discussion of how the various exemptions described above are applied by the District, see “THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT” herein. For a schedule of the reductions in assessed valuation attributable to the exemptions allowed by the District, see “Appendix A – FINANCIAL INFORMATION REGARDING THE DISTRICT.”

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. The Property Tax Code permits taxpayers owning homes or certain businesses located in a disaster area and damaged as a direct result of the declared disaster to pay taxes imposed in the year following the disaster in four equal installments without penalty or interest, commencing on February 1 and ending on August 1. See “AD VALOREM TAX PROCEDURES – Temporary Exemption for Qualified Property Damaged by a Disaster” for further information related to a discussion of the applicability of this section of the Property Tax Code.

District’s Rights in the Event of Tax Delinquencies

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

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

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

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

THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT

Each respective Appraisal District has the responsibility for appraising property in the District as well as other taxing units in Bee and San Patricio Counties. Each Appraisal District is governed by a board of directors appointed by voters of the governing bodies of various political subdivisions in Bee and San Patricio Counties. The District’s taxes are collected by the Bee County Tax Assessor-Collector.

The District grants a State mandated \$25,000 general residence homestead exemption.

The District grants a State mandated \$10,000 residence homestead exemption for persons 65 years of age or older and the disabled.

The District grants a State mandated residence homestead exemption for disabled veterans.

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

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

The District does not tax non-business personal property.

Ad valorem taxes are not levied by the District against the exempt value of residence homesteads for the payment of debt.

The District does not exempt “freeport property” from taxation.

The District has taken action to continue taxing “goods-in-transit.”

The District is not currently a participant in any tax increment reinvestment zone.

The District has granted one value limitation agreement under Chapter 313 of the Texas Tax Code, the Texas Economic Development Act (“Chapter 313”), and on May 11, 2020, accepted a second application for a value limitation agreement from a wind power entity. Under Chapter 313, Texas school districts may grant value limitation agreements that limit the taxable value of certain qualified investments for maintenance and operations tax purposes. The District is a Category III district, which requires a minimum qualified investment of \$10 million. The existing value limitation agreement with Karankawa Wind, LLC (formerly Pacific Wind Development, LLC) has been approved by the State Comptroller’s office and the District’s Board of Trustees, and was granted for the purpose of enhancing the local tax base, improving the public education system, creating high-paying jobs and advancing economic development goals of the State. The agreement provides for qualifying businesses to invest a minimum capital investment totaling \$10 million within the District’s boundaries during the qualifying time period (2018-2019 tax years) to create jobs. Beginning on January 1, 2020, the investment has a taxable value of the lesser of appraised value or \$20 million. The value limitation agreement expires on December 31, 2034, but the \$20 million taxable value limit ends on December 31, 2029. For the remainder of the agreement term, Karankawa Wind, LLC is required to maintain a viable presence in the District. As of May 2018, Karankawa Wind, LLC estimated the completed value of the project would be \$108,585,000.

On May 11, 2020, the District’s Board of Trustees accepted an application for a value limitation agreement from Blackjack Creek Wind Farm, LLC. The project involves an estimated \$141,333,333 investment and would be a wind energy project. If the application is approved by both the State Comptroller of Public Accounts and the District’s Board of Trustees, the project is estimated to be commercially operational in tax year 2022.

For value limitation agreements, it is significant to note that the value limitation applies only to the maintenance and operations taxes of the school district; the total assessed value of these investments will be available to pay voter-approved bonds. Documents relevant to these projects can be accessed at <https://comptroller.texas.gov/economy/local/ch313/agreement-docs.php>.

The Board has approved a resolution initiating an additional 15% penalty to defray attorney costs in the collection of delinquent taxes over and above the penalty automatically assessed under the Property Tax Code. Charges for penalties and interest on the unpaid balance of delinquent taxes are as follows:

<u>Date</u>	<u>Cumulative Penalty</u>	<u>Cumulative Interest</u>	<u>Total</u>
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	12	6	18

After July, the penalty remains at 12%, and interest accrues at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid. A delinquent tax continues to accrue interest as long as the tax remains unpaid, regardless of whether a judgment for the delinquent tax has been rendered. The purpose of imposing such penalty is to compensate the taxing unit for revenue lost because of the delinquency. In addition, if an account is delinquent in July, an attorney’s collection fee of up to 20% may be added to the total tax penalty and interest charge.

Property within the District is assessed as of January 1 of each year (except business inventories which may be assessed as of September 1 and mineral values which are assessed on the basis of a twelve-month average) and taxes become due October 1 of the same year and become delinquent on February 1 of the following year. Split payments of taxes are not permitted. Discounts for the early payment of taxes are permitted.

TAX RATE LIMITATIONS

M&O Tax Rate Limitations

The District is authorized to levy an M&O tax rate pursuant to the approval of the voters of the District at an election held on February 11, 1965 in accordance with the provisions of Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended.

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

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

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

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

I&S Tax Rate Limitations

A school district is also authorized to issue bonds and levy taxes for payment of bonds subject to voter approval of one or more propositions submitted to the voters under Section 45.003(b)(1), Texas Education Code, as amended, which provides a tax unlimited as to rate or amount for the support of school district bonded indebtedness (see "THE 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. Refunding bonds issued pursuant to Chapter 1207, Texas Government Code, are not subject to the 50-cent Test; however, taxes levied to pay debt service on such bonds (other than bonds issued to refund exempt bonds) are included in maximum annual debt service for calculation of the 50-cent Test when applied to subsequent bond issues that are subject to the 50-cent Test. The Bonds are issued as refunding bonds issued pursuant to Chapter 1207, Texas Government Code, and are, therefore, not subject to the 50-cent Test; however, taxes levied to pay debt service on the Bonds are included in the calculation of the 50-cent Test as applied to subsequent issues of "new debt." The District has not previously used State assistance, other than EDA or IFA allotment funding, or projected property values to satisfy this threshold test.

Public Hearing and Voter-Approval Tax Rate

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

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

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

For the 2019 tax year, a school district with a Voter-Approval Tax Rate equal to or greater than \$0.97 (excluding the school district's current I&S tax rate) may not adopt tax rate for the 2019 tax year that exceeds the school district's Voter-Approval Tax Rate. At an election held on September 13, 2014, 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 \$1.0683. 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.

RATINGS

S&P Global Ratings, a division of Standard & Poor's Financial Services LLC ("S&P"), has assigned a municipal bond rating of "AAA" to the Bonds based upon the Permanent School Fund Guarantee. S&P generally rates all bond issues guaranteed by the Permanent School Fund of the State of Texas "AAA" (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM"). The District's underlying rating for the Bonds (without consideration of the Permanent School Fund Guarantee or other credit enhancement) is "A" by S&P.

An explanation of the significance of any rating may be obtained from the company furnishing the rating. The rating reflects only the view of such organization and the District makes no representation as to the appropriateness of the rating. There is no assurance that any rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the rating company, if in the judgment of such company, circumstances so warrant. Due to the ongoing political uncertainty regarding the United States of America debt limit, obligations issued by state and local governments in the United States, such as the Bonds, could be subject to a rating downgrade. Additionally, if a significant default or other financial crisis should occur in the affairs of the United States of America or of any of its agencies or political subdivisions, then such event could also adversely affect the ratings of, market for, and market value of outstanding debt obligations, including the Bonds. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds. A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201, as amended), the Bonds are (i) negotiable instruments, (ii) investment securities to which Chapter 8 of the Texas Business and Commerce Code applies, and (iii) legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State. The Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in the State which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds may have to be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds (see "RATINGS"). 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 District has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The District has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

INVESTMENT AUTHORITY AND INVESTMENT OBJECTIVES OF THE DISTRICT

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

Legal Investments

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

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

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

Investment Policies

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

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

EMPLOYEES' BENEFIT PLANS

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. For the year ended August 31, 2019, the State contributed \$264,179 to TRS on behalf of the District, District employees paid \$403,370 and other contributions into the plan made from federal and private grants and the District for salaries above the statutory minimum were \$146,211. For more detailed information concerning the Plan, TRS's net pension liability with respect thereto and the District's proportionate share of such net pension liability, see Note I to the District's audited financial statements attached hereto as Appendix D.

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

As a result of its participation in the Plan and the TRS-Care Retired Plan and having no other post-retirement benefit plans, the District has no obligations for other post-employment benefits within the meaning of Governmental Accounting Standards Board 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 the terms and conditions of employment of school employees. Some districts have adopted a policy to consult with employer groups with respect to certain terms and conditions of employment. Some examples of these groups are the Texas State Teachers Association, the Texas Classroom Teachers Association, the Association of Texas Professional Educators and the National Education Association.

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 certain specified events, to the MSRB. See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” for a description of the TEA’s continuing disclosure undertaking to provide certain updated financial information and operating data annually with respect to the Permanent School Fund and the State, as the case may be, and to provide timely notice of certain specified events related to the guarantee to the MSRB.

Annual Reports

The District will provide certain updated financial information and operating data annually to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement in Tables 1 through 21 in “Appendix A – FINANCIAL INFORMATION REGARDING THE DISTRICT” (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 2020. 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’s current fiscal year end is August 31. Accordingly, the District must provide the Annual Operating Report by the last day of February in each year, and the Financial Statements for the preceding fiscal year must be provided by August 31 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will file notice of the change (and of the date of the new fiscal year end) with the MSRB prior to the next date by which the District otherwise would be required to provide financial information and operating data as set forth above.

All financial information, operating data, financial statements and notices required to be provided to the MSRB shall be provided in an electronic format and be accompanied by identifying information prescribed by the MSRB. Financial information and operating data to be provided as set forth above may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document) available to the public on the MSRB’s Internet Web site or filed with the SEC, as permitted by Rule 15c2-12.

Notices of Certain Events

The District will also provide timely notices of certain events to the MSRB. The District will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a Financial Obligation of the District or obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the Financial Obligation of the District, any of which reflect financial difficulties. In addition, the District will provide timely notice of any failure by the District to provide annual financial information in accordance with its agreement described above under “Annual Reports.” Neither the Bonds nor the Order provide for debt service reserves, liquidity enhancement, or credit enhancement (except with respect to the Permanent School Fund Guarantee).

For these purposes, (a) any event described in clause (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District, and (b) the District intends the words used in clauses (15) and (16) in the immediately preceding paragraph and the definition of Financial Obligation in the immediately preceding paragraph to have the same meanings as when they are used in Rule 15c2-12, as evidenced by SEC Release No. 34-83885, dated August 20, 2018.

Availability of Information from MSRB

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

Limitations and Amendments

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

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 (1) the agreement, as amended would have permitted an underwriter to purchase or sell the Bonds in the offering made hereby 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 registered owners of a majority in aggregate principal amount (or any greater amount required by any other provisions of the Order that authorizes such amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the District (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interest of the registered owners and beneficial owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of Rule 15c2-12 are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in type of information and data provided.

Compliance with Prior Undertakings

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

VERIFICATION OF ARITHMETICAL COMPUTATIONS

Public Finance Partners LLC will deliver to the District, on or before the Date of Delivery of the Bonds, its verification report indicating that it has verified the mathematical accuracy of the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Escrow Securities, to pay, when due, the maturing principal of, interest on and related call premium requirements, if any, of the Refunded Bonds. Such verification will be relied upon by Co-Bond Counsel in rendering their opinions with respect to defeasance of the Refunded Bonds.

The verification performed by Public Finance Partners LLC will be solely based upon data, information and documents provided to Public Finance Partners LLC by BOK Financial Securities, Inc. on behalf of the District. Public Finance Partners LLC has restricted its procedures to recalculating the computations provided by BOK Financial Securities, Inc. on behalf of the District and has not evaluated or examined the assumptions or information used in the computations.

LITIGATION

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

At the time of the initial delivery of the Bonds, the District will provide the Underwriter with a certificate to the effect that no litigation of any nature has been filed or is then pending challenging the issuance of the 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.

FINANCIAL ADVISOR

BOK Financial Securities, Inc. is employed as Financial Advisor to the District in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. In the normal course of business, the Financial Advisor may also from time to time sell investment securities to the District for the investment of debt proceeds or other funds of the District, upon the request of the District.

BOK Financial Securities, Inc., in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

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

UNDERWRITING

The Underwriter has agreed, subject to certain customary conditions, to purchase the Bonds at a price equal to the initial offering price to the public, as shown on page 2 of this Official Statement, less an underwriting discount of \$45,301.73, and no accrued interest. The Underwriter's obligations are subject to certain conditions precedent, and they will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriter.

The Underwriter provided the following sentence for inclusion in this Official Statement and the District makes no representation or warranty with respect to such information. The Underwriter has reviewed the information in this Official Statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

FORWARD-LOOKING STATEMENTS

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

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

CONCLUDING STATEMENT

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

MISCELLANEOUS

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

In the Bond Order, the Board authorized the Pricing Officer to approve, and in the Pricing Certificate the Pricing Officer did approve, for and on behalf of the District, (i) the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and (ii) the Underwriter's use of this Official Statement in connection with the public offering and the sale of the Bonds in accordance with the provisions of Rule 15c2-12.

Dr. Dustin Barton

Pricing Officer

Skidmore-Tynan Independent School District

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

<u>Series</u>	<u>Original Dated Date</u>	<u>Original Principal Amount</u>	<u>Principal Amount Outstanding</u>	<u>Maturities Being Refunded</u>	<u>Principal Amount Outstanding</u>	<u>Principal Amount Being Refunded</u>	<u>Redemption Date</u>
Unlimited Tax School Building Bonds, Series 2011	02/01/11	\$ 6,799,999.45	\$ 6,348,320.05	08/15/21	\$ 80,256.00 ^(A)	\$ 80,256.00 ^(A)	08/15/20
				08/15/22	78,841.25 ^(A)	78,841.25 ^(A)	08/15/20
				08/15/23	74,182.50 ^(A)	74,182.50 ^(A)	08/15/20
				08/15/24	66,873.60 ^(A)	66,873.60 ^(A)	08/15/20
				08/15/25	109,708.20 ^(A)	109,708.20 ^(A)	08/15/20
				08/15/26	102,700.50 ^(A)	102,700.50 ^(A)	08/15/20
				****	****	****	****
				08/15/28	430,000.00 ^(B)	430,000.00 ^(B)	08/15/20
				****	****	****	****
				08/15/30	465,000.00 ^(C)	465,000.00 ^(C)	08/15/20
				****	****	****	****
				08/15/32	500,000.00 ^(D)	500,000.00 ^(D)	08/15/20
				****	****	****	****
				08/15/34	825,000.00 ^(E)	825,000.00 ^(E)	08/15/20
****	****	****	****				
08/15/36	900,000.00 ^(F)	900,000.00 ^(F)	08/15/20				
****	****	****	****				
08/15/41				2,630,000.00 ^(G)	2,630,000.00 ^(G)	08/15/20	
				<u>\$ 6,262,562.05</u>	<u>\$ 6,262,562.05</u>		

^(A) Represents a Premium Capital Appreciation Bond.

^(B) Represents a Term Bond having sinking fund payments due in 2027 and a final maturity in 2028.

^(C) Represents a Term Bond having sinking fund payments due in 2029 and a final maturity in 2030.

^(D) Represents a Term Bond having sinking fund payments due in 2031 and a final maturity in 2032.

^(E) Represents a Term Bond having sinking fund payments due in 2033 and a final maturity in 2034.

^(F) Represents a Term Bond having sinking fund payments due in 2035 and a final maturity in 2036.

^(G) Represents a Term Bond having sinking fund payments due in 2037, 2038, 2039 and 2040 and a final maturity in 2041.

APPENDIX A

FINANCIAL INFORMATION REGARDING THE DISTRICT

FINANCIAL INFORMATION REGARDING THE DISTRICT

**Table 1
ASSESSED VALUATION ^(A)**

2019/20 Total Assessed Valuation.....	\$	483,889,520
2019/20 Taxable Assessed Valuation.....	\$	180,344,704
 <u>Exemption</u>		
		<u>Total</u>
Residential Homestead.....	\$	16,723,055
10% Residential Homestead Cap.....		3,376,110
Over 65.....		2,175,110
Disabled Persons.....		261,450
Disabled/Deceased Veterans.....		1,081,300
Pollution Control.....		57,820
Protested Value.....		278,460
Productivity Loss.....		279,591,511
Total (62.73% of Total Assessed Valuation).....	\$	<u>303,544,816</u>

^(A) Source: Bee County Appraisal District and San Patricio County Appraisal District. Certified values are subject to change throughout the year as contested values are resolved and the Bee County Appraisal District and San Patricio County Appraisal District update records.

**Table 2
TAX DEBT OUTSTANDING ^(A)**

<u>Unlimited Tax Obligations:</u> ^(B)		
Unlimited Tax Debt Outstanding (As of May 15, 2020).....	\$	9,389,187 ^(C)
Plus: The Bonds (Dated: May 15, 2020).....		6,015,000
Less: The Refunded Bonds.....		<u>6,262,562</u>
TOTAL UNLIMITED TAX DEBT OUTSTANDING.....	\$	9,141,625 ^(C)
Less: Interest & Sinking Fund Balance (As of August 31, 2019).....		<u>340,279</u>
NET UNLIMITED TAX DEBT OUTSTANDING.....	\$	<u>8,801,346</u> ^(C)
 <u>Limited Tax Obligations:</u> ^(D)		
Limited Tax Obligations Outstanding (As of May 15, 2020).....	\$	<u>775,000</u>
NET LIMITED TAX DEBT OUTSTANDING.....	\$	<u>775,000</u>

^(A) See discussion under "AD VALOREM PROPERTY TAXATION" and "TAX RATE LIMITATIONS" in the Official Statement.

^(B) Does not include any limited tax debt obligations payable from the District's Maintenance & Operations tax rate (see "Table 16 - Limited Tax Debt Service Requirements" and "Table 18 - Loans Outstanding").

^(C) Excludes interest accreted on outstanding capital appreciation bonds.

^(D) Limited tax obligations are payable from the District's Maintenance & Operations tax rate (see "Table 16 - Limited Tax Debt Service Requirements" and "Table 18 - Loans Outstanding").

2020 Population Estimate	2,960	Per Capita Total Assessed Valuation	\$	163,476
2019/20 Enrollment	836	Per Capita Taxable Assessed Valuation	\$	60,927
Area (square miles)	250.98	Per Capita Total Unlimited Tax Debt	\$	3,088

Table 3
ESTIMATED GENERAL OBLIGATION OVERLAPPING DEBT STATEMENT

<u>Taxing Body</u>	<u>Gross Dollar Amount</u> ^(A)	<u>As Of</u>	<u>Percent Overlap</u>	<u>Dollar Overlap</u>
Bee County	\$ 25,275,000	05/15/20	9.58%	\$ 2,421,345
Coastal Bend College District	2,969,000	05/15/20	9.58%	284,430
San Patricio County	52,062,136	05/15/20	0.06%	31,237
Skidmore-Tynan ISD	\$ 9,141,625 ^{(B)(C)}	05/15/20	100.00%	\$ 9,141,625 ^{(B)(C)}
Total Direct and Overlapping Debt.....				\$ 11,878,637
Ratio of Direct Debt to Taxable Assessed Valuation.....				5.07%
Ratio of Direct and Overlapping Debt to Taxable Assessed Valuation.....				6.59%
Ratio of Direct and Overlapping Debt to Total Assessed Valuation.....				2.45%
Per Capita Direct and Overlapping Debt.....				\$4,013

^(A) Excludes interest accreted on outstanding capital appreciation bonds.

^(B) Does not include any limited tax obligations payable from the District's Maintenance & Operations tax rate (see "Table 16 - Limited Tax Debt Service Requirements" and "Table 18 - Loans Outstanding").

^(C) Includes the Bonds and excludes the Refunded Bonds.

Source: The Municipal Advisory Council of Texas - Texas Municipal Reports.

Table 4
2019/20 TOTAL TAX RATES OF OVERLAPPING POLITICAL ENTITIES

Bee County.....	\$0.677820
Coastal Bend College District.....	0.176870
San Patricio County.....	0.505600

Source: Bee County Appraisal District and San Patricio County Appraisal District.

Table 5
CURRENT INVESTMENTS

As of March 2020 (unaudited), the District's investable funds were invested in the following investment instruments:

<u>Investment Instrument</u>	<u>Market Value</u>	<u>Book Value</u>	<u>Percentage</u>
Money Market and FDIC Insured Accounts	\$ 535,704	\$ 535,704	10.35%
Investment Pools	4,638,433	4,638,433	89.65%
Totals	\$ 5,174,137	\$ 5,174,137	100.00%

Source: District records.

Table 6
PROPERTY TAX RATES AND COLLECTIONS

<u>Tax Year</u>	<u>Taxable Assessed</u>			<u>Percent Collections</u> ^(A)		<u>Fiscal Year Ended</u>
	<u>Valuation</u>	<u>Tax Levy</u>	<u>Tax Rate</u>	<u>Current</u>	<u>Total</u>	
2014	\$ 161,905,839	\$ 2,314,141	\$1.46659	97.45%	99.28%	8-31-15
2015	160,843,342	2,327,264	1.46070	97.16%	98.50%	8-31-16
2016	154,109,289	2,140,841	1.48300	97.10%	99.39%	8-31-17
2017	154,803,673	2,254,463	1.51880	97.58%	100.57%	8-31-18
2018	156,929,003	2,310,505	1.50880	<u>96.81%</u>	<u>97.93%</u>	8-31-19
	Five Year Average			<u>97.22%</u>	<u>99.13%</u>	
2019	\$ 180,344,704	\$ 2,473,858	\$1.38710	90.06% ^(B)	91.46% ^(B)	8-31-20

^(A) Excludes Penalties and Interest.

^(B) Unaudited, partial collections as of March 2020.

Source: District's Audited Financial Statements, Bee County Appraisal District, San Patricio County Appraisal District and District records. Certified values are subject to change throughout the year as contested values are resolved and the Bee County Appraisal District and San Patricio County Appraisal District update records.

Table 7
TAX RATE DISTRIBUTION ^(A)

	<u>2019/20</u>	<u>2018/19</u>	<u>2017/18</u>	<u>2016/17</u>	<u>2015/16</u>	<u>2014/15</u>
Local Maintenance ^(B)	\$1.06830 ^(C)	\$1.17000	\$1.17000	\$1.17000	\$1.17000	\$1.17000
Interest & Sinking	<u>0.31880</u>	<u>0.33880</u>	<u>0.34880</u>	<u>0.31300</u>	<u>0.29070</u>	<u>0.29659</u>
Total	<u>\$1.38710</u>	<u>\$1.50880</u>	<u>\$1.51880</u>	<u>\$1.48300</u>	<u>\$1.46070</u>	<u>\$1.46659</u>

^(A) See discussion under "TAX RATE LIMITATIONS" in the Official Statement.

^(B) The levy of a \$1.17 tax rate for maintenance and operations was approved by the voters in the District at a tax ratification election held on September 13, 2014. In addition, the levy of a \$1.10 tax rate for maintenance and operations was approved by the voters in the District at a tax ratification election held on December 5, 2008. Prior to such ratification, the District was limited to a \$1.04 tax rate for maintenance and operations.

^(C) Pursuant to House Bill 3 that was enacted during the 2019 legislative session, the District's maintenance and operations tax rate is required to be compressed from \$1.17 to \$1.0683 for year 2019/20 (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Overview" in the Official Statement).

Source: District's Audited Financial Statements and District records.

Table 8
VALUATION AND UNLIMITED TAX DEBT HISTORY

<u>Fiscal Year</u>	<u>Taxable Assessed Valuation</u>	<u>Dollar Increase/ (Decrease) In Taxable Assessed Valuation Over Prior Year</u>	<u>Percent Increase/ (Decrease) In Taxable Assessed Valuation Over Prior Year</u>	<u>Principal Amount Of Unlimited Tax Debt Outstanding At Year End</u> ^{(A)(B)}	<u>Ratio Of Unlimited Tax Debt To Taxable Assessed Valuation</u> ^{(A)(B)}
2015/16	\$ 160,843,342	\$ (1,062,497)	(0.66%)	\$ 10,664,193	6.63%
2016/17	154,109,289	(6,734,053)	(4.19%)	10,303,922	6.69%
2017/18	154,803,673	694,384	0.45%	9,916,925	6.41%
2018/19	156,929,003	2,125,330	1.37%	9,527,187	6.07%
2019/20	180,344,704	23,415,701	14.92%	8,901,000 ^(C)	4.94% ^(C)

^(A) Does not include any limited tax obligations payable from the District's Maintenance & Operations tax rate (see "Table 16 - Limited Tax Debt Service Requirements" and "Table 18 - Loans Outstanding").

^(B) Excludes the interest accreted on outstanding capital appreciation bonds.

^(C) Projected, as of August 31, 2020, subject to change. Includes the Bonds and excludes the Refunded Bonds.

Source: District records, Bee County Appraisal District and San Patricio County Appraisal District.

Table 9
HISTORICAL TOP TEN TAXPAYERS ^(A)

PRINCIPAL TAXPAYERS AND THEIR 2019/20 TAXABLE ASSESSED VALUATIONS

<u>Name of Taxpayer</u>	<u>Type of Property</u>	Taxable	Percent Of
		<u>Assessed Valuation</u>	<u>T.A.V.</u>
Koch Pipeline Company, L.P.	Pipeline	\$ 11,827,440	6.56%
Flint Hills Resources Corpus Christi	Oil & Gas	10,757,440	5.96%
AEP Texas Central Company	Electric Utility	10,196,540	5.65%
Bridwell Oil Company	Oil & Gas	4,423,580	2.45%
EPIC Y-Grade Pipeline LP	Pipeline	4,022,630	2.23%
Sue-Ann Operating LC	Oil & Gas	2,084,020	1.16%
Enterprise Texas Pipeline LP	Pipeline	1,789,260	0.99%
NuStar Logistics, L.P.	Oil & Gas	1,550,310	0.86%
Southcross CCNG Gathering Ltd.	Oil & Gas	1,463,710	0.81%
San Patricio Electric Cooperative, Inc.	Electric Utility	1,271,850	0.71%
Totals.....		\$ 49,386,780	27.38%

PRINCIPAL TAXPAYERS AND THEIR 2018/19 TAXABLE ASSESSED VALUATIONS

<u>Name of Taxpayer</u>	<u>Type of Property</u>	Taxable	Percent Of
		<u>Assessed Valuation</u>	<u>T.A.V.</u>
Flint Hills Resources Corpus Christi	Oil & Gas	\$ 11,023,890	7.02%
AEP Texas Central Company	Electric Utility	9,860,200	6.28%
Koch Pipeline Company, L.P.	Pipeline	8,563,930	5.46%
Bridwell Oil Company	Oil & Gas	2,383,370	1.52%
TexStar Midstream Utility, LP	Pipeline	2,033,740	1.30%
Sue-Ann Operating LC	Oil & Gas	1,902,250	1.21%
Enterprise Texas Pipeline LP	Pipeline	1,665,090	1.06%
NuStar Logistics, L.P.	Oil & Gas	1,565,270	1.00%
Southcross CCNG Gathering Ltd.	Oil & Gas	1,391,030	0.89%
Lazy A Cotulla LLC	Oil & Gas	1,181,640	0.75%
Totals.....		\$ 41,570,410	26.49%

PRINCIPAL TAXPAYERS AND THEIR 2017/18 TAXABLE ASSESSED VALUATIONS

<u>Name of Taxpayer</u>	<u>Type of Property</u>	Taxable	Percent Of
		<u>Assessed Valuation</u>	<u>T.A.V.</u>
Flint Hills Resources Corpus Christi	Oil & Gas	\$ 11,337,280	7.32%
AEP Texas Central Company	Electric Utility	9,681,010	6.25%
Koch Pipeline Company, L.P.	Pipeline	8,317,290	5.37%
Bridwell Oil Company	Oil & Gas	2,437,060	1.57%
NuStar Logistics, L.P.	Oil & Gas	2,216,010	1.43%
TexStar Midstream Utility, LP	Pipeline	2,045,370	1.32%
Sue-Ann Operating LC	Oil & Gas	1,910,650	1.23%
Enterprise Texas Pipeline LP	Pipeline	1,542,560	1.00%
Southcross CCNG Gathering Ltd.	Oil & Gas	1,534,760	0.99%
Bee County Co-Op Association	Farm Supplies	1,222,910	0.79%
Totals.....		\$ 42,244,900	27.29%

^(A) As shown herein, eight of the ten largest taxpayers in the District are concentrated in the oil and gas industry, and represent approximately 21.03% of the taxable assessed valuation of the District for year 2019/20. Oil/Gas prices in Texas and worldwide have been historically subject to fluctuation due to a multitude of factors. Recently, unprecedented volatility in the oil and gas industry due to the unused supply of oil as a result of COVID-19 stay-at-home orders and other mitigation efforts resulted in historic low prices in a key segment of the nation's oil trading. See "INFECTIOUS DISEASE OUTBREAK – COVID-19" herein. The State may be particularly at risk from any global slowdown in the oil and gas industry, given the prevalence of international trade in the State and the risk of contraction in the oil and gas industry and spillover effects into other industries. Should oil prices remain depressed over a long period of time or other adverse developments in economic conditions were to occur, particularly in the oil and gas industry, these businesses could be adversely impacted. As a result, the District's taxable assessed valuation and, therefore, the tax rates required to pay debt service on the District's bonds, may be subject to volatility in future years. In addition, under State law, the District is generally permitted to levy debt service taxes in an amount sufficient to cover debt payments coming due during the tax year. As a result, the District may not have sufficient reserves available in its debt service fund in the event that a significant taxpayer should experience financial difficulties and be unable to timely pay taxes as they come due. The District has not had a history of being unable to collect current taxes to fund its operations.

Source: Bee County Appraisal District, San Patricio County Appraisal District and District records.

Table 10
CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY

<u>Property Use Category</u>	<u>2019/20</u>	<u>2018/19</u>	<u>2017/18</u>	<u>2016/17</u>	<u>2015/16</u>
Real Property:					
Single-Family Residential	\$ 57,249,560	\$ 50,714,397	\$ 47,197,307	\$ 43,700,804	\$ 43,125,023
Multi-Family Residential	-	-	-	-	9,150
Vacant Lots/Tracts	6,905,260	5,000,296	5,132,556	4,301,106	4,554,466
Acreage (Land Only)	304,873,844	292,814,436	291,854,812	290,564,360	288,066,828
Farm and Ranch Improvements	43,807,263	38,029,769	35,508,696	33,084,808	31,698,471
Commercial and Industrial	3,500,690	2,783,500	2,749,810	2,876,440	1,654,910
Minerals, Oil and Gas	14,375,620	11,924,480	11,536,810	11,796,640	20,819,180
Tangible Personal Property:					
Business	2,517,139	2,937,390	3,247,240	3,462,000	4,379,250
Other	2,614,780	2,532,470	2,394,480	2,099,001	1,827,652
Real and Tangible Personal Property:					
Utilities	48,045,364	41,528,674	43,010,854	47,019,164	48,110,473
Total Assessed Valuation	\$ 483,889,520	\$ 448,265,412	\$ 442,632,565	\$ 438,904,323	\$ 444,245,403
Less Exemptions:					
Residential Homestead	\$ 16,723,055	\$ 16,695,960	\$ 16,441,595	\$ 16,023,589	\$ 15,975,965
10% Residential Homestead Cap	3,376,110	1,015,680	1,096,040	129,710	327,320
Over 65	2,175,110	2,033,520	1,963,670	1,843,120	1,800,120
Disabled Persons	261,450	245,370	220,850	194,330	213,760
Disabled/Deceased Veterans	1,081,300	994,930	774,200	578,480	501,940
Pollution Control	57,820	54,950	60,620	74,890	76,280
Protested Value	278,460	3,151,920	187,180	-	3,165,906
Productivity Loss	279,591,511	267,144,079	267,084,737	265,950,915	261,340,770
Total Exemptions	\$ 303,544,816	\$ 291,336,409	\$ 287,828,892	\$ 284,795,034	\$ 283,402,061
Taxable Assessed Valuation	\$ 180,344,704	\$ 156,929,003	\$ 154,803,673	\$ 154,109,289	\$ 160,843,342

Source: Bee County Appraisal District and San Patricio County Appraisal District. Certified values are subject to change throughout the year as contested values are resolved and the Bee County Appraisal District and San Patricio County Appraisal District update records.

Table 11
PERCENTAGE OF TOTAL ASSESSED VALUATION BY CATEGORY

<u>Property Use Category</u>	<u>2019/20</u>	<u>2018/19</u>	<u>2017/18</u>	<u>2016/17</u>	<u>2015/16</u>
Real Property:					
Single-Family Residential	11.83%	11.31%	10.66%	9.96%	9.71%
Multi-Family Residential	0.00%	0.00%	0.00%	0.00%	0.00%
Vacant Lots/Tracts	1.43%	1.12%	1.16%	0.98%	1.03%
Acreage (Land Only)	63.00%	65.32%	65.94%	66.20%	64.84%
Farm and Ranch Improvements	9.05%	8.48%	8.02%	7.54%	7.14%
Commercial and Industrial	0.72%	0.62%	0.62%	0.66%	0.37%
Minerals, Oil and Gas	2.97%	2.66%	2.61%	2.69%	4.69%
Tangible Personal Property:					
Business	0.52%	0.66%	0.73%	0.79%	0.99%
Other	0.54%	0.56%	0.54%	0.48%	0.41%
Real and Tangible Personal Property:					
Utilities	9.93%	9.26%	9.72%	10.71%	10.83%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Bee County Appraisal District and San Patricio County Appraisal District.

Table 12
OUTSTANDING UNLIMITED TAX DEBT SERVICE

Year	Outstanding Debt Requirements ^(A)		Plus: The Bonds - Debt Requirements		Total Debt Service Requirements	Percent Of Principal Retired
	Principal	Interest	Principal	Interest		
2019/20	\$ 283,625.20	\$ 373,218.55	\$ 95,000.00	\$ 32,490.00	\$ 784,333.75	
2020/21	317,000.00	96,175.00	75,000.00	201,400.00	689,575.00	
2021/22	315,000.00	86,695.00	85,000.00	198,400.00	685,095.00	
2022/23	328,000.00	77,125.00	90,000.00	195,000.00	690,125.00	
2023/24	341,000.00	67,165.00	85,000.00	191,400.00	684,565.00	21.71%
2024/25	185,000.00	59,350.00	180,000.00	188,000.00	612,350.00	
2025/26	195,000.00	53,800.00	185,000.00	180,800.00	614,600.00	
2026/27	200,000.00	47,950.00	195,000.00	173,400.00	616,350.00	
2027/28	205,000.00	41,950.00	205,000.00	165,600.00	617,550.00	
2028/29	210,000.00	35,800.00	215,000.00	157,400.00	618,200.00	42.99%
2029/30	220,000.00	27,400.00	220,000.00	148,800.00	616,200.00	
2030/31	230,000.00	18,600.00	225,000.00	140,000.00	613,600.00	
2031/32	235,000.00	9,400.00	235,000.00	131,000.00	610,400.00	
2032/33	-	-	385,000.00	121,600.00	506,600.00	
2033/34	-	-	400,000.00	106,200.00	506,200.00	66.16%
2034/35	-	-	410,000.00	94,200.00	504,200.00	
2035/36	-	-	425,000.00	81,900.00	506,900.00	
2036/37	-	-	435,000.00	69,150.00	504,150.00	
2037/38	-	-	445,000.00	56,100.00	501,100.00	
2038/39	-	-	460,000.00	42,750.00	502,750.00	89.60%
2039/40	-	-	475,000.00	28,950.00	503,950.00	
2040/41	-	-	490,000.00	14,700.00	504,700.00	100.00%
TOTAL	\$ 3,264,625.20	\$ 994,628.55	\$ 6,015,000.00	\$ 2,719,240.00	\$ 12,993,493.75	

^(A) Net of the debt service on the Refunded Bonds.

Note: Table 12 does not include any potential funding the District may receive from the State of Texas pursuant to the Instructional Facilities Allotment and/or Existing Debt Allotment Programs. For fiscal year ended August 31, 2019, the District received \$363,159 of State funding assistance from these programs and has budgeted to receive \$275,000 from these programs during fiscal year ending August 31, 2020. The amount of State funding aid for debt service may substantially differ from year to year, depending on a number of factors, including amounts, if any, appropriated for that purpose by the Texas Legislature (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM"). Table 12 does not include any limited tax obligations payable from the District's Maintenance & Operations tax rate (see "Table 16 - Limited Tax Debt Service Requirements" and "Table 18 - Loans Outstanding").

Table 13
AUTHORIZED BUT UNISSUED BONDS

The District has no authorized but unissued bonds. Except for possible refundings for debt service savings, the District does not anticipate the issuance of additional unlimited tax bonds within the next 12 months.

In addition to unlimited tax bonds, 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.

Table 14
INTEREST & SINKING FUND BUDGET INFORMATION

Tax Supported Debt Service Requirements, Fiscal Year Ending August 31, 2020.....		\$	787,334 ^(A)
Interest and Sinking Fund Balance as of August 31, 2019.....	\$	340,279	
Estimated State Assistance.....		275,000	
Local Taxes and Other Revenues.....		<u>518,000</u>	<u>\$ 1,133,279</u>
Projected Interest and Sinking Fund Balance at August 31, 2020.....		<u>\$</u>	<u>345,945</u>

^(A) Includes estimated paying agent/registrar fees or other bond related expenses.

Table 15
TAX ADEQUACY - UNLIMITED TAX DEBT SERVICE REQUIREMENTS

Year 2019/20 Principal And Interest Requirements.....		\$	784,334
\$0.4474 Tax Rate At 97.22% Collections Produces.....		\$	784,431 ^(A)
Maximum Principal And Interest Requirements, Year 2019/20.....		\$	784,334
\$0.4474 Tax Rate At 97.22% Collections Produces.....		\$	784,431 ^(A)

^(A) Based upon 2019/20 taxable assessed valuation of \$180,344,704.

Note: Table 15 does not include any potential funding the District may receive from the State of Texas pursuant to the Instructional Facilities Allotment and/or Existing Debt Allotment Programs. For fiscal year ended August 31, 2019, the District received \$363,159 of State funding assistance from these programs and has budgeted to receive \$275,000 from these programs during fiscal year ending August 31, 2020. The amount of State funding aid for debt service may substantially differ from year to year, depending on a number of factors, including amounts, if any, appropriated for that purpose by the Texas Legislature (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM"). Table 15 does not include any limited tax obligations payable from the District's Maintenance & Operations tax rate (see "Table 16 - Limited Tax Debt Service Requirements" and "Table 18 - Loans Outstanding").

Table 16
LIMITED TAX DEBT SERVICE REQUIREMENTS ^(A)

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service Requirements</u>	<u>Percent Of Principal Retired</u>
2019/20	\$ 120,000.00	\$ 23,870.00	\$ 143,870.00	
2020/21	125,000.00	20,174.00	145,174.00	
2021/22	125,000.00	16,324.00	141,324.00	
2022/23	130,000.00	12,474.00	142,474.00	
2023/24	135,000.00	8,470.00	143,470.00	81.94%
2024/25	140,000.00	4,312.00	144,312.00	100.00%
TOTAL	\$ 775,000.00	\$ 85,624.00	\$ 860,624.00	

^(A) Payable from the District's Maintenance & Operations tax rate.

Note: The limited tax debt service requirements summarized above pertain to the District's outstanding Limited Maintenance Tax Notes, Series 2015 which are more fully described within the table below.

<u>Description</u>	<u>Interest Rate Payable</u>	<u>Amount Outstanding as of August 31, 2018</u>	<u>Amount Retired / Defeased</u>	<u>Amount Outstanding as of August 31, 2019</u>
Limited Maintenance Tax Notes, Series 2015	3.08%	\$ 890,000.00	\$ 115,000.00	\$ 775,000.00

Table 17
TAX ADEQUACY - LIMITED TAX DEBT SERVICE REQUIREMENTS ^(A)

Year 2019/20 Principal And Interest Requirements.....	\$ 143,870
\$0.0821 Tax Rate At 97.22% Collections Produces.....	\$ 143,947 ^(B)
Maximum Principal And Interest Requirements, Year 2020/21.....	\$ 145,174
\$0.0828 Tax Rate At 97.22% Collections Produces.....	\$ 145,174 ^(B)

^(A) Payable from the District's Maintenance & Operations tax rate.

^(B) Based upon 2019/20 taxable assessed valuation of \$180,344,704.

Table 18
LOANS OUTSTANDING

Public Property Finance Contract #8433 The contract was entered into on October 8, 2018 for the purpose of financing the cost of energy efficiency improvements within the District and was in accordance with Texas law. The contract was for \$582,336, maturing in various amounts, with a stated interest rates of 4.25%, and maturing on November 1, 2033.

Source: District's Audited Financial Statements.

Table 19
COMBINED GENERAL FUND BALANCE SHEET

	Fiscal Years Ending August 31, 2015 - 2019				
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Assets:					
Cash and Cash Equivalents	\$ 1,810,578	\$ 1,048,390	\$ 492,582	\$ 269,160	\$ 750,514
Investments - Current	-	-	-	-	84
Taxes Receivable, Net	95,120	73,572	84,932	83,902	67,467
Receivables from Other Governments	811,010	484,809	552,324	698,907	196,686
Due from Other Funds	4,913	27,842	3,241	13,391	16,625
Other Receivables	-	-	-	5,728	-
Prepayments	41,073	-	-	-	-
Total Assets	<u>\$ 2,762,694</u>	<u>\$ 1,634,613</u>	<u>\$ 1,133,079</u>	<u>\$ 1,071,088</u>	<u>\$ 1,031,376</u>
Liabilities, Deferred Inflows of Resources and Fund Balances:					
<i>Liabilities:</i>					
Accounts Payable	\$ 6,567	\$ 10,117	\$ 32,572	\$ -	\$ -
Payroll Deductions and Withholdings Payable	-	-	-	(210)	-
Accrued Wages Payable	274,796	217,789	172,805	182,116	171,083
Due to Other Funds	-	5,611	5,317	13,573	13,573
Due to Other Governments	-	-	-	-	-
Accrued Expenditures	5,746	4,530	3,295	3,483	3,249
Unearned Revenues	-	-	1,437	-	188,828
Total Liabilities	<u>\$ 287,109</u>	<u>\$ 238,047</u>	<u>\$ 215,426</u>	<u>\$ 198,962</u>	<u>\$ 376,733</u>
<i>Deferred Inflows of Resources:</i>					
Unavailable Revenue - Property Taxes	\$ 95,120	\$ 73,572	\$ 84,932	\$ 83,902	\$ 67,467
Total Deferred Inflows of Resources	<u>\$ 95,120</u>	<u>\$ 73,572</u>	<u>\$ 84,932</u>	<u>\$ 83,902</u>	<u>\$ 67,467</u>
<i>Fund Balances:</i>					
Committed Fund Balance:					
Construction	\$ -	\$ -	\$ 278,155	\$ -	\$ -
Unassigned Fund Balance:	2,380,465	1,322,994	554,566	788,224	587,176
Total Fund Balances ^(A)	<u>\$ 2,380,465</u>	<u>\$ 1,322,994</u>	<u>\$ 832,721</u>	<u>\$ 788,224</u>	<u>\$ 587,176</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 2,762,694</u>	<u>\$ 1,634,613</u>	<u>\$ 1,133,079</u>	<u>\$ 1,071,088</u>	<u>\$ 1,031,376</u>

^(A) The District estimates that its Total Fund Balance as of August 31, 2020 will be approximately \$2,380,465.
Source: District's Audited Financial Statements and District records.

Table 20
COMPARATIVE STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES

	Fiscal Years Ending August 31, 2015 - 2019				
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Beginning General Fund Balance	\$ 1,322,994	\$ 832,721	\$ 788,224	\$ 587,176	\$ 309,152
Revenues:					
Total Local and Intermediate Sources	\$ 1,898,193	\$ 1,903,826	\$ 2,195,812	\$ 1,900,560	\$ 1,889,043
State Program Revenues	7,184,826	6,588,648	6,221,815	6,234,756	6,007,615
Federal Program Revenues	312,387	226,173	141,642	93,175	51,350
Total Revenues	\$ 9,395,406	\$ 8,718,647	\$ 8,559,269	\$ 8,228,491	\$ 7,948,008
Expenditures:					
Instruction	\$ 4,444,698	\$ 4,133,115	\$ 4,112,237	\$ 3,979,136	\$ 3,883,437
Instructional Resources and Media Services	94,705	99,461	100,851	96,901	92,482
Curriculum and Instructional Staff Development	123,843	122,201	133,787	134,351	121,217
School Leadership	382,799	381,842	444,635	419,317	395,525
Guidance, Counseling and Evaluation Services	243,249	245,015	232,716	301,619	229,071
Health Services	52,971	51,674	74,210	84,537	74,288
Student (Pupil) Transportation	554,561	457,071	480,953	449,590	417,121
Food Services	303	290	43	282	350
Extracurricular Activities	586,725	651,270	656,387	624,324	603,731
General Administration	414,314	404,473	383,707	372,017	401,243
Facilities Maintenance and Operations	1,577,048	1,256,815	1,353,692	1,295,186	1,135,213
Security and Monitoring Services	18,366	18,521	6,687	3,812	4,926
Data Processing Services	132,912	135,007	133,953	130,756	56,315
Debt Service - Principal on Long-Term Debt	115,000	110,000	139,000	136,000	133,000
Debt Service - Interest on Long-Term Debt	27,412	30,800	31,815	38,002	4,280
Debt Service - Bond Issuance Cost and Fees	8,600	-	200	400	400
Payments to Fiscal Agent/Member Districts of SSA	93,851	85,947	173,117	31,349	27,737
Other Intergovernmental Charges	49,514	45,672	42,554	42,718	42,605
Total Expenditures	\$ 8,920,871	\$ 8,229,174	\$ 8,500,544	\$ 8,140,297	\$ 7,622,941
Other Resources and (Uses):					
Other Resources	\$ 582,936	\$ 800	\$ -	\$ -	\$ -
Other Uses	-	-	(14,228)	(17,168)	(47,043)
Total Other Resources (Uses)	\$ 582,936	\$ 800	\$ (14,228)	\$ (17,168)	\$ (47,043)
Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	<u>\$ 1,057,471</u>	<u>\$ 490,273</u>	<u>\$ 44,497</u>	<u>\$ 71,026</u>	<u>\$ 278,024</u>
Prior Period Adjustment	\$ -	\$ -	\$ -	\$ 130,022	\$ -
Ending General Fund Balance ^{(A)(B)}	\$ 2,380,465	\$ 1,322,994	\$ 832,721	\$ 788,224	\$ 587,176

(A) Ending General Fund Balance includes Committed and Unassigned Fund Balances.

(B) The District estimates that its Ending General Fund Balance as of August 31, 2020 will be approximately \$2,380,465.

Source: District's Audited Financial Statements and District records.

Table 21
CHANGE IN NET POSITION ^(A)

	Fiscal Years Ending August 31, 2015 - 2019				
	2019	2018	2017	2016	2015
Revenues:					
Program Revenues					
Charges for Services	\$ 140,419	\$ 120,245	\$ 128,227	\$ 116,595	\$ 125,495
Operating Grants and Contributions	1,645,852	(249,644)	1,141,259	1,197,082	975,059
Total Program Revenues	\$ 1,786,271	\$ (129,399)	\$ 1,269,486	\$ 1,313,677	\$ 1,100,554
General Revenues					
Property Taxes, Levied for General Purposes	\$ 1,771,306	\$ 1,736,126	\$ 1,680,360	\$ 1,819,197	\$ 1,809,535
Property Taxes, Levied for Debt Service	512,661	516,079	449,316	451,946	461,531
State Aid - Formula Grants	7,158,088	6,655,467	6,257,758	6,104,867	6,104,717
Investment Earnings	66,219	31,646	6,443	14,215	7,118
Miscellaneous Local and Intermediate Revenue	924	10,793	413,320	8,261	18,780
Gain (Loss) on Disposition of Assets	-	(4,598)	-	14,676	-
Total General Revenues	\$ 9,509,198	\$ 8,945,513	\$ 8,807,197	\$ 8,413,162	\$ 8,401,681
Total Revenues.....	\$ 11,295,469	\$ 8,816,114	\$ 10,076,683	\$ 9,726,839	\$ 9,502,235
Expenses					
Instruction	\$ 5,131,000	\$ 3,229,347	\$ 4,643,308	\$ 4,589,575	\$ 4,373,646
Instructional Resources and Media Services	106,936	76,360	110,044	106,593	98,534
Curriculum and Instructional Staff Development	150,246	94,815	145,919	151,349	126,541
School Leadership	422,186	261,599	474,030	450,060	406,244
Guidance, Counseling and Evaluation Services	269,085	163,088	248,386	324,577	235,721
Health Services	58,585	33,601	79,036	90,800	76,374
Student (Pupil) Transportation	594,127	484,635	546,327	581,574	538,243
Food Services	455,419	322,107	469,508	493,028	451,315
Extracurricular Activities	711,244	598,656	747,356	736,372	689,844
General Administration	450,201	300,820	406,344	396,049	431,639
Facilities Maintenance and Operations	1,074,309	895,334	1,303,236	1,379,365	1,125,973
Security and Monitoring Services	18,617	17,083	6,757	3,812	4,926
Data Processing Services	146,781	90,787	142,260	140,527	59,295
Debt Service - Interest on Long-Term Debt	445,837	438,792	393,551	494,661	463,452
Debt Service - Bond Issuance Costs and Fees	22,434	13,834	62,671	33,634	124,524
Payments Related to Shared Services Arrangements	93,851	85,947	173,117	31,349	27,737
Other Intergovernmental Charges	49,514	45,672	42,554	42,718	42,605
Total Expenses.....	\$ 10,200,372	\$ 7,152,477	\$ 9,994,404	\$ 10,046,043	\$ 9,276,613
Increase/(Decrease) in Net Position	\$ 1,095,097	\$ 1,663,637	\$ 82,279	\$ (319,204)	\$ 225,622
Beginning Net Position	495,345	3,407,897	3,325,618	3,514,800	4,036,960
Prior Period Adjustment	-	(4,576,189) ^(B)	-	130,022 ^(C)	(747,782) ^(D)
Ending Net Position.....	\$ 1,590,442	\$ 495,345	\$ 3,407,897	\$ 3,325,618	\$ 3,514,800

^(A) Financial operations for all governmental activities in accordance with GASB Statement No. 34.

^(B) Prior Period Adjustment due to the adoption of GASB Statement Number 75 by the District.

^(C) Prior Period Adjustment due to a notice of prior year Public Education Grant state funding for the 2012/13, 2013/14 and 2014/15 fiscal years.

^(D) Prior Period Adjustment due to the adoption of GASB Statement Number 68 by the District.

Source: District's Audited Financial Statements and District records.

APPENDIX B
GENERAL INFORMATION REGARDING
THE DISTRICT AND ITS ECONOMY

GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY

The Skidmore-Tynan Independent School District (the “District”) is located in Bee County with a portion extending into San Patricio County. Encompassing an area of approximately 250.98 square miles, the District includes the unincorporated communities of Skidmore and Tynan. The economy is based on agriculture and oil production.

The District is governed by a seven-member Board of Trustees (the “Board”). The members of the Board serve four-year staggered terms with at-large elections conducted biennially. Board policy and decisions are decided by a majority vote of the Board. The Superintendent of Schools is selected by the Board; other District officials are employed as a result of action by the Superintendent and the Board.

The District owns and operates three instructional facilities which are fully accredited by the Texas Education Agency. The number and types of instructional facilities are as follows:

Elementary Schools	1
Junior High Schools	1
High Schools	<u>1</u>
Total	<u>3</u>

DISTRICT ENROLLMENT INFORMATION

SCHOLASTIC ENROLLMENT HISTORY

<u>YEAR</u>	<u>ENROLLMENT</u>	<u>INCREASE/ (DECREASE)</u>	<u>PERCENT CHANGE</u>
2009/10	821	93	12.77%
2010/11	815	(6)	(0.73%)
2011/12	813	(2)	(0.25%)
2012/13	823	10	1.23%
2013/14	791	(32)	(3.89%)
2014/15	805	14	1.77%
2015/16	847	42	5.22%
2016/17	843	(4)	(0.47%)
2017/18	837	(6)	(0.71%)
2018/19	834	(3)	(0.36%)
2019/20	836	2	0.24%

Source: District records.

PROJECTED STUDENT ENROLLMENT

<u>YEAR</u>	<u>ENROLLMENT</u>	<u>INCREASE/ (DECREASE)</u>	<u>PERCENT CHANGE</u>
2020/21	836	0	0.00%
2021/22	856	20	2.39%
2022/23	856	0	0.00%
2023/24	856	0	0.00%
2024/25	856	0	0.00%

Source: District projections.

STUDENT ENROLLMENT BY GRADES – YEARS 2009/10 – 2019/20

<u>YEAR</u>	<u>EE</u>	<u>PK</u>	<u>K</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>	<u>TOTAL</u>
2009/10	0	31	50	58	54	73	54	55	59	69	67	80	66	49	56	821
2010/11	4	15	54	54	57	51	74	63	65	61	68	71	72	64	42	815
2011/12	6	19	51	57	49	55	52	65	66	69	61	72	62	73	56	813
2012/13	1	20	46	56	60	50	53	57	73	70	68	63	73	62	71	823
2013/14	2	0	60	54	50	62	51	61	60	73	71	66	61	60	60	791
2014/15	3	0	51	64	52	59	61	55	58	74	72	72	69	57	58	805
2015/16	6	0	55	55	71	55	68	65	57	63	74	82	74	64	58	847
2016/17	6	0	47	54	62	64	52	75	67	73	61	74	77	68	63	843
2017/18	4	0	54	51	54	63	67	53	73	70	69	70	70	74	65	837
2018/19	7	0	55	61	53	53	69	69	52	73	69	74	64	64	71	834
2019/20 ^(A)	13	0	53	65	60	61	59	66	69	61	71	74	64	59	61	836

^(A) Enrollment as of March 2020.

Source: District records.

STUDENT ENROLLMENT BY SCHOOL TYPE

<u>YEAR</u>	<u>ELEMENTARY SCHOOL (GRADES EE-5)</u>	<u>JUNIOR HIGH SCHOOL (GRADES 6-8)</u>	<u>HIGH SCHOOL (GRADES 9-12)</u>	<u>TOTAL ENROLLMENT</u>
2009/10	375	195	251	821
2010/11	372	194	249	815
2011/12	354	196	263	813
2012/13	343	211	269	823
2013/14	340	204	247	791
2014/15	345	204	256	805
2015/16	375	194	278	847
2016/17	360	201	282	843
2017/18	346	212	279	837
2018/19	367	194	273	834
2019/20 ^(A)	377	201	258	836

^(A) Enrollment as of March 2020.

Source: District records.

EMPLOYMENT OF THE DISTRICT

<u>STAFF INFORMATION</u>	<u>DISTRICT EMPLOYEES</u>	
	<u>NUMBER</u>	<u>PERCENTAGE</u>
Teachers	64	50.00%
Administrators	15	11.72%
Teacher Aides & Secretaries	22	17.19%
Auxiliary Staff	27	21.09%
Total Number of Employees	128	100.00%

The District employs a staff of approximately 128. Beginning with the 2019/20 school year, entry level teachers without advanced degrees earn \$43,350 annually. Teachers with longevity or advanced degrees can earn between \$44,100 and \$57,446 annually. All teachers receive life and health insurance benefits worth approximately \$540.98 monthly.

Source: District records.

PRESENT SCHOOL FACILITIES

<u>LOCATION</u>	<u>GRADES SERVED</u>	<u>FUNCTIONAL CAPACITY^(A)</u>	<u>PRESENT ENROLLMENT^(B)</u>	<u>FUNCTIONAL CAPACITY LESS PRESENT ENROLLMENT</u>
Skidmore-Tynan High School	9 – 12	<u>280</u>	<u>258</u>	<u>22</u>
HIGH SCHOOL TOTAL		<u>280</u>	<u>258</u>	<u>22</u>
Skidmore-Tynan Junior High School	6 – 8	<u>220</u>	<u>201</u>	<u>19</u>
JUNIOR HIGH SCHOOL TOTAL		<u>220</u>	<u>201</u>	<u>19</u>
Skidmore-Tynan Elementary School	EE – 5	<u>380</u>	<u>377</u>	<u>3</u>
ELEMENTARY SCHOOL TOTAL		<u>380</u>	<u>377</u>	<u>3</u>
	TOTALS	<u>880</u>	<u>836</u>	<u>44</u>

^(A) Includes student capacity of any portable buildings on this campus.

^(B) Enrollment as of March 2020.

Source: District records.

LABOR FORCE STATISTICS

COMPARATIVE UNEMPLOYMENT RATES

<u>Entity</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020^(A)</u>
Bee County	6.2%	7.5%	6.5%	5.1%	4.4%	6.3%
San Patricio County	6.5	7.4	7.7	6.3	5.4	7.2
State of Texas	4.4	4.6	4.3	3.8	3.5	4.7
United States of America	5.3	4.9	4.4	3.9	3.7	4.5

^(A) As of March 2020. Unemployment statistics are likely to have changed due to the impact of the COVID-19 pandemic. For the most current data consult the Texas Workforce Commission and the U.S. Bureau of Labor Statistics (see “INFECTIOUS DISEASE OUTBREAK – COVID-19” herein).

Source: Labor Market Information Department, Texas Workforce Commission.

APPENDIX C

FORMS OF LEGAL OPINIONS OF CO-BOND COUNSEL

Skidmore-Tynan Independent School District
Unlimited Tax Refunding Bonds, Series 2020
(Final Opinion)

June 18, 2020

We have acted as co-bond counsel to the Skidmore-Tynan Independent School District (the “District”) in connection with the issuance of \$6,015,000 aggregate principal amount of bonds designated as “Skidmore-Tynan Independent School District Unlimited Tax Refunding Bonds, Series 2020” (the “Bonds”). The Bonds are authorized by an order adopted by the Board of Trustees of the District (the “Board”) on April 13, 2020 (the “Order”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Order.

We have acted as co-bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas. We have not investigated or verified original proceedings, records, data, or other material, but we have relied solely upon the transcript of certified proceedings, certifications, and other documents described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Bonds. We have relied solely on information and certifications furnished to us by the Issuer with respect to the Issuer’s current outstanding indebtedness.

In our capacity as co-bond counsel, we have examined the Constitution and laws of the State of Texas; and a transcript of certified proceedings pertaining to the issuance of the Bonds. The transcript contains certified copies of certain proceedings of the Issuer; certain certifications and representations and other material facts within the knowledge and control of the Issuer, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the truth and accuracy of the statements contained in such certificates. We have also examined executed the initial Bond of this issue.

Based on our examination, it is our opinion that:

1. The Bonds have been authorized, sold, and delivered in accordance with law.
2. The Bonds constitute valid and legally binding Bonds of the Issuer enforceable in accordance with their terms except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, liquidation, and other similar laws now or hereafter enacted relating to creditors’ rights generally.
3. The Bonds are direct obligations of the Issuer, payable from a continuing, direct ad valorem tax levied, without legal limit as to rate or amount, on all taxable property located within the District’s boundaries.

In rendering these opinions, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Issuer, which we have not independently verified.

In rendering this opinion, we are further advising you that the enforceability of rights and remedies with respect to the Bonds and the Order, as set forth in paragraph 2 above, may be limited by bankruptcy, insolvency and other laws affecting creditors' rights or remedies heretofore or hereafter enacted and is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

The opinions set forth above are based on existing laws of the United States and the State of Texas which are subject to change. Such opinions are further based on our knowledge of the facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may hereafter come to our attention, or to reflect any changes in any law that may hereafter occur or become effective.

This legal opinion expresses the professional judgment of the undersigned firm as to the legal issues explicitly addressed herein. In rendering a legal opinion, we do not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of our opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Respectfully submitted,

SARA LEON & ASSOCIATES, LLC

June 18, 2020

Skidmore-Tynan Independent School District
Unlimited Tax Refunding Bonds, Series 2020

We have acted as co-bond counsel to the Skidmore-Tynan Independent School District (the "District") in connection with the issuance of \$6,015,000 aggregate principal amount of bonds designated as "Skidmore-Tynan Independent School District Unlimited Tax Refunding Bonds, Series 2020" (the "Bonds"). The Bonds are authorized by an order adopted by the Board of Trustees of the District (the "Board") on April 13, 2020 and the pricing certificate executed of the date of the sale of the Bonds finalizing the terms thereof (collectively, the "Order"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Order.

In such connection, we have reviewed the Order, the tax certificate of the District dated the date hereof (the "Tax Certificate"), certificates of the District, and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Order and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Order and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against issuers in the State of Texas. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or

severability provisions contained in the foregoing documents. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding obligations of the District.
2. The Board has power and is obligated to levy an annual ad valorem tax, without legal limit as to rate or amount, upon taxable property located within the District, which taxes have been pledged irrevocably to pay the principal of and interest on the Bonds.
3. The deposit made with the paying agent for the Refunded Bonds constitutes the making of firm banking and financial arrangements for the discharge and final payment of the Refunded Bonds; in reliance upon the accuracy of the calculations contained in the sufficiency certificate provided by the paying agent for the Refunded Bonds, the Refunded Bonds, having been discharged and paid, are no longer outstanding and the lien on and pledge of ad valorem taxes and other revenues as set forth in the order authorizing their issuance will be appropriately and legally defeased; the holders of the Refunded Bonds may obtain payment of the principal of, redemption premium, if any, and interest in the Refunded Bonds only out of the funds provided therefor now held by the paying agent for the Refunded Bonds; and therefore the Refunded Bonds are deemed to be fully paid and no longer outstanding, except for the purpose of being paid from the funds provided therefor.
4. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

ORRICK, HERRINGTON & SUTCLIFFE LLP

APPENDIX D

**EXCERPTS FROM THE AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2019**

The information contained in this Appendix consists of excerpts from the Skidmore-Tynan Independent School District Annual Financial Report for the Year Ended August 31, 2019, and is not intended to be a complete statement of the District's financial condition. Reference is made to the complete Report for further information.

Independent Auditor's Report

UNMODIFIED OPINION ON BASIC FINANCIAL STATEMENTS ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND OTHER INFORMATION

Board of Trustees
Skidmore-Tynan Independent School District
224 W. Main Street
Skidmore, Texas 78389

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for Skidmore-Tynan Independent School District (the "District") as of and for the year ended August 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Skidmore-Tynan Independent School District as of August 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with account principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

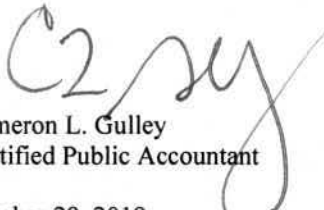
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Budgetary Comparison Schedule for the General Fund, Schedule of District's Proportionate Share of the Net Pension Liability (TRS), Schedule of District Pension Contributions to TRS, Schedule of District's Proportionate Share of the Net OPEB Liability (TRS) and Schedule of District OPEB Contributions to TRS as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedure to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund financial statements and the TEA required schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the TEA required schedules 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 my opinion, the combining and individual nonmajor fund financial statements and the TEA required schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole. The combining and individual nonmajor fund financial statements and the TEA required schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated October 29, 2019, on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Cameron L. Gulley
Certified Public Accountant

October 29, 2019

Skidmore-Tynan Independent School District

224 W. Main Street • Skidmore, Texas 78389 • Ph (361) 287-3426 • Fax (361) 287-3442
Superintendent: Dr. Dustin Barton

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Skidmore-Tynan Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2019. Please read it in conjunction with the independent auditor's report on page 2 and the District's Basic Financial Statements which begin on page 10.

USING THIS ANNUAL REPORT

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

Fund financial statements (starting on page 12) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers 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 of the District.

The notes to the financial statements (starting on page 21) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for nonmajor funds contain even more information about the District's individual funds. These are not required by TEA. 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

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 5. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The District's revenues are divided into those provided by outside parties who share the costs of some programs, such as grants provided by the U.S. Department of Education to assist children with disabilities or from disadvantaged backgrounds (program revenues), and revenues provided by the taxpayers or by TEA in equalization funding processes (general revenues). All the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the District's net position and changes in them. The District's net position (the difference between assets and liabilities) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider nonfinancial factors as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

In the Statement of Net Position and the Statement of Activities, we divide the District into one activity:

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

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 12 and provide detailed information about the most significant funds - not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District's fund type - governmental - use the following accounting approaches.

Governmental funds - All of the District's basic services are reported in governmental funds. These use the 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 (whether outside customers or 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 funds (the only category of proprietary funds) report activities that provide supplies and services for the District's other programs and activities - such as the District's self-insurance program.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position on pages 19 and 20. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following analyses of comparative balances and changes therein is inclusive of the current year's and prior year's operations. Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental and business-type activities.

Total net position of the District's governmental activities increased from \$495,345 to \$1,590,442. Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - increased from (\$3,392,049) to (\$2,488,742). Current and other assets increased by \$1,274,006 due to increases in cash by \$877,000 and receivables by \$397,000. Capital assets increased by \$167,550 due to asset additions in excess of depreciation expense. Long-term liabilities increased by \$1,253,311 due to the effects of net pension (NPL) and other post-employment benefit (OPEB) liabilities. Other liabilities increased by \$85,337 due to ending accrued liabilities. Deferred resource outflows related to NPL and OPEB liabilities increased by \$874,574 and deferred resource inflows related to NPL and OPEB liabilities decreased by \$117,615.

Changes in revenues and expenses for the year are not comparable to prior year due to the overall effects of GASB 68 and 75 related to NPL and OPEB on current year and prior year activity. GASB 68 and 75 effects on current year revenue relative to last year were higher by approximately \$1,748,000. GASB 68 and 75 effects on current year expenses relative to last year were higher by approximately \$2,785,000.

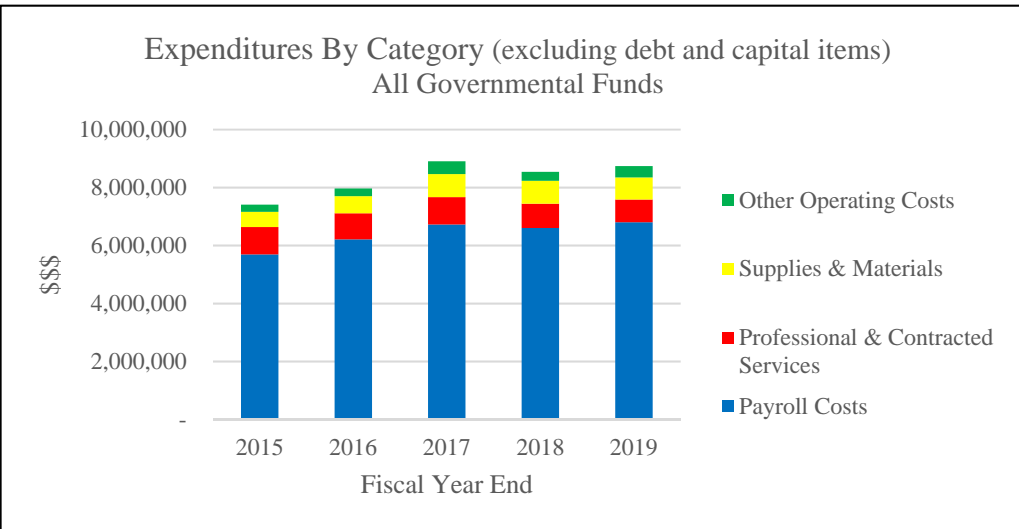
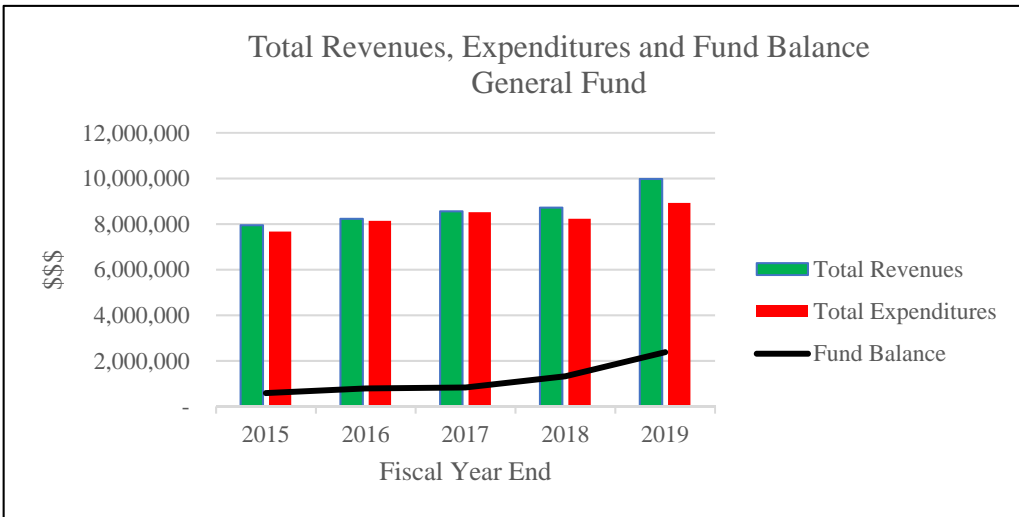
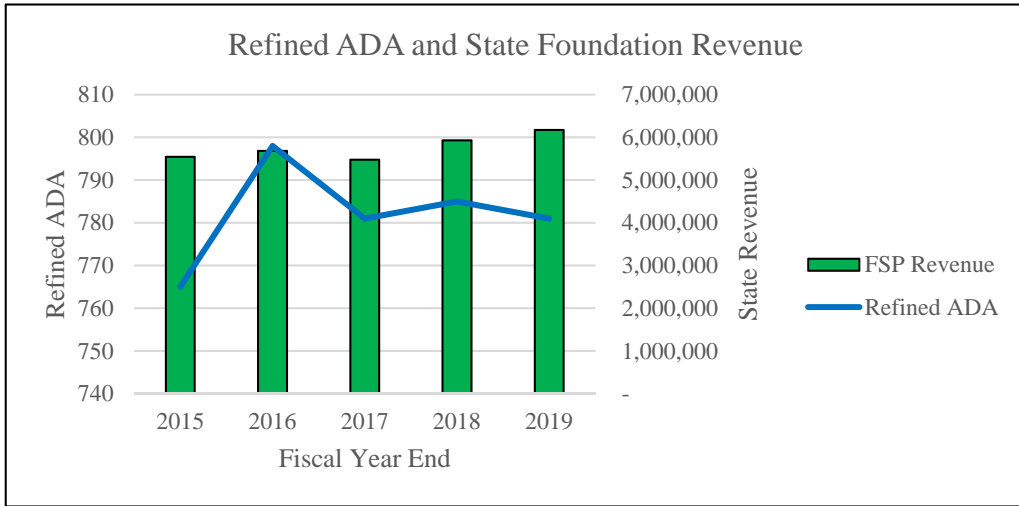
Excluding the effects of GASB 68 and 75 on revenues, total revenues increased by \$731,000 for the year. Operating grants and contributions increased \$147,000 due to SHARS and Title I grant revenues. State aid-formula grants increased \$502,621 due to increased available school fund and foundation school program revenues. Miscellaneous revenues increased \$29,000 due to higher investment income. Charges for services and property tax revenues increased modestly for the year.

Excluding the effects on of GASB 68 and 75 on expenses, total expenses increased by \$263,000 for the year. Instruction expenses increased by \$240,000 due mainly to payroll-related costs; student support services increased \$25,000 due primarily to payroll costs; food services increased \$17,000 due to both payroll and food costs; extracurricular activities decreased \$64,000 due to reductions in payroll costs; general administration increased \$24,000 due to election, travel and other operating costs; debt service increased \$16,000 due to interest expense on a new loan acquired during the year. All other functional categories were consistently the same as the previous year.

	Governmental Activities 2019	Governmental Activities 2018	Variance Increase/ (Decrease)
Current and other assets	\$ 3,267,758	\$ 1,993,752	\$ 1,274,006
Capital assets	15,142,307	14,974,757	167,550
Deferred resource outflows for TRS	1,554,768	680,194	874,574
Total assets and deferred resource outflows	19,964,833	17,648,703	2,316,130
Long-term liabilities	16,757,033	15,503,722	1,253,311
Other liabilities	380,986	295,649	85,337
Deferred resource inflows for TRS	1,236,372	1,353,987	(117,615)
Total liabilities and deferred resource inflows	18,374,391	17,153,358	1,221,033
Net position:			
Net investment in capital assets	3,660,430	3,605,417	55,013
Restricted for federal and state programs	51,426	13,578	37,848
Restricted for debt service	367,328	268,399	98,929
Unrestricted	(2,488,742)	(3,392,049)	903,307
Total net position	\$ 1,590,442	\$ 495,345	\$ 1,095,097

	Governmental Activities 2019	Governmental Activities 2018	Variance Favorable/ (Unfavorable)
Revenues:			
Program Revenues:			
Charges for services	\$ 140,419	\$ 120,245	\$ 20,174
Operating grants and contributions	1,645,852	(249,644)	1,895,496
General Revenues:			
Property taxes	2,283,967	2,252,205	31,762
State aid - formula grants	7,158,088	6,655,467	502,621
Other	67,143	37,841	29,302
Total Revenues	11,295,469	8,816,114	2,479,355
Expenses:			
Instruction, curriculum and media services	5,388,182	3,400,522	(1,987,660)
Instructional and school leadership	422,186	261,599	(160,587)
Student support services	921,797	681,324	(240,473)
Child nutrition	455,419	322,107	(133,312)
Extracurricular activities	711,244	598,656	(112,588)
General administration	450,201	300,820	(149,381)
Plant maintenance, security & data processing	1,239,707	1,003,204	(236,503)
Debt service	468,271	452,626	(15,645)
Payments related to shared service arrangements	93,851	85,947	(7,904)
Other intergovernmental charges	49,514	45,672	(3,842)
Total Expenses	10,200,372	7,152,477	(3,047,895)
Increase (Decrease) in Net Position	1,095,097	1,663,637	(568,540)
Net Position - beginning of year	495,345	3,407,897	(2,912,552)
Prior period adjustment	0	(4,576,189)	4,576,189
Net Position - end of year	\$ 1,590,442	\$ 495,345	\$ 1,095,097

The following charts depict trend information for the past five years.



THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$2,772,170, an increase of \$1,187,957 in the District's Governmental Funds from last year's fund balance of \$1,584,213. The primary reasons for the net increase are similar to the narrative related to the tables above. The major exceptions are depreciation expense which is not charged to the governmental funds and the net effect relative to GASB 68 and 75 whose impacts are only at the government-wide level financial statements. The specific variances in the changes in fund balance versus the change in net position are detailed out on Exhibit C-4 on the accompanying general purpose financial statements.

The Board of Trustees revised the District's budget several times during the year. Budget amendments in instruction and student (pupil) transportation totaling \$75,000 and \$91,000, respectively, were for additional payroll and bus acquisition.

The District's General Fund balance of \$2,380,465 reported on pages 14 and 46 differs from the General Fund's budgetary fund balance of \$1,105,394 reported in the budgetary comparison schedule on page 46 due to overall revenues being much more favorable than budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2019, the District had \$21,250,515 invested in a broad range of capital assets including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. Following were asset additions for the year.

Asset additions:

Energy facilities improvements	\$	573,736
2019 IC bus		111,362
Welding equipment		50,259
Other furniture and equipment		41,945
Total asset additions	\$	<u>777,302</u>

Debt

The District has six outstanding long-term debt instruments acquired to finance various improvement projects. Total annual debt service payments will approximate \$980,000 until 2024 and will slowly decrease thereafter until final debt maturity in 2041. Interest rates on the debt instruments vary from 1.0% to 4.75%.

Following is a summary of outstanding debt for the past two years:

	2019	2018
Bonds payable	\$ 9,527,187	\$ 9,916,925
Notes payable	1,357,336	890,000
Total outstanding debt	<u>\$ 10,884,523</u>	<u>\$ 10,806,925</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District should continue to maintain its financial health. A budget adopted for 2019-20 reflected tax rates at \$1.0683 for maintenance and operations and \$0.3188 for debt service. General fund revenues were budgeted at approximately \$9.77 million and expenditures at \$9.61 million for a projected surplus of \$156,000. Therefore, the District expects that its general fund balance will approximate \$2.54 million at August 31, 2020.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's business office at: Skidmore-Tynan Independent School District, 224 W. Main Street, Skidmore, Texas 78389.

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BASIC FINANCIAL STATEMENTS

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SKIDMORE-TYNAN INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2019

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 2,243,798
1220 Property Taxes - Delinquent	224,112
1230 Allowance for Uncollectible Taxes	(101,943)
1240 Due from Other Governments	850,193
1410 Prepayments	51,598
Capital Assets:	
1510 Land	244,525
1520 Buildings, Net	13,065,157
1530 Furniture and Equipment, Net	674,139
1590 Infrastructure, Net	1,158,486
1000 Total Assets	18,410,065
DEFERRED OUTFLOWS OF RESOURCES	
1701 Deferred Charge for Refunding	167,817
1705 Deferred Outflow Related to TRS Pension	1,139,902
1706 Deferred Outflow Related to TRS OPEB	247,049
1700 Total Deferred Outflows of Resources	1,554,768
LIABILITIES	
2110 Accounts Payable	6,567
2140 Interest Payable	36,590
2160 Accrued Wages Payable	294,857
2180 Due to Other Governments	1,095
2200 Accrued Expenses	41,877
Noncurrent Liabilities:	
2501 Due Within One Year	432,172
2502 Due in More Than One Year	11,180,932
2540 Net Pension Liability (District's Share)	2,217,009
2545 Net OPEB Liability (District's Share)	2,926,920
2000 Total Liabilities	17,138,019
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflow Related to TRS Pension	234,260
2606 Deferred Inflow Related to TRS OPEB	1,002,112
2600 Total Deferred Inflows of Resources	1,236,372
NET POSITION	
3200 Net Investment in Capital Assets	3,660,430
3820 Restricted for Federal and State Programs	51,426
3850 Restricted for Debt Service	367,328
3900 Unrestricted	(2,488,742)
3000 Total Net Position	\$ 1,590,442

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

SKIDMORE-TYNAN INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2019

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
Codes	Expenses	3 Charges for Services	4 Operating Grants and Contributions	Primary Gov. Governmental Activities

Primary Government:

GOVERNMENTAL ACTIVITIES:

11	Instruction	\$ 5,131,000	\$ -	\$ 1,004,358	\$ (4,126,642)
12	Instructional Resources and Media Services	106,936	-	7,947	(98,989)
13	Curriculum and Instructional Staff Development	150,246	-	29,014	(121,232)
23	School Leadership	422,186	-	33,305	(388,881)
31	Guidance, Counseling and Evaluation Services	269,085	-	21,577	(247,508)
33	Health Services	58,585	-	4,968	(53,617)
34	Student (Pupil) Transportation	594,127	-	23,330	(570,797)
35	Food Services	455,419	86,138	391,294	22,013
36	Extracurricular Activities	711,244	54,281	28,561	(628,402)
41	General Administration	450,201	-	23,959	(426,242)
51	Facilities Maintenance and Operations	1,074,309	-	62,833	(1,011,476)
52	Security and Monitoring Services	18,617	-	433	(18,184)
53	Data Processing Services	146,781	-	14,273	(132,508)
72	Debt Service - Interest on Long-Term Debt	445,837	-	-	(445,837)
73	Debt Service - Bond Issuance Cost and Fees	22,434	-	-	(22,434)
93	Payments Related to Shared Services Arrangements	93,851	-	-	(93,851)
99	Other Intergovernmental Charges	49,514	-	-	(49,514)
	[TP] TOTAL PRIMARY GOVERNMENT:	\$ 10,200,372	\$ 140,419	\$ 1,645,852	\$ (8,414,101)

Data
Control
Codes

General Revenues:

Taxes:

MT	Property Taxes, Levied for General Purposes			1,771,306
DT	Property Taxes, Levied for Debt Service			512,661
SF	State Aid - Formula Grants			7,158,088
IE	Investment Earnings			66,219
MI	Miscellaneous Local and Intermediate Revenue			924
TR	Total General Revenues			9,509,198
CN	Change in Net Position			1,095,097
NB	Net Position - Beginning			495,345
NE	Net Position--Ending			\$ 1,590,442

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

SKIDMORE-TYNAN INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2019

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
ASSETS				
1110 Cash and Cash Equivalents	\$ 1,810,578	\$ 330,849	\$ 38,930	\$ 2,180,357
1220 Property Taxes - Delinquent	175,162	48,950	-	224,112
1230 Allowance for Uncollectible Taxes	(80,042)	(21,901)	-	(101,943)
1240 Due from Other Governments	811,010	-	39,183	850,193
1260 Due from Other Funds	4,913	-	-	4,913
1410 Prepayments	41,073	10,525	-	51,598
1000 Total Assets	<u>\$ 2,762,694</u>	<u>\$ 368,423</u>	<u>\$ 78,113</u>	<u>\$ 3,209,230</u>
LIABILITIES				
2110 Accounts Payable	\$ 6,567	\$ -	\$ -	\$ 6,567
2160 Accrued Wages Payable	274,796	-	20,061	294,857
2170 Due to Other Funds	-	-	4,913	4,913
2180 Due to Other Governments	-	1,095	-	1,095
2200 Accrued Expenditures	5,746	-	1,713	7,459
2000 Total Liabilities	<u>287,109</u>	<u>1,095</u>	<u>26,687</u>	<u>314,891</u>
DEFERRED INFLOWS OF RESOURCES				
2601 Unavailable Revenue - Property Taxes	95,120	27,049	-	122,169
2600 Total Deferred Inflows of Resources	<u>95,120</u>	<u>27,049</u>	<u>-</u>	<u>122,169</u>
FUND BALANCES				
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	-	-	51,426	51,426
3480 Retirement of Long-Term Debt	-	340,279	-	340,279
3600 Unassigned Fund Balance	2,380,465	-	-	2,380,465
3000 Total Fund Balances	<u>2,380,465</u>	<u>340,279</u>	<u>51,426</u>	<u>2,772,170</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 2,762,694</u>	<u>\$ 368,423</u>	<u>\$ 78,113</u>	<u>\$ 3,209,230</u>

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

SKIDMORE-TYNAN INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
AUGUST 31, 2019

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$	2,772,170
1 The District uses internal service funds to charge the costs of certain activities, such as self-insurance and 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.		29,023
2 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$20,489,175 and the accumulated depreciation was (\$5,514,418). In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.		3,854,051
3 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 capital outlays and debt principal payments is to increase net position.		1,282,040
4 Included in the items related to debt is the recognition of the District' proportionate share of the net pension liability required by GASB 68. The net position related to TRS included a deferred resource outflow in the amount of \$1,139,902, a deferred resource inflow in the amount of \$234,260, and a net pension liability in the amount of \$2,217,009. This resulted in a decrease in net position.		(1,311,367)
5 Included in the items related to debt is the recognition of the District' proportionate share of the net OPEB liability required by GASB 75. The net position related to TRS included a deferred resource outflow in the amount of \$247,049, a deferred resource inflow in the amount of \$1,002,112, and a net OPEB liability in the amount of \$2,926,920. This resulted in a decrease in net position.		(3,681,983)
6 Depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(609,752)
7 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, reclassifying the proceeds of bonds and loans as an increase in long-term debt, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net position.		(743,740)
19 Net Position of Governmental Activities	\$	1,590,442

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

SKIDMORE-TYNAN INDEPENDENT SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2019

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 1,898,193	\$ 516,537	\$ 86,154	\$ 2,500,884
5800 State Program Revenues	7,184,826	363,159	40,639	7,588,624
5900 Federal Program Revenues	312,387	-	616,415	928,802
5020 Total Revenues	<u>9,395,406</u>	<u>879,696</u>	<u>743,208</u>	<u>11,018,310</u>
EXPENDITURES:				
Current:				
0011 Instruction	4,444,698	-	234,377	4,679,075
0012 Instructional Resources and Media Services	94,705	-	-	94,705
0013 Curriculum and Instructional Staff Development	123,843	-	19,666	143,509
0023 School Leadership	382,799	-	-	382,799
0031 Guidance, Counseling and Evaluation Services	243,249	-	-	243,249
0033 Health Services	52,971	-	-	52,971
0034 Student (Pupil) Transportation	554,561	-	-	554,561
0035 Food Services	303	-	432,248	432,551
0036 Extracurricular Activities	586,725	-	-	586,725
0041 General Administration	414,314	-	-	414,314
0051 Facilities Maintenance and Operations	1,577,048	-	19,069	1,596,117
0052 Security and Monitoring Services	18,366	-	-	18,366
0053 Data Processing Services	132,912	-	-	132,912
Debt Service:				
0071 Principal on Long-Term Debt	115,000	389,738	-	504,738
0072 Interest on Long-Term Debt	27,412	396,395	-	423,807
0073 Bond Issuance Cost and Fees	8,600	925	-	9,525
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	93,851	-	-	93,851
0099 Other Intergovernmental Charges	49,514	-	-	49,514
6030 Total Expenditures	<u>8,920,871</u>	<u>787,058</u>	<u>705,360</u>	<u>10,413,289</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>474,535</u>	<u>92,638</u>	<u>37,848</u>	<u>605,021</u>
OTHER FINANCING SOURCES (USES):				
7912 Sale of Real and Personal Property	600	-	-	600
7914 Non-Current Loans	582,336	-	-	582,336
7080 Total Other Financing Sources (Uses)	<u>582,936</u>	<u>-</u>	<u>-</u>	<u>582,936</u>
1200 Net Change in Fund Balances	1,057,471	92,638	37,848	1,187,957
0100 Fund Balance - September 1 (Beginning)	<u>1,322,994</u>	<u>247,641</u>	<u>13,578</u>	<u>1,584,213</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 2,380,465</u>	<u>\$ 340,279</u>	<u>\$ 51,426</u>	<u>\$ 2,772,170</u>

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

SKIDMORE-TYNAN INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED AUGUST 31, 2019

EXHIBIT C-4

Total Net Change in Fund Balances - Governmental Funds	\$ 1,187,957
The District uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other funds. The net income (loss) of internal service funds are reported with governmental activities. The net effect of this consolidation is to decrease net position.	(7,019)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the capital outlays and debt principal payments is to increase net position.	1,282,040
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.	(609,752)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, reclassifying the proceeds of long-term debt, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net position.	(589,436)
GASB 68 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$146,211 Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability. This caused a decrease in the change in net position totaling \$135,606. Finally, the proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense decreased the change in net position by \$157,887. The net result is a decrease in the change in net position.	(147,282)
GASB 75 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$42,362. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net OPEB liability. This caused a decrease in the change in net position totaling \$40,439. Finally, the proportionate share of the TRS OPEB expense on the plan as a whole had to be recorded. The net OPEB expense decreased the change in net position by \$23,334. The net result is a decrease in the change in net position.	(21,411)
Change in Net Position of Governmental Activities	\$ 1,095,097

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

SKIDMORE-TYNAN INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AUGUST 31, 2019

EXHIBIT D-1

	Governmental Activities -
	Internal Service Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 63,441
Total Assets	63,441
LIABILITIES	
Current Liabilities:	
Accrued Expenses	34,418
Total Liabilities	34,418
NET POSITION	
Unrestricted Net Position	29,023
Total Net Position	\$ 29,023

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

SKIDMORE-TYNAN INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2019

	Governmental Activities -
	Internal Service Fund
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 31,553
Total Operating Revenues	<u>31,553</u>
OPERATING EXPENSES:	
Professional and Contracted Services	29
Other Operating Costs	39,036
Total Operating Expenses	<u>39,065</u>
Operating Income (Loss)	<u>(7,512)</u>
NONOPERATING REVENUES (EXPENSES):	
Earnings from Temporary Deposits & Investments	493
Total Nonoperating Revenues (Expenses)	<u>493</u>
Change in Net Position	(7,019)
Total Net Position - September 1 (Beginning)	<u>36,042</u>
Total Net Position - August 31 (Ending)	<u><u>\$ 29,023</u></u>

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

SKIDMORE-TYNAN INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2019

	Governmental Activities -
	Internal Service Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Assessments - Other Funds	\$ 31,553
Cash Payments for Insurance Claims	(35,839)
Net Cash Used for Operating Activities	<u>(4,286)</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
(Increase) Decrease in Interfund Receivable	<u>4,213</u>
<u>Cash Flows from Investing Activities:</u>	
Interest and Dividends on Investments	<u>493</u>
Net Increase in Cash and Cash Equivalents	420
Cash and Cash Equivalents at Beginning of Year	<u>63,021</u>
Cash and Cash Equivalents at End of Year	<u>\$ 63,441</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>	
<u>Used for Operating Activities:</u>	
Operating Income (Loss):	\$ (7,512)
Effect of Increases and Decreases in Current Assets and Liabilities:	
Increase (Decrease) in Accrued Liabilities	<u>3,226</u>
Net Cash Used for Operating Activities	<u>\$ (4,286)</u>
<u>Reconciliation of Total Cash and Cash Equivalents:</u>	
Cash and Cash Equivalents on Balance Sheet	\$ 63,441
Pooled Cash and Cash Equivalents on Balance Sheet	<u>-</u>
Total Cash and Cash Equivalents	<u>\$ 63,441</u>

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

SKIDMORE-TYNAN INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2019

EXHIBIT E-1

	Private Purpose Trust Fund	Agency Fund
ASSETS		
Cash and Cash Equivalents	\$ 14,496	\$ 77,526
Total Assets	<u>14,496</u>	<u>\$ 77,526</u>
LIABILITIES		
Due to Student Groups	-	\$ 77,526
Total Liabilities	<u>-</u>	<u>\$ 77,526</u>
NET POSITION		
Restricted for Scholarships	<u>14,496</u>	
Total Net Position	<u>\$ 14,496</u>	

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

SKIDMORE-TYNAN INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY FUND NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2019

	Private Purpose Trust Fund
<hr/>	
ADDITIONS:	
Local and Intermediate Sources	\$ 2,197
Total Additions	<u>2,197</u>
DEDUCTIONS:	
Other Operating Costs	<u>500</u>
Total Deductions	<u>500</u>
Change in Net Position	1,697
Total Net Position - September 1 (Beginning)	<u>12,799</u>
Total Net Position - August 31 (Ending)	<u><u>\$ 14,496</u></u>

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

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SKIDMORE-TYNAN INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AT AND FOR THE YEAR ENDED AUGUST 31, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Skidmore-Tynan Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the "Board") elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in **GASB Statement No. 76**, and it complies with the requirements of the appropriate version of Texas Education Agency's *Financial Accountability System Resource Guide* (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

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

Other Post-Employment Benefits (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 related to other post-employment benefits, OPEB expense, and information about assets, liabilities and additions to/deductions from TRS-Care's fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments as this is a pay-as you-go plan and all cash is held in a cash account.

The District applied Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

A. REPORTING ENTITY

The Board of Trustees (the "Board") is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity." There are no component units included within the reporting entity.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the District's nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

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

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

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

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

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

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

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

Agency Funds utilize the accrual basis of accounting but do not have a measurement focus as they report only assets and liabilities.

D. FUND ACCOUNTING

The District reports the following major governmental funds:

1. **The General Fund.** The general fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
2. **Debt Service Fund** - The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

Additionally, the District reports the following fund type(s):

Governmental Funds:

3. **Special Revenue Funds.** The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.

Proprietary Funds:

4. **Internal Service Fund** - The District accounts for revenues and expenses related to services provided to parties within the District. These funds facilitate distribution of support costs to the users of support services on a cost-reimbursement basis.

Fiduciary Funds:

5. **Private Purpose Trust Funds.** The District accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District.
6. **Agency Funds.** The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Fund is the "Skidmore-Tynan Student Activity Fund."

E. OTHER ACCOUNTING POLICIES

1. For purposes of the statement of cash flows for proprietary funds, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. The District reports inventories of supplies at weighted average cost including consumable maintenance, instructional, office, athletic, and transportation items. Supplies are recorded as expenditures when they are consumed. Inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as inventory and unearned revenue when received. When requisitioned, inventory and unearned revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount.
3. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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

4. It is the District's policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the district. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.
5. Capital assets, which include land, buildings, furniture and equipment are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

<u>Asset:</u>	<u>Years</u>
Buildings	50
Building Improvements	20
Infrastructure	20-50
Vehicles	5-10
Equipment	7
Technology Equipment	5

6. In the fund financial statements, governmental funds report fund balance as nonspendable if the amounts cannot be spent because they are either not in spendable form or are legally or contractually required to remain intact. Restrictions of fund balance are for amounts that are restricted to specific purposes by an external entity (creditors, grantors, governmental regulations) or the restriction is imposed by law through constitutional provision or enabling legislation. Commitments of fund balance represent amounts that can only be used for specific purposes pursuant to constraints imposed by the District's board. Assignments of fund balance are amounts set aside by the District's superintendent or his designee with the intent they be used for specific purposes.
7. When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
8. In general governments are required to report investments at fair value. These methods are disclosed in section III.A. below.
9. In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. Items reported as deferred outflows of resources are as follows:

Deferred charges for bond refunding	\$ 167,817
Deferred charges related to TRS retirement	\$ 1,139,902
Deferred charges related to TRS OPEB	\$ 247,049

10. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has one type of item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Uncollected property taxes which are assumed collectible are reported in this category on the balance sheet for governmental funds. They are not reported in this category on the government wide statement of net position. Items reported as deferred inflows of resources are as follows:

Deferred charges related to TRS retirement	\$ 234,260
Deferred charges related to TRS OPEB	\$1,002,112

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

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The Board of Trustees adopts an "appropriated budget" for the General Fund and the Food Service Fund (which is included in the Special Revenue Funds). The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1 in RSI and the other reports are in Exhibits J4 and J5.

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

1. Prior to August 20 the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. (However, none of these were significant.)
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

During the year, the District had the following functional categories that exceeded its final amended budget by more than \$2,500:

Functional Category	Amount Over Budget	Explanation
0051 - Facilities maintenance and operations	\$ 462,534	The district approved an energy efficiency improvement project on October 8, 2018 but failed to amend its budget for inclusion of the project
0071 - Bond issuance cost and fees	\$ 7,600	Fees related to the energy efficiency improvement project not budgeted

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

District Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits. State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the district complies with this law, it has no custodial credit risk for deposits. The District was not exposed to custodial credit risk.

Foreign Currency Risk. The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit by having no deposits denominated in a foreign currency. Therefore, the District was not exposed to foreign currency risk.

As of August 31, 2019, the following are the District's cash and cash equivalents (including its student activity and private purpose trust fund) with respective maturities and credit rating:

Type of Deposit	Fair Value	Percent	Maturity < 1 Yr	Maturity 1-10 Yrs	Maturity > 10 Yrs	Credit Rating
Money market and FDIC insured accounts	\$ 270,603	12%	\$ 270,603			N/A
Investment pools	2,065,217	88%	2,065,217			AAA
Total Cash and Cash Equivalents	<u>\$ 2,335,820</u>	<u>100%</u>	<u>\$ 2,335,820</u>			

Investments

District Policies and Legal and Contractual Provisions Governing Investments

Compliance with the Public Funds Investment Act

The **Public Funds Investment Act**(Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires a governmental entity to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

Statutes authorize the entity to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas and its agencies; (2) guaranteed or secured certificates of deposit issued by state and national banks domiciled in Texas; (3) obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality not less than an "A"; (4) No load money market funds with a weighted average maturity of 90 days or less; (5) fully collateralized repurchase agreements; (6) commercial paper having a stated maturity of 270 days or less from the date of issuance and is not rated less than A-1 or P-1 by two nationally recognized credit rating agencies OR one nationally recognized credit agency and is fully secured by an irrevocable letter of credit; (7) secured corporate bonds rated not lower than "AA-" or the equivalent; (8) public funds investment pools; and (9) guaranteed investment contracts for bond proceeds investment only, with a defined termination date and secured by U.S. Government direct or agency obligations approved by the Texas public Funds Investment Act in an amount equal to the bond proceeds. The Act also requires the entity to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

Additional policies and contractual provisions governing investments for the District are specified below:

Credit Risk. To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the District limits investments in commercial paper, corporate bonds and mutual bond funds to the top ratings issued by nationally recognized statistical rating organizations (NRSROs). As of August 31, 2019, all of the District's investments were rated AAA by Standard & Poor's rating agency. Therefore, the District was not exposed to credit risk.

Custodial Credit Risk for Investments. To limit the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party the District requires counterparties to register the securities in the name of the district and hand them over to the District or its designated agent. This includes securities in securities lending transactions. All of the securities are in the District's name and held by the District or its agent. The District was not exposed to custodial credit risk.

Concentration of Credit Risk. To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the District limits investments to less than 5% of its total investments. The District further limits investments in a single issuer when they would cause investment risks to be significantly greater in the governmental and business-type activities, individual major funds, aggregate non-major funds and fiduciary fund types than they are in the primary government. Usually this limitation is 20%. The District was not exposed to concentration of credit risk.

Interest Rate Risk. To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District requires a review of its investment portfolio at least annually to determine whether market conditions pose an inherent risk of future interest rates either rising or falling which could significantly affect investment performance. The District was not exposed to interest rate risk.

Foreign Currency Risk for Investments. The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment by not investing in any foreign currency. Therefore, the District was not exposed to foreign currency risk.

The District categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. the hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below. In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The District's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

At August 31, 2019, the District had no investments other than public funds investment pools.

B. PROPERTY TAXES

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

C. DELINQUENT TAXES RECEIVABLE

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

D. INTERFUND BALANCES AND TRANSFERS

The composition of interfund balances as of August 31, 2019 is as follows:

Fund	Receivable	Payable	Purpose	Current?
General fund	\$ 4,913		Temporary advances	Yes
Nonmajor governmental funds		4,913	Temporary advances	Yes
Total	<u>\$ 4,913</u>	<u>\$ 4,913</u>		

Interfund transfers for the year ended August 31, 2019 consisted of the following individual amounts:

None.

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2019 were as follows:

	Property Taxes (net)	Other Government	Total Receivables
Governmental Activities:			
General fund	\$ 95,120	\$ 811,010	\$ 903,130
Debt service fund	27,049		27,049
Nonmajor governmental funds		39,183	39,183
Total Governmental Activities	\$ 122,169	\$ 850,193	\$ 972,362

Payables at August 31, 2019 were as follows:

	Accounts	Salaries and Benefits	Other Governments	Total Payables
Governmental Activities:				
General fund	\$ 6,567	\$ 280,542		\$ 287,109
Debt service fund			1,095	1,095
Nonmajor governmental funds		21,774		21,774
Total Governmental Activities	\$ 6,567	\$ 302,316	\$ 1,095	\$ 309,978

F. CAPITAL ASSET ACTIVITY

Capital asset activity for the year ended August 31, 2019, was as follows:

	Balance 8/31/18	Additions	Disposals	Balance 8/31/19
Governmental activities:				
Land and improvements	\$ 244,525			\$ 244,525
Buildings and improvements	16,763,609	573,736		17,337,345
Furniture and equipment	1,908,452	203,566	15,962	2,096,056
Infrastructure	1,572,589			1,572,589
Totals	20,489,175	777,302	15,962	21,250,515
Less accumulated depreciation for:				
Buildings and improvements	3,887,064	385,124		4,272,188
Furniture and equipment	1,262,212	175,667	15,962	1,421,917
Infrastructure	365,142	48,961		414,103
Total accumulated depreciation	5,514,418	609,752	15,962	6,108,208
Governmental activities capital assets, net	\$ 14,974,757	\$ 167,550	\$ 0	\$ 15,142,307

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

11 - Instruction	\$ 237,491
12 - Instructional resources and media services	7,249
23 - School leadership	16,144
31 - Guidance, counseling and evaluation services	10,259
33 - Health services	2,234
34 - Student (pupil) transportation	137,231
35 - Food services	19,962
36 - Extracurricular activities	103,444
41 - General administration	17,474
51 - Facilities maintenance and operations	52,658
53 - Data processing services	5,606
Total depreciation expense - governmental activities	<u>\$ 609,752</u>

G. BONDS AND LONG-TERM NOTES PAYABLE

Bonded indebtedness of the District is reflected in the General Long-Term Debt Account Group. Current requirements for principal and interest expenditures are accounted for in the Debt Service Fund.

A summary of changes in general long-term debt for the year ended August 31, 2019 is as follows:

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding 9/1/18	Issued	Retired	Amounts Outstanding 8/31/19
Bonds Payable:						
Unlimited tax building bonds, series 2011 (capital appreciation)	1.21% - 4.68%	\$ 1,049,999	\$ 693,058		\$ 94,738	\$ 598,320
Unlimited tax building bonds, series 2011	4.0% - 4.75%	5,750,000	5,750,000			5,750,000
Unlimited tax refunding bonds, series 2015	3.0% - 4.0%	2,730,000	2,535,000		160,000	2,375,000
Unlimited tax refunding bonds, series 2015 (capital appreciation)	2.0%	59,867	59,867			59,867
Unlimited tax refunding bonds, series 2015A	2.0% - 3.0%	1,156,000	879,000		135,000	744,000
Notes Payable:						
Limited maintenance tax notes, series 2015	3.08%	1,000,000	890,000		115,000	775,000
Public property finance contract #8433	4.25%	582,336	0	582,336		582,336
Bond Premium:						
Bond premium, series 2011			106,078		4,608	101,470
Bond premium, series 2015			297,397		21,629	275,768
Bond premium, series 2015A			9,403		1,791	7,612
Accreted Interest:						
Accreted interest, series 2011			245,103	39,044	30,262	253,885
Accreted interest, series 2015			68,678	21,168		89,846
Total Long-Term Debt			<u>\$ 11,533,584</u>	<u>\$ 642,548</u>	<u>\$ 563,028</u>	<u>\$ 11,613,104</u>

The bonds payable are paid by the District's debt service fund with tax rates ratified through taxpayer authorization. The maintenance tax notes are payable from the general fund.

Skidmore-Tynan ISD Tax School Building Bonds, Series 2011 -

The bonds were issued on February 17, 2011 for the purpose of construction and renovation of facilities and were issued in accordance with Texas law. The original issue was for \$6,799,999, maturing in various amounts, with a stated interest rates ranging from 1.21% - 4.75%, and maturing on August 15, 2041. Bonds due on or after August 15, 2021 are callable at par on that date or any principal maturity date thereafter. The bonds were issued at a premium of \$141,022 to be amortized over the life of the bonds.

Skidmore-Tynan ISD Tax Refunding Bonds, Series 2015 -

The bonds were issued on June 2, 2015 for the purpose of an advance refunding for a portion of the Unlimited Tax Building Bonds, Series 2007. Total bonds issued totaled \$2,789,867 issued at a premium of \$367,691 to be amortized over the life of the bonds. The stated interest rates on the bonds ranged from 2.0% - 4.0% maturing in various amounts with final maturity on August 15,2032. Amounts refunded and considered an in-substance defeasance as a result of the refunding totaled \$2,690,000 for bonds maturing in fiscal years 2018-2032. The cash flow savings from the refunding on the new debt versus the cash flow necessary on the old debt totaled \$354,606 and a net present value savings of \$305,661.

Skidmore-Tynan ISD Tax Refunding Bonds, Series 2015A -

The bonds were issued on November 19, 2015 for the purpose of an advance refunding for a portion of the Unlimited Tax Refunding Bonds, Series 2006. Total bonds issued totaled \$1,156,000 issued at a premium of \$58,689 to be amortized over the life of the bonds. The stated interest rates on the bonds ranged from 2.0% - 3.0% maturing in various amounts with final maturity on August 15,2024. Amounts refunded and considered an in-substance defeasance as a result of the refunding totaled \$1,280,000 for bonds maturing in fiscal years 2017-2024. The cash flow savings from the refunding on the new debt versus the cash flow necessary on the old debt totaled \$90,377 and a net present value savings of \$83,404.

Skidmore-Tynan ISD Limited Maintenance Tax Notes, Series 2015 -

The bonds were issued on June 18, 2015 for the purpose of renovation of facilities and were issued in accordance with Texas law. The original issue was for \$1,000,000, maturing in various amounts, with a stated interest rates of 3.08%, and maturing on August 15, 2025. Bonds are not subject to redemption prior to the stated maturity.

Public Property Finance Contract #8433 -

The contract was entered into on October 8, 2018 for the purpose of financing the cost of energy efficiency improvements within the District and was in accordance with Texas law. The contract was for \$582,336, maturing in various amounts, with a stated interest rates of 4.25%, and maturing on November 1, 2034.

H. DEBT SERVICE REQUIREMENTS - BONDS AND LONG-TERM NOTES PAYABLE

Future debt service requirements are as follows:

Year Ended August 31,	Principal	Interest	Total Requirements
2020	\$ 432,172	\$ 550,231	\$ 982,403
2021	552,015	436,417	988,432
2022	549,866	428,236	978,102
2023	564,525	418,157	982,682
2024	576,591	405,127	981,718
2025-29	2,198,748	1,784,229	3,982,977
2030-34	2,480,606	1,132,353	3,612,959
2035-39	2,405,000	616,475	3,021,475
2040-41	1,125,000	80,750	1,205,750
Totals	<u>\$ 10,884,523</u>	<u>\$ 5,851,975</u>	<u>\$ 16,736,498</u>

I. DEFINED BENEFIT PENSION PLAN

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

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

Pension Plan Fiduciary Net Position. Detailed information about the 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 <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

<u>Net Pension Liability</u>	<u>Total</u>
Total Pension Liability	\$ 209,611,328,793
Less: Plan Fiduciary Net Position	(154,568,901,833)
Net Pension Liability	<u>\$ 55,042,426,960</u>
 Net Position as a percentage of Total Pension Liability	 73.74%

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 grand fathered, 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 in (A) 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. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2018 and 2019.

Contribution Rates		
	2018	2019
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%

Current fiscal year District contributions	\$ 146,211
Current fiscal year Member contributions	\$ 403,370
2018 measurement year NECE contributions	\$ 264,179

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

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.

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

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

Actuarial Assumptions. The total pension liability in the August 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2017 rolled forward to August 31, 2018
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Single Discount Rate	6.907%
Long-term expected Investment Rate of Return	7.25%
Inflation	2.3%
Salary Increases	3.05% to 9.05% including inflation
Benefit Changes During the Year	None
Ad hoc Post-Employment Benefit Changes	None

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

Discount Rate. The single discount rate used to measure the total pension liability was 6.907%. This was a change in the discount rate from the previous year of (1.093%). 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 7.25%. 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, 2018 are summarized below:

Asset Class	Target Allocation	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return*
Global Equity			
U.S.	18%	5.70%	1.04%
Non-U.S. Developed	13%	6.90%	0.90%
Emerging Markets	9%	8.95%	0.80%
Directional Hedge Funds	4%	3.53%	0.14%
Private Equity	13%	10.18%	1.32%
Stable Value			
U.S. Treasuries	11%	1.11%	0.12%
Absolute Return	0%	0.00%	0.00%
Hedge Funds (Stable Value)	4%	3.09%	0.12%
Cash	1%	(0.30)%	0.00%
Real Return			
Global Inflation Linked Bonds	3%	0.70%	0.02%
Real Assets	16%	5.21%	0.73%
Energy and Natural Resources	3%	7.48%	0.37%
Commodities	0%	0.00%	0.00%
Risk Parity			
Risk Parity	5%	3.70%	0.18%
Inflation Expectations			2.30%
Alpha			(0.79)%
Total	<u>100%</u>		<u>7.25%</u>

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

Discount Rate Sensitivity Analysis. The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2018 Net Pension Liability.

	1% Decrease in Discount Rate (5.907%)	Discount Rate (6.907%)	1% Increase in Discount Rate (7.907%)
District's proportionate share of the net pension liability	\$ 3,345,998	\$ 2,217,009	\$ 1,303,025

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2019, the District reported a liability of \$2,217,009 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 2,217,009
State's proportionate share that is associated with the District	4,319,150
Total	<u>\$ 6,536,159</u>

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

At August 31, 2018 the District's proportion of the collective net pension liability was 0.0040278180% which was a decrease of 0.0002267527% from its proportion measured as of August 31, 2017.

Changes Since the Prior Actuarial Valuation. Changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period are as follows:

1. The total pension liability as of August 31, 2018 was developed using the roll-forward method of the August 31, 2017 valuation.
2. Demographic assumptions including post-retirement mortality, termination rates, and rates of retirement were updated based on the experience study performed for TRS for the period ending August 31, 2017.
3. Economic assumptions including rates of salary increase for individual participants was updated based on the same experience study.
4. The discount rate changed from 8.0 percent as of August 31, 2017 to 6.907 percent as of August 31, 2018.
5. The long term assumed rate of return changed from 8.0 to 7.25 percent.
6. The change in the long-term assumed rate of return combined with the change in the single discount rate was the primary reason for the increase in the net pension liability.

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, 2019, the District recognized pension expense of \$720,974 and revenue of \$427,481 for support provided by the Sate in the Government-Wide Statement of Activities.

At August 31, 2019, 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
Difference between expected and actual economic experiences	\$ 13,819	\$ 54,397
Changes in actuarial assumptions	799,338	24,979
Differences between projected and actual investment earnings		42,067
Changes in proportion and differences between the District's contributions and the proportionate share of contributions	180,534	112,817
Total as of August 31, 2018 measurement date	<u>\$ 993,691</u>	<u>\$ 234,260</u>
Contributions paid to TRS subsequent to the measurement date	146,211	
Total as of August 31, 2019 fiscal year end	<u>\$ 1,139,902</u>	<u>\$ 234,260</u>

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

Fiscal year ended August 31,	Amount
2020	\$ 216,141
2021	\$ 127,614
2022	\$ 102,731
2023	\$ 119,629
2024	\$ 113,504
Thereafter	\$ 79,812

J. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS

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

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

Components of the net OPEB liability of the TRS-Care plan as of August 31, 2018 are as follows:

<u>Net OPEB Liability:</u>	<u>Total</u>
Total OPEB liability	\$ 50,729,490,103
Less: plan fiduciary net position	(798,574,633)
Net OPEB liability	<u>\$ 49,930,915,470</u>
Net position as a percentage of total OPEB liability	1.57%

Benefits Provided. TRS-Care provides a basic health insurance coverage 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 non-Medicare retirees and their dependents may pay premiums to participate in the high-deductible health plans. Eligible Medicare retirees and dependents may pay premiums to participate in the Medicare Advantage health plans. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system.

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 standard plan with Medicare Part A and Part B.

TRS-Care Plan Premium Rates Effective September 1, 2016 - December 31, 2017			
	TRS-Care 1	TRS-Care 2	TRS-Care 3
Retiree or surviving spouse	\$ 0	\$ 70	\$ 100
Retiree and spouse	20	175	255
Retiree or surviving spouse and children	41	132	182
Retiree and family	61	237	337
Surviving children only	28	62	82

The new premium rates for retirees with Medicare Part A and Part B became effective January 1, 2018 and are reflected in the following table.

TRS-Care Plan Premium Rates Effective January 1, 2018 - December 31, 2018		
	Medicare	Non-Medicare
Retiree or surviving spouse	\$ 135	\$ 200
Retiree and spouse	529	689
Retiree or surviving spouse and children	468	408
Retiree and family	1,020	999

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 plan is currently funded on a pay-as-you-go basis and is subject to change based on available funding. Funding for the plan 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 1.25% of the employee's salary. Section 1575.203 establishes the active employee's rate which is .65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25 percent or not more than 0.75 percent of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

Contribution Rates		
	2018	2019
Active employee	0.65%	0.65%
Non-employer contributing entity (State)	1.00%	1.25%
Employers	0.55%	0.75%
Federal/private funding remitted by employers	1.00%	1.25%

Current fiscal year District contributions	\$	42,362
Current fiscal year member contributions	\$	34,051
2018 measurement year NECE contributions	\$	60,063

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

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$15.6 million in fiscal year 2017 and \$212.0 million in fiscal year 2018.

Actuarial Assumptions. The total OPEB liability in the August 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

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

The active mortality rates were based on 90 percent of the RP-2014 Employee Mortality Tables for males and females with full generational mortality using Scale BB. The post-retirement mortality rates were based on the 2018 TRS of Texas Healthy Pensioner Mortality Tables, with full generational projection using the ultimate improvement rates from the most recently published scale.

The following assumptions and other inputs used for members of TRS-Care are identical to the assumptions used in the August 31, 2018 TRS pension actuarial valuation:

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

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2017 rolled forward to August 31, 2018
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Discount Rate *	3.69% *
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.
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, 2018.

** Includes inflation at 2.50%

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

Discount Rate. A single discount rate of 3.69% was used to measure the total OPEB liability. There was a change of 0.27% 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. The source of the municipal bond rate was fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of August 31, 2018.

Sensitivity of the Net OPEB Liability:

Discount Rate Sensitivity Analysis - The following schedule shows the impact of the net OPEB liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used in measuring the net OPEB liability.

	1% Decrease in Discount Rate (2.69%)	Current Single Discount Rate (3.69%)	1% Increase in Discount Rate (4.69%)
District's proportionate share of net OPEB liability	\$ 3,484,040	\$ 2,926,920	\$ 2,486,202

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

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District's proportionate share of net OPEB liability	\$ 2,430,855	\$ 2,926,920	\$ 3,580,248

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs. At August 31, 2019, the District reported a liability of \$2,926,920 for its proportionate share of the TRS's net OPEB liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective net OPEB liability	\$ 2,926,920
State's proportionate share that is associated with the District	4,353,516
Total	<u>\$ 7,280,436</u>

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

At August 31, 2018 the District's proportion of the collective net OPEB liability was 0.0058619389% which was a decrease of 0.0001393946% from its proportion measured as of August 31, 2017.

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. The total OPEB liability as of August 31, 2018 was developed using the roll-forward method of the August 31, 2017 valuation.
2. Adjustments were made for retirees that were known to have discontinued their health care coverage in fiscal year 2018. This change increased the total OPEB liability.
3. The health care trend rate assumption was updated to reflect the anticipated return of the Health Insurer Fee (HIF) in 2020. This change increased the total OPEB liability.
4. Demographic and economic assumptions were updated based on the experience study performed for TRS for the period ending August 31, 2017. This change increased the total OPEB liability.
5. The discount rate changed from 3.42% as of August 31, 2017 to 3.69% as of August 31, 2018. This change lowered total OPEB liability.

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

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

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

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

Changes of benefit terms that affected measurement of the total OPEB liability during the measurement period are listed below:

The 85th Legislature, Regular Session, passed the following statutory changes in House Bill 3976 which became effective on September 1, 2017:

- Created a high-deductible health plan that provides a zero cost for generic prescriptions for certain preventive drugs and provides a zero premium for disability retirees who retired as a disability retiree on or before January 1, 2017 and are not eligible to enroll in Medicare.
- Created a single Medicare Advantage plan and Medicare prescription drug plan for all Medicare-eligible participants.
- Allowed the System to provide other appropriate health benefit plans to address the needs of enrollees eligible for Medicare.
- Allowed eligible retirees and their eligible dependents to enroll in TRS-Care when the retiree reaches 65 years of age, rather than waiting for the next enrollment period.
- Eliminated free coverage under TRS-Care, except for certain disability retirees enrolled during Plan Years 2018 through 2021, requiring members to contribute \$200 per month toward their health insurance premiums.

For the year ended August 31, 2019, the District recognized OPEB expense of \$222,128 and revenue of \$158,355 for support provided by the State.

At August 31, 2019, 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 Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual actuarial experience	\$ 155,321	\$ 46,191
Changes in actuarial assumptions	48,842	879,371
Differences between projected and actual investment earnings	512	
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	12	76,550
Total as of August 31, 2018 measurement date	<u>\$ 204,687</u>	<u>\$ 1,002,112</u>
Contributions paid to TRS subsequent to the measurement date	42,362	
Total as of August 31, 2019 fiscal year end	<u><u>\$ 247,049</u></u>	<u><u>\$ 1,002,112</u></u>

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

Year ended August 31,	Amount
2020	\$ (124,718)
2021	\$ (124,718)
2022	\$ (124,718)
2023	\$ (124,815)
2024	\$ (124,870)
Thereafter	\$ (173,586)

K. HEALTH CARE COVERAGE - RETIREES AND ACTIVE EMPLOYEES

Retiree Health Care Coverage

Plan Description. The District participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit post-employment health care plan administered by the Teacher Retirement System of Texas. TRS-Care provides health care coverage for certain persons (and their dependents) who retire under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Texas Insurance Code Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The TRS issues a publicly available financial report that includes financial statements and required supplementary information for

TRS-Care. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by phoning the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet Website, www.trs.state.tx.us under the TRS Publications heading.

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The Contribution Rate for the State was 1.00% for 2017 and 1.25% for 2018 and 2019. The contribution rate for the district was 0.55% for 2017 and 0.75% for 2018 and 2019. The contribution rate for active employees was 0.65% of the district payroll for each of the three years. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For staff members funded by federal programs, the federal programs are required to contribution 1.0 % for 2017 and 1.25% for 2018 and 2019.

Contributions. Contributions made by the State on behalf of the District are recorded in the governmental funds financial statements as both revenue and expenditures. State contributions to TRS made on behalf to the District's employees as well as the District's required contributions and federal grant program contributions for the years ended August 31, 2019, 2018 and 2017 are as follows:

Contribution Rates and Contribution Amounts						
Year	Member		State		School District	
	Rate	Amount	Rate	Amount	Rate	Amount
2019	0.65%	\$ 34,051	1.25%	\$ 65,482	0.75%	\$ 39,289
2018	0.65%	\$ 32,653	1.25%	\$ 62,794	0.75%	\$ 37,677
2017	0.65%	\$ 33,537	1.00%	\$ 51,919	0.55%	\$ 28,556

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. On-behalf payments recognized as equal revenues and expenditures by the District for the years ended August 31, 2019, 2018 and 2017 were \$19,448, \$16,245 and \$15,471, respectively.

Active Employee Health Care Coverage

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

L. CHANGES IN LONG-TERM LIABILITIES

Long-term activity for the year ended August 31, 2019, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Bonds payable	\$ 9,916,925		\$ 389,738	\$ 9,527,187	\$ 283,626
Bond premium	412,878		28,028	384,850	0
Interest accretion	313,781	60,212	30,262	343,731	0
Notes payable	890,000	582,336	115,000	1,357,336	148,546
Net pension liability	1,360,383	992,313	135,687	2,217,009	0
Net OPEB liability	2,609,755	357,604	40,439	2,926,920	0
Total	\$ 15,503,722	\$ 1,992,465	\$ 739,154	\$ 16,757,033	\$ 432,172

M. UNAVAILABLE/UNEARNED REVENUE

Unavailable and unearned revenue at year-end consisted of the following:

Fund	Unavailable Revenue (levied but uncollected property taxes)
General fund	\$ 95,120
Debt service fund	27,049
Total	\$ 122,169

N. DUE FROM STATE AND FEDERAL AGENCIES

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, 2019, are summarized below. They are reported on the combined financial statements as Due from Other Governments.

Fund	State Entitlements	Federal Grants	Total
General fund	\$ 811,010		\$ 811,010
Nonmajor governmental funds	1,595	37,588	39,183
Net Total Receivables	\$ 812,605	\$ 37,588	\$ 850,193

O. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

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

Description	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total
Property taxes	\$ 1,753,976	\$ 507,759		\$ 2,261,735
Penalties and interest (net of discounts)	(4,218)	(1,389)		(5,607)
Food sales			86,138	86,138
Investment income	55,543	10,167	16	65,726
Extracurricular student activities	22,071			22,071
Gifts and contributions	30,426			30,426
Other income	40,395			40,395
Total	\$ 1,898,193	\$ 516,537	\$ 86,154	\$ 2,500,884

P. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS AND CONTINGENCIES

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

Q. JOINT VENTURE SHARED SERVICE ARRANGEMENTS

The District participates in a shared services arrangement for Special Education services with the Brush Country Special Services Co-op. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Mathis ISD, nor does the district have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement.

The District also participates in various shared service arrangements with the Education Service Center Region 2. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The Education Service Center Region 2 is the fiscal agent manager and is responsible for all financial activities of the shared service arrangement.

R. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During the fiscal year 2019, the District purchased commercial insurance to cover general liabilities. Additional insurance information by coverage type follows.

Property Casualty Program

The District participated in the Texas Association of School Boards Risk Management Fund (the "Fund") with coverage in auto liability, auto physical damage, general liability, property and legal liability. The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. There were no significant reductions in coverage in the past fiscal year and there were not settlements exceeding insurance coverage for each of the past three years.

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for its auto, liability and property programs. The terms and limits of the stop-loss program vary by line coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended August 31, 2019, the Fund anticipates the District has not additional liability beyond the contractual obligations for payment of contributions.

Workers' Compensation

The District has established a partially self-funded workers' compensation plan by participating in the SchoolComp self-insured workers' compensation program administered by Creative Risk Funding, Inc. (the "Association"). The Association is a public entity risk pool currently operating as a common risk management and insurance program for member school districts. The main purpose of the Association is to partially self-insure certain workers compensation risks up to a agreed upon retention limit. The plan for workers' compensation benefits is authorized by Section 504.011 of the Labor Code. Claims are paid by a third party administrator acting on behalf of the District under the terms of a contractual agreement. Administrative fees are included within the provisions of that agreement. The liability of the workers' compensation self-insurance plan includes \$34,418 incurred but not reported claims and a loss-limit of \$21,446. Costs are allocated to other funds and the retained earnings are fully reserved for self-funded insurance. Estimates of claims payable and of claims incurred but not reported at August 31, 2019, are reflected as accounts and claims payable of the Fund. The plan is funded to discharge liabilities of the fund as they become due.

Unemployment Compensation

During the year ended August 31, 2019, the District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the "Fund"). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's unemployment compensation program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute interlocal agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop-loss coverage for the unemployment compensation pool. For the year ended August 31, 2019, the Fund anticipates that the District has no additional liability beyond the contractual obligation for payment of contribution.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund’s board of trustees in February of the following year. The Fund’s audited financial statements as of August 31, 2019, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

S. GENERAL FUND FEDERAL SOURCE REVENUES

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

Program or Service	CFDA	Amount
School health and related services	N/A	\$ 312,387

T. SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 29, 2019; the date which the financial statements were available for distribution. There were none noted.

U. TAX ABATEMENTS

On October 16, 2017, the District’s Board of Trustees approved an Agreement with Pacific Wind Development, LLC (the “Applicant” and a subsidiary of Avangrid Renewable Holdings, Inc.) for a Limitation on Appraised Value of Property for School District Maintenance and Operations Taxes pursuant to 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. Each company qualified for a tax limitation agreement under Texas Tax Code §313.024(b)(5), as renewable energy projects.

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 the statute. The project(s) under the Chapter 313 Agreement(s) must be consistent with the State’s goal to “encourage large scale capital investments in this state.” Chapter 313 of the Texas 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 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 Agreements were deemed to have done so by both the District’s Board of Trustees and the Texas Comptroller’s Office, which recommended approval of the projects. The Applications, the Agreements, and state reporting requirement documentation can be viewed at the Texas Comptroller’s website:

<https://www.comptroller.texas.gov/economy/local/ch313/agreement-docs.php>

After approval, each 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 an entity terminates the 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 the Agreement or to meet any material obligation under the Agreement, then the District shall be entitled to the recapture of all ad valorem tax revenue lost as a result of the Agreement together with the payment of penalty and interest on that recaptured ad valorem tax revenue. Penalties on said amounts shall be calculated in accordance with the methodology set forth in Texas Tax Code §33.01 (a), or its successor statute. Interest on said amounts shall be calculated in accordance with the methodology set forth in Texas Tax Code §33.01 (c), or its successor statute. The Agreement provides an administrative procedure to determine any company liability. Ultimately, enforcement of any payment obligation is through the local state district court.

As of the date of the audit report, the Applicant company is in full compliance with all of their obligations under law and the individual Agreement.

The following is a table related to the net benefit of the project to the District but does not include any (if applicable) interest and sinking impact.

Project:		Pacific Wind Development, LLC (Application #1177)				
First Year Value Limitation:		2019 tax year				
Tax Year 2018 (Fiscal Year 2018-19)						
(A) Project Value	(B) Project's Value Limitation Amount	(C) Amount of Applicant's M&O Taxes Paid	(D) Amount of Applicant's M&O Taxes Reduced	(E) Company Revenue Loss Payment to School District	(F) Company Supplemental Payment to School District	(G) Net Benefit (Loss) to the School District (C+E+F)
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0