OFFICIAL STATEMENT
DATED JUNE 17, 2020

NEW ISSUE - Book-Entry-Only

Enhanced/Unenhanced Ratings:
S&P: "AAA/AA-"
PSF: "Guaranteed"
(See "OTHER INFORMATION – Ratings" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein)

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

$14,370,000
LAREDO INDEPENDENT SCHOOL DISTRICT
(A Political Subdivision of the State of Texas located in Webb County)
UNLIMITED TAX REFUNDING BONDS, SERIES 2020

Dated: June 1, 2020 **Due: August 1 as shown on inside cover**
Interest accrues from the Delivery Date (defined below)

PAYMENT TERMS . . . The $14,370,000 Laredo Independent School District Unlimited Tax Refunding Bonds, Series 2020 (the "Bonds") are being issued by the Laredo Independent School District (the "District") in denominations of $5,000 or any integral multiple thereof. Interest on the Bonds will accrue from the Delivery Date (defined below) and will be payable on August 1, 2020 and each February 1 and August 1 thereafter until maturity or prior redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book-Entry-Only System described herein. DTC will act as securities depository. Beneficial ownership of the Bonds may be acquired in denominations of $5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the beneficial owners thereof**. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS - Book-Entry-Only System" herein). The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see "THE BONDS - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, including particularly, Chapter 1207, Texas Government Code, as amended, ("Chapters 1207"), and an Order (the "Order") adopted by the Board of Trustees (the "Board") on May 28, 2020 authorizing the issuance of the Bonds. As permitted by Chapter 1207, in the Order, the Board delegated to certain authorized officials authority to execute a "Pricing Certificate" evidencing final sales terms of the Bonds. The Pricing Certificate was executed by an authorized District official on June 17, 2020. The Bonds are direct obligations of the District, payable from an ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District, as provided in the Order (see "THE BONDS – Authority for Issuance"). The District has made application to the Texas Education Agency and received conditional approval for the payment of the principal of and interest on the Bonds to be guaranteed by the Permanent School Fund Guarantee Program which will automatically become effective when the Attorney General of Texas approves the Bonds (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM"). See also "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" for a discussion of recent developments in Texas law affecting the financing of school districts in Texas.

PURPOSE . . . Proceeds from the sale of the Bonds will be used (i) to refund certain maturities of the District's currently outstanding bonds for debt service savings, in the maturities, and in the amounts on SCHEDULE I hereto (the "Refunded Bonds") and (ii) for the payment of costs of issuance of the Bonds (see PLAN OF FINANCE – Purpose").

See following page for Maturity Schedule, Interest Rates, Yields, CUSIP Numbers, and Redemption Provisions

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the initial purchasers listed below (the "Underwriters") and subject to the approving opinion of the Attorney General of Texas and the legal opinion of Winstead PC, San Antonio, Texas and J. Cruz & Associates, LLC, Laredo, Texas, "Co-Bond Counsel" (see Appendix C – "Form of Co-Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriters by their counsel Bracewell LLP, San Antonio, Texas.

DELIVERY . . . It is expected that the Bonds will be available for initial delivery through the services of DTC, on or about July 1, 2020 (the "Delivery Date").

SAMCO CAPITAL MARKETS

FHN FINANCIAL CAPITAL MARKETS **HILLTOP SECURITIES**

$14,370,000
LAREDO INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX REFUNDING BONDS, SERIES 2020

MATURITY SCHEDULE, INTEREST RATES, INITIAL YIELDS(2), AND CUSIP(1) NUMBERS

CUSIP(1) Prefix: 516840

Maturity	Principal Amount	Interest Rate	Initial Yield (2)	CUSIP (1) Suffix
8/1/2020	$ 285,000	4.000%	0.320%	YY5
8/1/2021	2,885,000	4.000%	0.360%	YZ2
8/1/2022	3,010,000	4.000%	0.400%	ZA6
8/1/2023	2,345,000	5.000%	0.430%	ZB4
8/1/2024	2,465,000	5.000%	0.500%	ZC2
8/1/2025	3,380,000	5.000%	0.610%	ZD0

(Interest accrues from the Delivery Date)

NO OPTIONAL REDEMPTION . . . The Bonds are not subject to optional redemption prior to stated maturity (see "THE BONDS – No Optional Redemption of the Bonds").

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

(2) Initial yield represents the initial offering yield to the public which has been established by the Underwriters for the offers to the public by the Underwriters as their sole responsibility which may be subsequently changed.

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

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

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

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein.

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

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

Neither the District, the Financial Advisor, nor the Underwriters make any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company (the "DTC") or its Book-Entry-Only System or the affairs of the Texas Education Agency ("TEA") described under "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM," as such information has been provided by DTC and TEA, respectively.

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 purchasers of the Bonds. INVESTORS SHOULD READ THIS ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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

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 FORWARDLOOKING STATEMENTS (SEE "OTHER INFORMATION - FORWARD LOOKING STATEMENTS" HEREIN).

References to web site addresses presented herein are for informational purposes only and may be in 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, United States Securities and Exchange Commission Rule 15c2-12.

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

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 30-Jun	Estimated Population [2]	Net Taxable Assessed Valuation	Taxable Assessed Valuation Per Capita	Funded Tax Debt [3]	Debt to Taxable Assessed Valuation	Tax Debt Per Capita	% of Total Tax Collections
2016	90,595	$ 2,032,742,008	$ 22,438	$ 231,483,142	11.39%	$ 2,555	98.07%
2017	90,054	2,109,645,915	23,426	222,810,764	10.56%	2,474	98.71%
2018	89,213	2,208,601,197	24,756	203,940,449	9.23%	2,286	93.58%
2019 [1]	89,271	2,429,163,119	27,211	294,315,449	12.12%	3,297	96.96%
2020	87,842	2,448,484,517	27,874	275,219,661 [4]	11.24%	3,133	[5]

[1] The fiscal year end for the District changed from August 31 to June 30 effective in fiscal year 2019.
[2] Population calculated by multiplying the District's average daily attendance by the District's population factor.
[3] Includes maintenance & operations limited tax debt and interest & sinking fund unlimited tax debt. Approximately 70% of the debt service of the District's currently outstanding tax supported debt is supported with funds received by the Existing Debt Allotment Program and the Instructional Facilities Allotment Program. The amount of State 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 from time to time.
[4] Includes the Bonds and excludes the Refunded Bonds.
[5] In the process of collection.
Sources: District's Audited Financial Statements, District staff, and the Municipal Advisory Council of Texas.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	For Fiscal Year Ended June 30,				
	2019 [1]	2018	2017	2016	2015
Beginning Balance	$ 69,640,446	$ 74,756,972	$ 70,050,855	$ 85,538,715	$ 81,701,149
Total Revenues	226,573,941	229,284,192	226,605,869	226,958,343	217,429,629
Total Expenditures	(202,258,316)	(230,728,948)	(218,375,669)	(221,240,110)	(213,388,449)
Net Other Sources (Uses)	(11,717,025)	(3,671,770)	(3,524,083)	(15,477,947)	(203,614)
Prior Period Adjustments	-	-	-	(5,728,146)	-
Net Changes in Fund Balances	12,598,600	(5,116,526)	4,706,117	(15,487,860)	3,837,566
Ending Balance	$ 82,239,046	$ 69,640,446	$ 74,756,972	$ 70,050,855	$ 85,538,715

Source: The District's audited annual financial statements.
[1] The fiscal year end for the District changed from August 31 to June 30 effective in fiscal year 2019.

For additional information regarding the District, please contact:

Dr. Sylvia Guerra Rios
Superintendent of Schools
Ms. Flor Ayala, CPA
Assistant Superintendent for Finance and Business Services
1702 Houston Street
Laredo, Texas 78040
(956) 795-4112 – Telephone
(956) 795-4117 – Fax

or

Mr. Noe Hinojosa, Jr.
Mr. Donald Gonzales
Estrada Hinojosa & Company, Inc.
1717 Main Street, Suite 4700
Dallas, Texas 75201
(214) 658-1670 – Telephone
(214) 292-8849 – Fax
100 W. Houston Street, Suite 1400
San Antonio, Texas 78205
(210) 223-4888 – Telephone
(210) 223-4849 – Fax
noe@ehmuni.com
don@ehmuni.com

DISTRICT ADMINISTRATION

ELECTED OFFICIALS

Board of Trustees	Term Expires	Occupation
Hector Noyola President	November 2022	Executive Director of Boys & Girls Clubs of Laredo
Hector J. Garcia Vice President	November 2022	Hotel General Manager
Monica Garcia Secretary	November 2020	Public Information Officer for El Metro Transit
Jose A. Valdez Member	November 2020	Retired
Claudia V. Balli Member	November 2020	Attorney
Ricardo Garza Member	November 2020	Owner/Operator of Twins Mechanical, Inc.
Dr. Minita Ramirez Member	November 2020	Vice President for Student Success at Texas A&M International University

SELECTED ADMINISTRATIVE STAFF

Name	Position	Length of Service With the District
Dr. Sylvia G. Rios	Superintendent of Schools	3 Years (as Superintendent)(1)
Ms. Flor Ayala, CPA	Assistant Superintendent for Finance and Business Services	11 Years

CONSULTANTS AND ADVISORS

Auditors .... Weaver and Tidwell, LLP
Certified Public Accountants
Austin, Texas

Co-Bond Counsel .... Winstead PC
San Antonio, Texas
and
J. Cruz & Associates, LLC
Laredo, Texas

Financial Advisor .... Estrada Hinojosa & Company, Inc.
Dallas, Texas and San Antonio, Texas

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(1) Prior to being named Superintendent, Dr. Rios served for 19 months as the District's Chief Academic Officer.

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OFFICIAL STATEMENT

RELATING TO

LAREDO INDEPENDENT SCHOOL DISTRICT
(A Political Subdivision of the State of Texas located in Webb County)

$14,370,000
UNLIMITED TAX REFUNDING BONDS, SERIES 2020

INTRODUCTION

This Official Statement, which includes Schedule I and Appendices hereto, provides certain information regarding the issuance of $14,370,000 Laredo Independent School District Unlimited Tax Refunding Bonds, Series 2020 (the "Bonds"). Except as otherwise indicated herein, capitalized terms used in this Official Statement not otherwise defined herein have the same meanings assigned to such terms in the order (the "Order") adopted by the Board of Trustees (the "Board") of the Laredo Independent School District (the "District") on May 28, 2020, which authorized the issuance of the Bonds (see "THE BONDS – Authority for Issuance" herein).

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 financial position or other affairs of the District. No representation is made that past experience, as is shown by financial and other information, will necessarily continue or be repeated in the future (see "OTHER INFORMATION - Forward Looking Statements" herein).

There follows in this Official Statement descriptions of the Bonds and certain information regarding the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District's Financial Advisor, Estrada Hinojosa & Company, Inc., San Antonio, Texas at the address appearing on page v hereof, in an electronic format or upon request and payment of reasonable copying, handling and delivery charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the Final Official Statement will be deposited with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system. See "OTHER INFORMATION - Continuing Disclosure of Information" herein for a description of the District's undertaking to provide certain information on a continuing basis.

DESCRIPTION OF THE DISTRICT . . . The District is a political subdivision of the state of Texas located in Webb County. The District is governed by the seven-member Board who serve staggered four-year terms with elections being held in November of each year. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools, who is the chief administrative officer of the District. Support services are supplied by consultants and advisors.

The District is approximately 13.83 square miles in area (see Appendix A – "General Information Regarding the District" attached hereto).

PLAN OF FINANCE

PURPOSE . . . Proceeds from the sale of the Bonds will be used (i) to refund certain maturities of the District's currently outstanding bonds for debt service savings, in the maturities, and in the amounts on SCHEDULE I hereto (the "Refunded Bonds") and (ii) for the payment of costs of issuance of the Bonds.

REFUNDED BONDS . . . The Bonds are each being issued to refund certain outstanding indebtedness of the District as described in Schedule I hereto. The principal and interest due on the Refunded Bonds are to be paid on the scheduled interest payment dates and respective redemption dates of such Refunded Bonds from funds to be deposited pursuant to an escrow agreement (the "Escrow Agreement") between the District and The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Escrow Agent"). The Order provides that from a portion of the proceeds of the sale of the Bonds received from the Underwriters and other available District funds, if any, the District will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Bonds on their respective redemption dates. Such funds will be held by the Escrow Agent in a special account pursuant to the Escrow Agreement (the "Escrow Fund") and held in cash or used to purchase direct obligations of the United States of America or other permitted defeasance securities (the "Escrow Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal and interest on the Refunded Bonds.

Prior to, or simultaneously with, the issuance of the Bonds, the District will give irrevocable instructions to provide notice to the owners of the Refunded Bonds that the Refunded Bonds will be redeemed prior to stated maturity on which date money will be made available to redeem the Refunded Bonds from money held under the Escrow Agreement.

Causey Demgen & Moore P.C., Denver, Colorado, (the "Verification Agent") will verify at the time of delivery of the Bonds to the Underwriters thereof the mathematical accuracy of the schedules prepared by Estrada Hinojosa & Company, Inc,, the District's financial advisor, that demonstrate the Escrow Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds. (see "OTHER INFORMATION - Verification of Arithmetical Mathematical Computations"). Such maturing principal of and interest on the Escrow Securities will not be available to pay the Bonds.

By the deposit of the Escrow Securities and cash, if necessary, with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of the Refunded Bonds in accordance with law. It is the opinion of Co-Bond Counsel, and in reliance upon the report of the Verification Agent (the "Report"), firm banking and financial arrangements will have been made for the discharge and final payment of the Refunded Bonds pursuant to the Escrow Agreement and the Refunded Bonds will be outstanding only for the purpose of receiving payments from the Federal Securities and any cash held for such purpose by the Escrow Agent and such Refunded Bonds will not be deemed as being outstanding obligations of the District payable from taxes nor for the purpose of applying any limitation on the issuance of debt.

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

Upon the defeasance of the Refunded Bonds, the payment of such Refunded Bonds will no longer be guaranteed by the Permanent School Fund Guarantee program.

USE OF PROCEEDS . . . Proceeds from the sale of the Bonds are expected to be expended as follows:

Sources:	
Par Amount of the Bonds	$ 14,370,000.00
Reoffering Premium	1,856,040.90
Total Sources	$ 16,226,040.90
Uses:	
Escrow Fund Deposit	$ 16,036,491.60
Cost of Issuance	125,219.34
Underwriters' Discount	64,329.96
Total Uses	$ 16,226,040.90

THE BONDS

DESCRIPTION OF THE BONDS . . . The Bonds are being issued by the District in denominations of $5,000 or any integral multiple thereof. Interest on the Bonds will accrue from the Delivery Date, as defined on the front cover of this Official Statement, and will be payable on August 1, 2020 and each February 1 and August 1 thereafter until maturity or prior redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds will mature on the dates, in the principal amounts, will be subject to redemption, and will bear interest at the rates set forth in page ii of this Official Statement.

The definitive Bonds will be issued only in fully registered form in any integral multiple of $5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York, ("DTC") pursuant to the Book-Entry-Only System described herein. No physical delivery of the Bonds will be made to the owners thereof. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS - Book-Entry-Only System" herein).

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, including particularly, Chapter 1207, Texas Government Code, as amended, ("Chapter 1207"), and the Order. As permitted by Chapter 1207, in the Order, the Board has delegated to certain authorized officials of the District authority to execute a "Pricing Certificate" evidencing final sales terms of the Bonds. The Pricing Certificate was executed by an authorized District official on June 17, 2020.

SECURITY AND SOURCE OF PAYMENT . . . The Bonds are direct obligations of the District, payable from an ad valorem tax levied annually, without legal limitation as to rate or amount, on all taxable property located within the District, as provided in the Order (see "TAX INFORMATION – Tax Rate Limitations"). The District has made an application to the Texas Education Agency and received conditional approval for the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program which guarantee will automatically become effective when the Attorney General of Texas (the "Attorney General") approves the Bonds (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein). See also "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" for a discussion of recent developments in Texas law affecting the financing of school districts in Texas.

NO OPTIONAL REDEMPTION OF THE BONDS . . . The Bonds are not subject to optional redemption prior to stated maturity.

BOOK-ENTRY-ONLY SYSTEM . . . *This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in* *disclosure documents such as this Official Statement. The District, the Financial Advisor, and the Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.*

The District cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, 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 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 the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest 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, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+". The DTC Rules applicable to its Participants are on file with the 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 physical certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the

Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

So long as Cede & Co. is the registered owner of the Bonds, the District will have no obligation or responsibility to the DTC Participants or Indirect Participants, or the persons for which they act as nominees, with respect to payment to or providing of notice to such Participants, or the persons for which they act as nominees.

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, payment or notices that are to be given to registered owners under the Order will be given only to DTC.

EFFECT OF TERMINATION OF BOOK-ENTRY-ONLY SYSTEM… In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the District, printed Bonds will be issued to the owners and the Bonds will be subject to transfer, exchange, and registration provisions as set forth in the Order and summarized under "THE BONDS – Transfer, Exchange, and Registration" below.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar must be a national or state banking institution organized under the laws of the United States or any state, and be legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice must also give the address of the new Paying Agent/Registrar.

SUCCESSOR PAYING AGENT / REGISTRAR . . . In the Order, the District reserved the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new Paying Agent/Registrar must accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor paying Agent/Registrar selected by the District must be a bank, a trust company, financial institution, or other entity duly qualified and legally authorized to serve and perform the duties of Paying Agent/Registrar for the Bonds.

TRANSFER, EXCHANGE, AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange will be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer will be in any integral multiple of $5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "THE BONDS - Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

RECORD DATE FOR INTEREST PAYMENT . . . The date for determining the person to whom the interest is payable on the Bonds on any interest payment date means the close of business on the 15th day of the month preceding the interest payment date ("Record Date").

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date", which must be 15 days after the Special Record Date) will 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 owner of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

MUTILATED, DESTROYED, LOST, OR STOLEN BONDS . . . The District has agreed to replace mutilated, destroyed, lost, or stolen Bonds upon surrender of the mutilated Bonds to the Paying Agent, or receipt of satisfactory evidence of such destruction, loss, or theft, and receipt by the District and Paying Agent of security or indemnity as may be required by either of them to hold them harmless. The District may require payment of taxes, governmental charges, and other expenses in connection with any such replacement.

DEFEASANCE OF BONDS . . . The Order provides for the defeasance of the Bonds when the payment of the principal of the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, or otherwise), is provided by irrevocably depositing with a trust company or commercial bank not a depository of the District (1) cash sufficient to make such payment, or (2) Governmental Obligations (hereinafter defined) certified by an independent public accounting firm of national reputation to be of such maturities and interest payment dates and to bear interest at such rates as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom (likewise to be held in trust and committed, except as hereinafter provided), be sufficient to make such payment, or (3) a combination of money and Governmental Obligations together so certified to be sufficient, provided that all the expenses pertaining to the Bonds with respect to which such deposit is made will have been paid, or the payment thereof provided for, to the satisfaction of the aforementioned depository provided, however, that the sufficiency of deposits shall be certified by an independent public accounting firm, the District's Financial Advisor, or another qualified third party in connection with a defeasance of the Bonds.

The Order provides that "Governmental Obligations" means (a) direct, noncallable obligations of the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that 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. or (d) any additional securities and obligations hereafter authorized by Texas law as eligible for use to accomplish the discharge of obligations such as the Bonds. There is no assurance that the ratings for United States Treasury securities acquired to defease any Bonds, or those for any other Governmental Obligations, will be maintained at any particular rating category. Further, there is no assurance that current State law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of those securities identified in clauses (a) through (c) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Bonds ("Defeasance Proceeds"), though the District has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Order does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the District to use lawfully available Defeasance Proceeds to defease all or any portion of the Bonds, registered owners of Bonds are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under State law as permissible defeasance securities.

The District has additionally reserved the right, subject to satisfying the requirements of (1), (2) and (3) above, to substitute other Governmental Obligations for the Governmental Obligations originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance.

Upon such deposit as described above, such Bonds will no longer be regarded to be outstanding or unpaid. Provided, however, the District has reserved the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption at an earlier date those Bonds which have been defeased to their maturity date, if the District (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption, (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements, and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

After defeasance, the Permanent School Fund Guarantee will cease to apply to the Bonds.

AMENDMENTS . . . The District may amend the Order without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of the owners of a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, add to, or rescind any of the provisions of the Order; except that, without the consent of the registered owners of all of the Bonds affected, no such amendment, addition, or rescission may (1) change the date specified as the date on which the principal of or any installment of interest on any Bond is due and payable, reduce the principal amount thereof, or the rate of interest thereon, change the place or places at or the coin or currency in which any Bond or interest thereon is payable, or in any other way modify the terms of payment of the principal of, or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required for consent to any amendment, addition, or waiver.

BONDHOLDERS' REMEDIES . . . The Order does not specify events of default with respect to the Bonds. If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due or the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, or the District defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, the registered owners may seek a writ of mandamus to compel the District or District officials to carry out the legally imposed duties with respect to the Bonds if there is no other available remedy at law to compel performance of the Bonds or the Order and the District's obligations are not uncertain or disputed, as well as to enforce the rights of payment under the Permanent School Fund Guarantee. The issuance of a writ of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. 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. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due. The opinion of 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.

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

HISTORY AND PURPOSE . . . The PSF was created with a $2,000,000 appropriation by the Texas Legislature (the "Legislature") in 1854 expressly for the benefit of the public schools of Texas. The Constitution of 1876 stipulated that certain lands and all proceeds from the sale of these lands should also constitute the PSF. Additional acts later gave more public domain land and rights to the PSF. In 1953, the U.S. Congress passed the Submerged Lands Act that relinquished to coastal states all rights of the U.S. navigable waters within state boundaries. If the state, by law, had set a larger boundary prior to or at the time of admission to the Union, or if the boundary had been approved by Congress, then the larger boundary applied. After three years of litigation (1957-1960), the U. S. Supreme Court on May 31, 1960, affirmed Texas' historic three marine leagues (10.35 miles) seaward boundary. Texas proved its submerged lands property rights to three leagues into the Gulf of Mexico by citing historic laws and treaties dating back to 1836. All lands lying within that limit belong to the PSF. The proceeds from the sale and the mineral-related rental of these lands, including bonuses, delay rentals and royalty payments, become the corpus of the Fund. Prior to the approval by the voters of the State of an amendment to the constitutional provision under which the Fund is established and administered, which occurred on September 13, 2003 (the "Total Return Constitutional Amendment"), and which is further described below, the PSF had as its main sources of revenues capital gains from securities transactions and royalties from the sale of oil and natural gas. The Total Return Constitutional Amendment provides that interest and dividends produced by Fund investments will be additional revenue to the PSF. The State School Land Board ("SLB") maintains the land endowment of the Fund on behalf of the Fund and is generally authorized to manage the investments of the capital gains, royalties and other investment income relating to the land endowment. The SLB is a 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 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 $486.23 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 exceed the Ten Year Total Return, is not prohibited by State law, provided that such contingency plan applies only within a fiscal year time basis, not on a biennium basis, and (iii) that the amount distributed from the Fund in a fiscal year may not exceed 6% of the average of the market value of the Fund or the Ten Year Total Return. In accordance with GA-0707, in the event that the Ten Year Total Return is exceeded during a fiscal year, transfers to the ASF will be halted. However, if the Ten Year Total Return subsequently increases during that biennium, transfers may be resumed, if the SBOE has provided for that contingency, and made in full during the remaining period of the biennium, subject to the limit of 6% in any one fiscal year. Any shortfall in the transfer that results from such events from one biennium may not be paid over to the ASF in a subsequent biennium as the SBOE would make a separate payout determination for that subsequent biennium.

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

See "2011 and 2019 Constitutional Amendments" below for a discussion of the historic and current Distribution Rates, and a description of amendments made to the Texas Constitution on November 8, 2011 and November 5, 2019 that may affect Distribution Rate decisions.

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

With respect to the management of the Fund's financial assets portfolio, the single most significant change made to date as a result of the Total Return Constitutional Amendment has been new asset allocation policies adopted from time to time by the SBOE. The SBOE generally reviews the asset allocations during its summer meeting in even numbered years. The first asset allocation policy adopted by the SBOE following the Total Return Constitutional Amendment was in February 2004, and the policy was reviewed and modified or reaffirmed in the summers of each even-numbered year, most recently in 2018. The Fund's investment policy provides for minimum and maximum ranges among the components of each of the asset classifications: equities, fixed income and alternative asset investments. The 2004 asset allocation policy decreased the fixed income target from 45% to 25% of Fund investment assets and increased the allocation for equities from 55% to 75% of investment assets. Subsequent asset allocation policies have continued to diversify Fund assets, and have added an alternative asset allocation to the fixed income and equity allocations. The alternative asset allocation category includes real estate, real return, absolute return and private equity components. Alternative asset classes diversify the SBOE-managed assets and are not as correlated to traditional asset classes, which is intended to increase investment returns over the long run while reducing risk and return volatility of the portfolio. The most recent asset allocation, from 2016, which was reviewed and reaffirmed in June 2018, is as follows: (i) an equity allocation of 35% (consisting of U.S. large cap equities targeted at 13%, international 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 CDBGP Capacity, SB 1480 provides that the Commissioner, in making a determination as to whether to approve a guarantee for a charter district, may consider any additional reasonable factor that the Commissioner determines to be necessary to protect the Bond Guarantee Program or minimize risk to the PSF, including: (1) whether the charter district had an average daily attendance of more than 75 percent of its student capacity for each of the preceding three school years, or for each school year of operation if the charter district has not been in operation for the preceding three school years; (2) the performance of the charter district under certain performance criteria set forth in Education Code Sections 39.053 and 39.054; and (3) any other indicator of performance that could affect the charter district's financial performance. Also, SB 1480 provides that the Commissioner's investigation of a charter district application for guarantee may include an evaluation of whether the charter district bond security documents provide a security interest in real property pledged as collateral for the bond and the repayment obligation under the proposed guarantee. The Commissioner may decline to approve the application if the Commissioner determines that sufficient security is not provided. The Act and the CDBGP Rules previously required the Commissioner to make an investigation of the accreditation status and certain financial criteria for a charter district applying for a bond guarantee, which remain in place.

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

VALUATION OF THE PSF AND GUARANTEED BONDS

Permanent School Fund Valuations

Fiscal Year Ended 8/31	Book Value(1)	Market Value(1)
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

At 8/31	Principal Amount[1]
2015	$63,955,449,047
2016	68,303,328,445
2017	74,266,090,023
2018	79,080,901,069
2019	84,397,900,203[2]

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(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]

	School District Bonds		Charter District Bonds		Totals	
Fiscal Year Ended 8/31	No. of Issues	Principal Amount	No. of Issues	Principal Amount	No. of Issues	Principal Amount
2015	3,089	$63,197,514,047	28	$ 757,935,000	3,117	$63,955,449,047
2016	3,244	67,342,303,445	35	961,025,000	3,279	68,303,328,445
2017	3,253	72,884,480,023	40	1,381,610,000	3,293	74,266,090,023
2018	3,249	77,647,966,069	44	1,432,935,000	3,293	79,080,901,069
2019[2]	3,297	82,537,755,203	49	1,860,145,000	3,346	84,397,900,203

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(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 2012-13 biennium. The broader base for the Distribution Rate calculation could increase transfers from the PSF to the ASF, although the effect of the broader calculation base has been somewhat offset since the 2014-2015 biennium by the establishment by the SBOE of somewhat lower Distribution Rates than for the 2012-2013 biennium. In addition, the changes made by the amendment that increased the calculation base that could affect the corpus of the Fund include the decisions that are made by the SLB or others that are, or may in the future be, authorized to make transfers of funds from the PSF to the ASF.

The constitutional amendments approved on November 8, 2011 also provided authority to the GLO or any other entity (other than the SBOE) that has responsibility for the management of land or other properties of the PSF to determine whether to transfer an amount each year to the ASF from the revenue derived during the current year from such land or properties. Prior to November 2019, the amount authorized to be transferred to the ASF from the GLO was limited to $300 million per year. On November 5, 2019, a constitutional amendment was approved by State voters that increased the maximum transfer to the ASF to $600 million each year from the revenue derived during that year from the PSF from each of the GLO, the SBOE or any other entity that may have the responsibility to manage such properties (at present there are no such other entities). Any amount transferred to the ASF pursuant to this constitutional provision is excluded from the 6% Distribution Rate limitation applicable to SBOE transfers. The exercise of the increased authorization for such transfers is subject to the discretion of the GLO and the SBOE, and such transfers could be taken into account by the SBOE for purposes of its distributions to the ASF that are made pursuant to the Total Return Constitutional Amendment. However, future legal and/or financial analysis may be needed before the impact on the Fund of the constitutional change effected in November 2019 can be determined.

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

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

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

As of August 31, 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 of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) the appointment of a successor or additional trustee with respect to the Guarantee Program or the change of name of a trustee, if such event is material within the meaning of the federal securities laws; (15) the incurrence of a financial obligation of the Guarantee Program, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Program, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Guarantee Program, any of which reflect financial difficulties. (Neither the Act nor any other law, regulation or instrument pertaining to the Guarantee Program make any provision with respect to the Guarantee Program for bond calls, debt service reserves, credit enhancement, liquidity enhancement, early redemption or the appointment of a trustee with respect to the Guarantee Program.) In addition, the TEA will provide timely notice of any failure by the TEA to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

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

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

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

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

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

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

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

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

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

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

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

During the 2019 Legislative Session, the State Legislature made numerous changes to the current public school finance system, the levy and collection of ad valorem taxes, and the calculation of defined tax rates, including particularly those contained in House Bill 3 ("HB 3") and Senate Bill 2 ("SB 2"). In some instances, the provisions of HB 3 and SB 2 will require further interpretation in connection with their implementation in order to resolve ambiguities contained in the bills. The District is still in the process of (a) analyzing the provisions of HB 3 and SB 2, and (b) monitoring the on-going guidance provided by TEA. The information contained herein under the captions "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" and "TAX RATE LIMITATIONS" is subject to change, and only reflects the District's understanding of HB 3 and SB 2 based on information available to the District as of the date of this 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, Instruction Facilities Allotment, and New Instructional Facilities Allotment. The Foundation School Program also includes facilities funding components consisting of the IFA and the EDA, subject to legislative appropriation each State fiscal biennium. To the extent funded for a biennium, these programs assist school districts in funding facilities by, generally, equalizing a school district's I&S tax effort. The IFA guarantees each awarded school district a specified amount per student (the "IFA Yield") in State and local funds for each cent of I&S tax levied to pay the principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. The IFA Yield has been $35 since this program first began in 1997. New awards of IFA are only available if appropriated funds are allocated for such purpose by the State Legislature. To receive an IFA award, in years where new IFA awards are available, a school district must apply to the Commissioner in accordance with rules adopted by the TEA before issuing the bonds to be paid with IFA State assistance. The total amount of debt service assistance over a biennium for which a school district may be awarded is limited to the lesser of (1) the actual debt service payments made by the school district in the biennium in which the bonds are issued; or (2) the greater of (a) $100,000 or (b) $250 multiplied by the number of students in ADA. The IFA is also available for lease-purchase agreements and refunding bonds meeting certain prescribed conditions. Once a school district receives an IFA award for bonds, it is entitled to continue receiving State assistance for such bonds without reapplying to the Commissioner. The guaranteed level of State and local funds per student per cent of local tax effort applicable to the bonds may not be reduced below the level provided for the year in which the bonds were issued. For the 2020-2021 State fiscal biennium, the State Legislature did not appropriate any funds for new IFA awards; however, awards previously granted in years the State Legislature did appropriate funds for new IFA awards will continue to be funded.

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

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

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

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

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

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

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

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

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

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

POSSIBLE EFFECTS OF WEALTH TRANSFER PROVISIONS ON THE DISTRICT'S FINANCIAL CONDITION

The District's wealth per student for the 2019-2020 school year is less than the equalized wealth value. Accordingly, the District has not been required to exercise one of the permitted wealth equalization options. As a district with wealth per student less than the equalized wealth value, the District may benefit in the future by agreeing to accept taxable property or funding assistance from or agreeing to consolidate with a property-rich district to enable such district to reduce its wealth per student to the permitted level.

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

TAX RATE INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

TAX RATE LIMITATIONS

M&O TAX RATE LIMITATIONS . . . 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 1, 2003 in accordance with the provisions of Chapter 45, as amended, Texas Education Code.

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

> For the 2019 tax year, the maximum M&O tax rate per $100 of taxable value that may be adopted by a school district is the sum of $0.17 and the product of the State Compression Percentage multiplied by $1.00. For the 2019 tax year, the state compression percentage has been set at 93%.
>
> For the 2020 and subsequent tax years, the maximum M&O tax rate per $100 of taxable value that may be adopted by a school district is the sum of $0.17 and the school district's MCR. A school district's MCR is, generally, inversely proportional to the change in taxable property values both within the school district and the State and is subject to recalculation annually. For any year, the highest possible MCR for a school district is $0.93. See "TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Funding for School Districts" herein.

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

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

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

The District has not used projected property values or State assistance (other than EDA or IFA allotment funding) to satisfy this threshold test.

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

For the 2019 tax year, a school district is required to adopt its annual tax rate before the later of September 30 or the sixtieth (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.

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

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

"CURRENT PUBLIC SCHOOL FINANCE SYSTEM" herein, for more information regarding the State Compression Percentage, MCR, and the Enrichment Tax Rate).

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

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

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

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

THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT . . . The District grants an exemption to the market value of the residence homestead of persons 65 years of age or older of $10,000. The disabled are also granted an exemption of $10,000. A person qualifying for both of these exemptions may only claim one.

The District grants an additional exemption of 10% of the market value of residence homesteads; minimum exemption of $5,000.

The District does tax nonbusiness personal property.

The District does permit split payments.

The District does tax freeport property.

The District currently has no tax abatements.

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TABLE 1 – VALUATION EXEMPTIONS AND TAX SUPPORTED DEBT

Tax Year 2019 Market Valuation Established by Webb County Appraisal District [1]			$ 2,907,335,643
Less Exemptions/Reductions at 100% Market Value:			
$25K Homestead exemption loss	$ 226,626,950		
$10K over-65 homestead exemption loss	46,150,214		
Mandated Disabled	3,687,051		
Total value lost to 100% disabled or unemployed veterans homestead	7,560,395		
Local optional percentage exemption loss	81,453,157		
Veterans exemption loss	2,969,570		
Disabled Veteran Surviving Spouse	2,345,849		
Difference between productivity value and market value of qualified acres	160,770		
10% cap loss	9,842,895		
Total Exemptions			$ 380,796,851
Tax Year 2019 Taxable Assessed Valuation before Freeze Loss			$ 2,526,538,792
Freeze Loss			78,054,275
Tax Year 2019 Net Taxable Assessed Valuation after Freeze Loss			$ 2,448,484,517
District's Debt Payable From Ad Valorem Taxes (as of 6/30/20)			
Maintenance and Operations Limited Tax			
Qualified Zone Academy Tax Notes, Series 2005			$ 1,169,661
Interest and Sinking Fund Unlimited Tax [2]			
Unlimited Tax Refunding Bonds, Series 2010	$ 2,725,000	[3]	
Unlimted Tax Refunding Bonds, Series 2011	6,835,000		
Unlimted Tax School Building Bonds, Series 2013	30,505,000		
Unlimted Tax School Building Bonds, Series 2014	57,625,000		
Unlimted Tax Refunding Bonds, Series 2014	23,470,000		
Unlimted Tax Refunding Bonds, Series 2015	48,145,000		
Unlimted Tax School Building Bonds, Series 2018	90,375,000		
The Bonds	14,370,000		
Total Unlimited Tax Debt			$ 274,050,000
Total Debt Payable From Ad Valorem Taxes			$ 275,219,661
Less: Projected IFA and EDA Funding From the State			191,835,000
Net Debt Payable from Ad Valorem Taxes			$ 83,384,661
Interest and Sinking Fund (as of 06/30/19)			$ 31,858,010
Ratio Total Ad Valorem Debt to 2019 Assessed Valuation			11.24%

2020 Estimated Population for Laredo ISD	87,842
Per Capita Taxable Assessed Valuation	$ 27,874
Per Capita Ad Valorem Tax Debt before State Assistance	$ 3,133

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(1) Information provided by the Texas Comptroller's Office. Data subject to change as additional information becomes available.

(2) Approximately 70% of the debt service of the District's currently outstanding tax supported debt is supported with funds received by the Existing Debt Allotment Program and Instructional Facilities Allotment Program. The amount of state 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 from time to time.

(3) Excludes the Refunded Bonds.

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY [(1)]

	Taxable Appraised Value for the Fiscal Year Ending June 30,					
	2020[(2)]		2019		2018	
Category	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Real, Residential, Single-Family	$ 1,511,818,832	52.00%	$ 1,455,734,816	51.73%	$ 1,372,610,306	51.97%
Real, Residential, Multi-Family	222,623,030	7.66%	210,175,511	7.47%	189,093,029	7.16%
Real, Vacant Lots/Tracts	44,078,007	1.52%	41,672,578	1.48%	39,092,921	1.48%
Real, Acreage (Land Only)	174,690	0.01%	184,370	0.01%	195,010	0.01%
Real, Farm and Ranch Improvements	72,790	0.00%	72,250	0.00%	37,840	0.00%
Real, Commercial	811,788,386	27.92%	782,547,046	27.81%	746,870,877	28.28%
Real, Industrial	645,960	0.02%	1,258,940	0.04%	1,177,190	0.04%
Real, Oil, Gas and Other Mineral Reserves	-	0.00%	-	0.00%	11,170	0.00%
Real and Tangible Personal, Utilities	94,480,990	3.25%	97,448,710	3.46%	82,722,510	3.13%
Tangible Personal, Commercial	205,644,208	7.07%	204,098,091	7.25%	186,754,074	7.07%
Tangible Personal, Industrial	1,261,940	0.04%	4,541,900	0.16%	5,084,140	0.19%
Tangible Personal, Mobile Homes	7,389,850	0.25%	9,174,880	0.33%	9,814,009	0.37%
Real Property, Inventory	103,230	0.00%	103,230	0.00%	176,570	0.01%
Special Inventory	7,253,730	0.25%	6,833,790	0.24%	7,536,570	0.29%
Total Appraised Value Before Exemptions	$ 2,907,335,643	100.00%	$ 2,813,846,112	100.00%	$ 2,641,176,216	100.00%
Less: Total Exemptions/Reductions & Freeze Los	458,851,126		384,682,993		432,575,019	
Net Taxable Assessed Valuation	$ 2,448,484,517		$ 2,429,163,119		$ 2,208,601,197	

	Taxable Appraised Value for the Fiscal Year Ending June 30,			
	2017		2016	
Category	Amount	Percent of Total	Amount	Percent of Total
Real, Residential, Single-Family	$ 1,293,321,312	51.23%	$ 1,266,677,643	51.50%
Real, Residential, Multi-Family	196,137,828	7.77%	185,334,217	7.53%
Real, Vacant Lots/Tracts	38,241,348	1.51%	37,627,154	1.53%
Real, Acreage (Land Only)	274,290	0.01%	273,330	0.01%
Real, Farm and Ranch Improvements	34,700	0.00%	31,210	0.00%
Real, Commercial	706,414,518	27.98%	690,449,208	28.07%
Real, Industrial	2,331,660	0.09%	2,237,870	0.09%
Real, Oil, Gas and Other Mineral Reserves	11,170	0.00%	11,170	0.00%
Real and Tangible Personal, Utilities	76,372,100	3.02%	73,944,210	3.01%
Tangible Personal, Commercial	188,290,119	7.46%	175,114,466	7.12%
Tangible Personal, Industrial	4,855,000	0.19%	5,777,330	0.23%
Tangible Personal, Mobile Homes	9,699,718	0.38%	13,243,233	0.54%
Real Property, Inventory	337,200	0.01%	176,570	0.01%
Special Inventory	8,410,980	0.33%	8,794,430	0.36%
Total Appraised Value Before Exemptions	$ 2,524,731,943	100.00%	$ 2,459,692,041	100.00%
Less: Total Exemptions/Reductions & Freeze Los	415,086,028		426,950,033	
Net Taxable Assessed Valuation	$ 2,109,645,915		$ 2,032,742,008	

[(1)] The above figures reflect the taxable appraised values as stated at the beginning of each tax year to the State Property Tax Board. Any difference between these figures and taxable assessed valuations are due to adjustments and corrections to respective tax roles.
[(2)] The fiscal year end for the District changed from August 31 to June 30 effective in fiscal year 2019.

TABLE 3 - VALUATION AND TAX SUPPORTED DEBT HISTORY

Fiscal Year Ended 30-Jun	Estimated Population [(2)]	Net Taxable Assessed Valuation [(1)]	Taxable Assessed Valuation Per Capita	Funded Tax Debt[(3)(4)]	Debt to Taxable Assessed Valuation	Tax Debt Per Capita
2011	93,768	$ 2,131,194,897	$ 22,728	$ 223,478,863	10.49%	$ 2,383
2012	91,627	2,033,007,436	22,188	186,439,211	9.17%	2,035
2013	92,543	2,137,096,910	23,093	192,969,910	9.03%	2,085
2014	92,446	2,099,407,586	22,710	213,564,002	10.17%	1,907
2015	91,679	2,091,974,885	22,818	266,248,938	12.73%	2,904
2016	90,595	2,032,742,008	22,438	231,483,142	11.39%	2,555
2017	90,052	2,109,645,915	23,427	222,810,764	10.56%	2,474
2018	89,211	2,208,601,197	24,757	203,940,449	9.23%	2,286
2019 [(5)]	89,271	2,429,163,119	27,211	293,744,790	12.09%	3,290
2020	87,842	2,448,484,517	27,874	275,219,661 [(6)]	11.24%	3,133

(1) The valuations shown are the certified Taxable Assessed Valuations after adjustments for Exemptions and Freeze Loss reported annually in September to the Webb County Appraisal District. The valuations are subject to change during the ensuing year due to the settlement of contested valuation, and other matters.

(2) Source: Texas Municipal Advisory Council. Estimations based on School District Factor multiplied by the District's average daily attendance.

(3) Includes maintenance & operations limited tax debt and interest & sinking fund unlimited tax debt.

(4) Approximately 70% of the debt service of the District's currently outstanding tax supported debt is supported with funds received by the Existing Debt Allotment Program and the Instructional Facilities Allotment Program. The amount of State 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 from time to time.

(5) The fiscal year end for the District changed from August 31 to June 30 effective in fiscal year 2019.

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

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended	Tax	Distribution		Tax	Current	Total	% Collections	
30-Jun	Rate	Maintenance & Operations	Interest and Sinking Fund	Levy	Collections	Collections	Current	Total
2011	$ 1.274000	$ 1.040000	$ 0.234000	$ 27,086,503	$26,174,858	$ 26,990,395	96.63%	99.65%
2012	1.274000	1.040000	0.234000	26,963,392	25,976,529	26,847,033	96.34%	99.57%
2013	1.274000	1.040000	0.234000	27,201,496	26,296,681	27,077,072	96.67%	99.54%
2014	1.274000	1.040000	0.234000	26,592,843	25,914,276	26,466,195	97.45%	99.52%
2015	1.410800	1.040000	0.370800	29,375,512	28,602,811	29,228,810	97.37%	99.50%
2016	1.395500	1.040000	0.355500	28,364,157	27,555,738	28,214,176	97.15%	99.47%
2017	1.389700	1.040000	0.349700	29,067,815	28,384,510	28,853,531	97.65%	99.26%
2018	1.369700	1.040000	0.329700	30,076,013	29,311,871	29,768,184	97.46%	98.98%
2019 [(1)]	1.466500	1.040000	0.426500	34,369,768	33,323,775	33,323,775	96.96%	96.96%
2020	1.396500	0.970000	0.426500	32,483,432	31,747,928 [(2)]	31,747,928 [(2)]	95.61% [(2)]	95.61% [(2)]

(1) The fiscal year end for the District changed from August 31 to June 30 effective in fiscal year 2019.

(2) Source: Laredo Independent School District Tax Office. Collections through May 31, 2020.

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TABLE 5 - TEN LARGEST TAXPAYERS

Name	Nature of Property	2019 Assessed Valuation	% of Assessed Valuation
Laredo Texas Hospital Co LP	Hospital	$89,709,230	3.66%
Laredo Outlet Shoppes, LLC	Retail	63,629,750	2.60%
AEP Texas Central Company	Utility	38,333,750	1.57%
Webb Hospital Holdings LLC	Medical	18,477,040	0.75%
International Bank Of Commerce	Bank	17,134,763	0.70%
H E Butt Grocery Company	Grocery Store	12,582,540	0.51%
Mpt Of Laredo Llc	Import/Export	11,784,420	0.48%
The Laredo National Bank	Bank	11,254,500	0.46%
Union Pacific Railroad Company	Railroad	9,204,970	0.38%
Southwestern Bell Telephone Co	Utility	6,185,580	0.25%
Total		$278,296,543	11.37%

Source: Webb County Appraisal District.

TABLE 6 - ESTIMATED OVERLAPPING DEBT

Expenditures of the various taxing bodies within the territory of the District are paid out of ad valorem taxes levied by such entities on properties within the District. Such entities are independent of the District and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax debt ("Tax Debt") was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have incurred additional debt since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional debt, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the District.

Governmental Subdivision	Tax Year 2019 Taxable Assessed Valuation(1)(3)	Tax Year 2019 Tax Rate	Total Tax Debt as of 7/1/2020	Estimated % Applicable (3)	District's Overlapping Tax Debt (3)
Laredo ISD	$ 2,448,484,517	$ 1.3965	$ 275,219,661 (2)	100.00%	$ 275,219,661
Webb County	23,615,132,407	0.4120	71,313,000	14.92%	10,639,900
Laredo, City of	15,001,296,374	0.6340	302,065,000	21.87%	66,061,616
Laredo CCD	14,987,938,712	0.3286	135,690,000	21.87%	29,675,403
Total Direct and Overlapping Tax Debt					$ 381,596,579
Ratio of Direct and Overlapping Tax Debt to Taxable Assessed Valuation					15.59%
Per Capita Overlapping Tax Debt					$ 4,268

(1) Information provided by Texas Comptroller's Office.

(2) Includes the Bonds and excludes the Refunded Bonds. Includes maintenance & operations limited tax debt and interest & sinking fund unlimited tax debt. Approximately 70% of the debt service of the District's currently outstanding tax supported debt is supported with funds received either by the Existing Debt Allotment Program or the Instructional Facilities Allotment Program from the Texas Education Agency. Both the Existing Debt Allotment Program funds and the Instructional Facilities Allotment Program funds are subject to biennial appropriation by the Texas Legislature.

(3) Data found on the Municipal Advisory Council of Texas website.

DEBT INFORMATION

TABLE 7 – UNLIMITED TAX SUPPORTED DEBT SERVICE REQUIREMENTS

Fiscal Year Ended 8/31[1]	Outstanding Debt Service Requirements [2] [3]			The Bonds			Total Tax Debt Service Requirements [2]			% of Principal Retired
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	
2020	$ 19,095,000	$ 13,963,856	$ 33,058,856	$ 285,000	$ 54,725	$ 339,725	$ 19,380,000	$ 14,018,581	$ 33,398,581	
2021	16,880,000	12,974,931	29,854,931	2,885,000	645,300	3,530,300	19,765,000	13,620,231	33,385,231	
2022	17,445,000	12,409,900	29,854,900	3,010,000	529,900	3,539,900	20,455,000	12,939,800	33,394,800	
2023	18,080,000	11,781,050	29,861,050	2,345,000	409,500	2,754,500	20,425,000	12,190,550	32,615,550	
2024	18,775,000	11,099,800	29,874,800	2,465,000	292,250	2,757,250	21,240,000	11,392,050	32,632,050	36.95%
2025	14,295,000	10,363,950	24,658,950	3,380,000	169,000	3,549,000	17,675,000	10,532,950	28,207,950	
2026	13,510,000	9,846,300	23,356,300				13,510,000	9,846,300	23,356,300	
2027	14,030,000	9,329,300	23,359,300				14,030,000	9,329,300	23,359,300	
2028	17,220,000	6,131,300	23,351,300				17,220,000	6,131,300	23,351,300	
2029	18,010,000	5,337,919	23,347,919				18,010,000	5,337,919	23,347,919	66.31%
2030	11,635,000	4,475,069	16,110,069				11,635,000	4,475,069	16,110,069	
2031	8,100,000	3,932,519	12,032,519				8,100,000	3,932,519	12,032,519	
2032	8,440,000	3,593,800	12,033,800				8,440,000	3,593,800	12,033,800	
2033	8,825,000	3,208,250	12,033,250				8,825,000	3,208,250	12,033,250	
2034	9,265,000	2,767,000	12,032,000				9,265,000	2,767,000	12,032,000	83.19%
2035	4,180,000	2,303,750	6,483,750				4,180,000	2,303,750	6,483,750	
2036	4,385,000	2,094,750	6,479,750				4,385,000	2,094,750	6,479,750	
2037	4,605,000	1,875,500	6,480,500				4,605,000	1,875,500	6,480,500	
2038	4,835,000	1,645,250	6,480,250				4,835,000	1,645,250	6,480,250	
2039	5,080,000	1,403,500	6,483,500				5,080,000	1,403,500	6,483,500	91.61%
2040	5,335,000	1,149,500	6,484,500				5,335,000	1,149,500	6,484,500	
2041	5,600,000	882,750	6,482,750				5,600,000	882,750	6,482,750	
2042	5,880,000	602,750	6,482,750				5,880,000	602,750	6,482,750	
2043	6,175,000	308,750	6,483,750				6,175,000	308,750	6,483,750	
	$ 259,680,000	$ 133,481,444	$ 393,161,444	$ 14,370,000	$ 2,100,675	$ 16,470,675	$ 274,050,000	$ 135,582,119	$ 409,632,119	

[1] The District's fiscal year end is June 30. However, the District budgets its debt service requirements in accordance with the State's fiscal year end of August 31.
[2] Excludes maintenance & operations limited tax debt. Approximately 70% of the debt service of the District's currently outstanding tax supported debt is supported with funds received either by the Existing Debt Allotment Program or the Instructional Facilities Allotment Program from the Texas Education Agency. Both the Existing Debt Allotment Program funds and the Instructional Facilities Allotment Program funds are subject to biennial appropriation by the Texas Legislature.
[3] Excludes the Refunded Bonds.

TABLE 8 - ESTIMATED INTEREST AND SINKING FUND BUDGET PROJECTION

Estimated Tax Debt Requirements, Fiscal Year Ending 6/30/2020		$ 31,013,732 [2]
Interest and Sinking Fund Balance at 6/30/19	$ 31,858,010	
Estimated Interest and Sinking Fund Tax Levy @ 93% Collections	10,628,916	
Estimated Existing Debt Allotment/Estimated Instructional Facilities Allotment State Aid [1]	22,668,162	
Total Estimated Funds Available for Debt Service		65,155,088
Estimated Balance as of 6/30/2020		$ 34,141,356

Source: Laredo Independent School District 2019 Comprehensive Annual Financial Report and Fiscal Year 2020 Budget.

[1] Approximately 70% of the debt service of the District's currently outstanding Tax Debt is supported with funds received by the Existing Debt Allotment Program and Instructional Facilities Allotment Program. The amount of state 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 from time to time.

[2] Includes both maintenance & operations limited tax debt and interest & sinking fund unlimited tax debt. Includes the Refunded Bonds.

TABLE 9 - AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS

The District currently has $48,795,000 of unlimited tax bonds authorized by voters but remains unissued.

ANTICIPATED ISSUANCE OF UNLIMITED TAX DEBT . . . The District does not anticipate issuing any other Tax Debt for the remaining calendar year.

TABLE 10 - OTHER OBLIGATIONS

The following is a summary of the District's $8,000,000 Qualified Zone Academy Limited Maintenance Tax Notes, Series 2005, which is payable from the District's maintenance and operations tax levy, for the year ending June 30, 2019.

Description	Balance Outstanding 9/1/2018	Issued Current Year	Retired Current Year	Balance Outstanding 6/30/2019	Amounts Due Within One Year
Note - October 3, 2005	$ 8,000,000	$ -	$ -	$ 8,000,000	$ -
	$ 8,000,000	$ -	$ -	$ 8,000,000	$ -

The following is a schedule of the required payments for the Qualified Zone Academy Limited Maintenance Tax Notes, Series 2005:

Year Ending June 30	Principal	Interest	Total
2020	$ -	$ -	$ -
2021	-	-	-
2022	8,000,000	-	8,000,000
	$ 8,000,000	$ -	$ 8,000,000

The future sinking fund requirements for Qualified Zone Academy Limited Maintenance Tax Note Series 2005 are as follows:

Year Ending June 30	Amount
2020	$ 389,887
2021	389,887
2022	389,887
Total	$ 1,169,661

SHORT-TERM OBLIGATIONS . . . The District accounts for short-term debts through the appropriate funds. Short-term debts include notes made in accordance with the provisions of the Texas Education Code.

PENSION FUND . . . Pension funds for employees of Texas school districts, and any employee in public education in Texas, are administered by the Teacher Retirement System of Texas (the "System"). The individual employees contribute a fixed amount of their salary to the System, currently 7.7% of gross earnings, and the State of Texas contributes funds to the System based on statutory required minimum salary for certified personnel, except any District personnel paid by Federally funded programs. (For more detailed information concerning the retirement plan, see Appendix B, "Laredo Independent School District Annual Financial Report for Fiscal Year Ended June 30, 2019" - Note O).

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FINANCIAL INFORMATION

TABLE 11 - GENERAL FUND REVENUES AND EXPENDITURES

	Year Ended	Year Ended August 31,			
	6-30-2019 [1]	2018	2017	2016	2015
Revenues:					
Local & Intermediate Sources	$ 27,625,353	$ 26,397,257	$ 25,255,548	$ 24,044,343	$ 27,026,446
State Sources	175,217,394	177,999,678	177,014,493	179,392,397	169,281,280
Local Sources	23,731,194	24,887,257	24,335,828	23,521,603	21,121,903
Total Revenues	226,573,941	229,284,192	226,605,869	226,958,343	217,429,629
Expenditures:					
Instruction	$ 110,323,180	$ 126,254,796	$ 118,590,397	$ 120,952,706	$ 114,872,320
Instruction Related	20,189,959	21,924,793	21,550,147	21,111,278	20,240,798
Pupil Services	36,692,634	41,278,136	38,949,062	39,114,933	37,857,992
General Administration	5,953,466	6,798,256	6,568,612	6,263,848	5,832,992
Debt Service	-	-	-	-	-
Support Services Non-Student Based	27,391,841	32,495,569	31,640,322	31,368,432	30,869,399
Community Service	303,786	368,115	308,325	298,583	313,690
Capital Outlay	1,365,214	1,532,495	663,023	1,855,489	3,279,756
Intergovernmental Charges	38,236	76,788	105,781	274,841	121,502
Total Expenditures	202,258,316	230,728,948	218,375,669	221,240,110	213,388,449
Other Sources (Uses)	$ (11,717,025)	$ (3,671,770)	$ (3,524,083)	$ (15,477,947)	$ (203,614)
Net Change in Fund Balances	$ 12,598,600	$ (5,116,526)	$ 4,706,117	$ (9,759,714)	$ 3,837,566
Fund Balance at Beginning of Year	$ 69,640,446	$ 74,756,972	$ 70,050,855	$ 85,538,715	$ 81,701,149
Prior Period Adjustment(s)	-	-	-	(5,728,146)	-
Fund Balance at End of Year	$ 82,239,046	$ 69,640,446	$ 74,756,972	$ 70,050,855	$ 85,538,715

Source: District's audited financial statements.

[1] The fiscal year end for the District changed from August 31 to June 30 effective in fiscal year 2019. The fiscal year begins in July and ends in June.

FINANCIAL POLICIES

Basis of Accounting . . . The accounting policies of the District substantially comply with the rules prescribed in the Financial Accountability Systems Resource Guide, by the Texas Board of Education. These accounting policies conform to generally accepted accounting principles applicable to governments (see Appendix B - "Laredo Independent School District Annual Financial and Compliance Report for the Fiscal Year Ended June 30, 2019").

General Fund Balance . . . The District's current consensus is to build up surplus and unencumbered funds equal to approximately 60 days of expenditures in the General Fund.

Budgetary Procedures . . . The District policy is to begin budget preparations on the individual school level in February of each year. The principals work with the teachers to formulate a working budget, which then moves to the office of the Superintendent. After refinements at this level, the budget goes to the Board where it is further refined and goes through public hearings prior to final adoption in late August. Priorities are based on long-term and annual goals.

INVESTMENTS

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

LEGAL INVESTMENTS . . . Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors; (8) certificates of deposit (i) meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (7) or in any other manner and amount provided by law for District deposits or, (ii) where the funds are invested by the District through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the District as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the District; (iii) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District; (iv) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (v) the District appoints the depository institution selected under (ii) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3- 3) as custodian for the District with respect to the certificates of deposit issued for the account of the District; (9) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1) require the securities being purchased by the District or cash held by the District to be pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (10) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (7) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (7) above, clauses (12) through (14) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less; (11) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (13) no-load money market funds registered with and regulated by the SEC that provide the District with a prospectus and other information required by SEC Rule 2a-7; and (14) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations described in this paragraph or (ii) have a duration of less than one year and an investment portfolio limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

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

Governmental bodies in the State are authorized to implement securities lending programs if (i) the securities loaned under the program are collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) of the first paragraph under this subcaption, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm not less than "A" or its equivalent, or (c) cash invested in obligations that are described in clauses (1) through (6) and (10) through (12) of the first paragraph under this subcaption, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the governmental body, held in the name of the governmental body and deposited at the time the investment is made with the Agency or a third party designated by the Agency; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

INVESTMENT POLICIES . . . Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for District funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

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

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TABLE 12 – CURRENT INVESTMENTS

As of June 30, 2019, the District's investable funds were invested as follows:

Investment	Investment Maturity in Years		
	Fair Value	Less than 1	1 to 2
Agency Bonds and Discount Notes			
FNMA Note	$ 6,274,014	$ 6,274,014	$ -
Sub Total	6,274,014	6,274,014	-
Investment Pools			
Texpool	9,096,708	9,096,708	-
Texas Daily	139,364,297	139,364,297	-
Sub - Total	148,461,005	148,461,005	-
Certificates of Deposit			
BBVA Compass	73,267,368	73,267,368	-
Texas Term	11,846,000	11,846,000	-
Sub - Total	85,113,368	85,113,368	-
Total Fair Value	$ 239,848,387	$ 239,848,387	$ -

As of such date, the market value of such investments (as determined by the District by reference to published quotations, dealer bids, and comparable information) was approximately 100% of their book value. No funds of the District are invested in derivative securities, i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

TAX MATTERS

TAX EXEMPTION . . . Co-Bond Counsel will render its opinion that, under existing law, and assuming compliance with certain covenants and the accuracy of certain representations, discussed below, interest on the Bonds is excludable from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. (See APPENDIX C – Form of Co-Bond Counsel's Opinion.)

Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") establishes certain requirements that must be met at and subsequent to the issuance of the Bonds in order for interest on the Bonds to be and remain excludable from federal gross income. Included among these continuing requirements are certain restrictions and prohibitions on the use of bond proceeds, yield and other restrictions on the investment of gross proceeds and other amounts, and the arbitrage rebate requirement that certain earnings on gross proceeds be rebated to the federal government. Failure to comply with these continuing requirements may cause interest on the Bonds to become includable in gross income for federal income tax purposes retroactively to the date of their issuance. The District has covenanted to comply with certain procedures, and has made certain representations and certifications designed to assure compliance with these Code requirements. In rendering its opinion, Co-Bond Counsel will rely on these covenants, the Verification Report, and on representations and certifications of the District relating to matters solely within its knowledge (which Co-Bond Counsel has not independently verified), and will assume continuing compliance by the District.

The statutes, regulations, published rulings, and court decisions on which Co-Bond Counsel has based its opinion are subject to change by Congress, as well as to subsequent judicial and administrative interpretation by courts and the Internal Revenue Service (the "Service"). No assurance can be given that such law or its interpretation will not change in a manner that would adversely affect the tax treatment of receipt or accrual of interest on, or the acquisition, ownership, market value, or disposition of, the Bonds. No ruling concerning the tax treatment of the Bonds has been sought from the Service, and the opinion of Co-Bond Counsel is not binding on the Service. The Service has an ongoing audit program of tax-exempt obligations to determine whether, in the Service's view, interest on such tax-exempt obligations is excludable from gross income for federal income tax purposes. No assurance can be given regarding whether or not the Service will commence an audit of the Bonds. If such an audit were to be commenced, under current procedures, the Service would treat the District as the taxpayer, and owners of the Bonds would have no right to participate in the audit process. In this regard, in responding to or defending an audit with respect to the Bonds, the District might have different or conflicting interests from those of the owners of the Bonds.

In rendering the foregoing opinions, Co-Bond Counsel will rely upon the Report and the representations and certifications of the District made in a certificate dated the date of delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance with the provisions of the Order subsequent to the issuance of the Bonds. The Order contains covenants by the District with respect to, among other matters, the use of the proceeds of the Bonds, the manner in which the proceeds of the Bonds are to be invested, the reporting of certain information to the United States Treasury, and rebating any arbitrage profits to the United States Treasury.

Failure to comply with any of these covenants would cause interest on the Bonds to be includable in the gross income of the owners thereof from date of the issuance of the Bonds.

The opinions set forth above are based on existing law and Co-Bond Counsel's knowledge of relevant facts on the date of issuance of the Bonds. Such opinions are an expression of professional judgment and are not a guarantee of result. Except as stated above, Co-Bond Counsel expresses no opinion regarding any other federal, state, or local tax consequences under current law or proposed legislation resulting from the receipt or accrual of interest on, or the acquisition, ownership, or disposition of, the Bonds. Further, Co-Bond Counsel assumes no obligation to update or supplement its opinions to reflect any facts or circumstances that may come to its attention or any changes in law that may occur after the issuance date of the Bonds. In addition, Co-Bond Counsel has not undertaken to advise in the future whether any events occurring after the issuance date of the Bonds may affect the tax-exempt status of interest on the Bonds.

ORIGINAL ISSUE DISCOUNT . . . Certain of the Bonds (the "Discount Bonds") may be offered and sold to the public at an "original issue discount" ("OID"). OID is the excess of the stated redemption price at maturity (the principal amount) over the "issue price" of such Bonds. In general, the issue price of Discount Bonds is the first price at which a substantial amount of Discount Bonds of the same maturity are sold to the public (other than bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers).

For federal income tax purposes, OID accrues to the owner of a Discount Bond over such Discount Bond's period to maturity based on the constant interest rate method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner). Co-Bond Counsel is of the opinion that the portion of OID that accrues during the ownership period of a Discount Bond (i) is interest excludable from the owner's gross income for federal income tax purposes to the same extent, and subject to the same considerations discussed above, as is other interest on the Bonds, and (ii) is added to the owner's tax basis for purposes of determining gain or loss on the maturity, redemption, sale, or other disposition of that Discount Bond. OID may be treated as continuing to accrue even if payment of the Discount Bonds becomes doubtful in the event that the District encounters financial difficulties, and it is treated as interest earned by cash-basis owners, even though no cash corresponding to the accrual is received in the year of accrual. An owner's adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Discount Bond.

The federal income tax consequences of the acquisition, ownership, redemption, sale, or other disposition of Discount Bonds not purchased in the initial offering at the initial offering price may be determined according to rules different from those described above. Owners of such Discount Bonds should consult their tax advisors regarding the federal, state, and local income tax treatment and consequences of acquisition, ownership, redemption, sale, or other disposition of such Discount Bonds.

ORIGINAL ISSUE PREMIUM . . . Certain maturities of the Bonds (the "Premium Bonds") may be offered and sold to the public at prices greater than their stated redemption prices (the principal amount) payable at maturity ("Bond Premium"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

COLLATERAL TAX CONSEQUENCES SUMMARY . . . The following discussion is a brief discussion of certain collateral federal income tax consequences resulting from the purchase, ownership, or disposition of the Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner of a Bond. This discussion is based on existing statutes, regulations, published rulings, and court decisions, all of which are subject to change or modification, retroactively. Prospective investors should be aware that the ownership of such obligations may result in collateral federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for federal income tax purposes. Interest on the Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

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

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

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

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

CHANGES IN LAW . . . Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under federal or state law or otherwise prevent Owners of the Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Bonds.

Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

OTHER INFORMATION

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 Texas. 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 Texas 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 April 27, 2020 of Executive Order GA-18 which, among other things maintained the previously ordered closure of in-person classroom attendance at public and private schools and institutions of higher education 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 except to provide or obtain essential services, and reopened certain non-essential services under certain conditions and limitations. Most recently, on May 18,2020, the Governor issued Executive Order GA-23, which, among other things, supersedes the prior orders and calls for a wider reopening of covered services (as defined therein) throughout the State. Executive Order GA-23 remains in place until 11:59 p.m. on June 3, 2020 unless such order is otherwise extended, modified, rescinded, or superseded by the Governor. For the full text of the Governor's executive orders, please visit: https://lrl.texas.gov/legeLeaders/governors/displayDocs.cfm?govdoctypeID=5&governorID=45.

In public statements, the Commissioner of the TEA has indicated that the state will continue to evaluate the need for further extensions of school closures. In addition to the actions by the state and federal officials, local officials of the City of Port Isabel and Cameron County 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 and begun delivering remote instructional resources for its students. Therefore, the District does not anticipate a reduction in state funding as a result of its 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 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. See "TAX RATE LIMITATIONS – M&O Tax Rate Limitations."

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 – Infections Disease Outbreak".

The financial and operating data contained herein are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the current financial condition or future prospects of the District.

RATINGS . . . The Bonds have been rated "AAA" by S&P Global Ratings ("S&P") by virtue of the Permanent School Fund Guarantee Program of Texas (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM"). The Bonds and the currently outstanding debt of the District are rated "AA-" by S&P without regard to credit enhancement. The currently outstanding unenhanced, tax supported debt of the District has underlying ratings of "A1" by Moody's Investors Service Inc. ("Moody's"), and "AA-" by Fitch Ratings, Inc. ("Fitch"). The District also has issues outstanding which are rated "Aaa" by Moody's, "AAA" by Fitch, and "AAA" by S&P based upon the guarantee of the Permanent School Fund of Texas. An explanation of the significance of such ratings may be obtained from the companies furnishing the ratings. The ratings reflect only the views of such organizations and the District makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating companies, if in the judgment any of such companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds. The District has received conditional approval from the Texas Education Agency for guarantee of the Bonds under the Permanent School Fund (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein). A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

LITIGATION . . . On the date of delivery of the Bonds to the Underwriters, the District will execute and deliver to the Underwriters a certificate to the effect that, except as disclosed herein, no litigation of any nature has been filed or is pending, as of that date, to restrain or enjoin the issuance or delivery of the Bonds or which would affect the provisions made for their payment or security or in any manner question the validity of the Bonds.

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

CYBERSECURITY . . . The District has developed various contingency plans to assure continuity of operations and safety of employees for various events, including hurricanes, tornados, ice storms and other sever weather events, flooding, droughts, wildfires, epidemics/pandemics, cyberattacks, such as ransomware, email compromise schemes, data breaches, etc. These contingency plans are managed by the District's Administrative leadership team. While the District has plans for such events, no assurance can be given regarding the impact on the operations of the District of any such event.

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 must not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS . . . Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code), provides that the Bonds constitute negotiable instruments, and are investment securities governed by Chapter 8, Texas Uniform Commercial Code, notwithstanding any provisions of law or court decision to the contrary, and are legal and authorized investments for banks, savings banks, trust companies, building and loan associations, savings and loan associations, insurance companies, fiduciaries, and the sinking funds of cities, towns, villages, school districts, and other political subdivisions or public agencies of the State of Texas. 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 Texas which have adopted investment policies and guidelines in accordance with Chapter 2256, Texas Government Code, (the Public Funds Investment Act) 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 "OTHER INFORMATION - Ratings" herein). In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at 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 Bond 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.

LEGAL MATTERS . . . The District will furnish the Underwriters with a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the approving opinion of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property in the District, and based upon examination of such transcript of proceedings, the opinion of Winstead PC, San Antonio, Texas and J. Cruz & Associates, LLC, Laredo, Texas, Co-Bond Counsel, to the effect that the Bonds are valid and legally binding obligations of the District and, subject to the qualifications set forth herein under "TAX MATTERS," the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. A form of Co-Bond Counsel's opinion appears in Appendix C attached hereto.

Co-Bond Counsel were engaged by, and only represent, 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 their capacity as Co-Bond Counsel, such firms have reviewed the information in this Official Statement appearing under the captions and subcaptions "THE BONDS" (excluding the information under the subcaptions "Bondholder's Remedies," and "Book-Entry-Only-System," as to which no opinion is expressed), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" (except under the subcaption "Possible Effects of Wealth Transfer Provisions on the District's Financial Condition," as to which no opinion is expressed), "TAX MATTERS," the subcaptions under the heading "OTHER INFORMATION-Continuing Disclosure of Information" (except under the subcaption "Compliance with Prior Undertakings" as to which no opinion is expressed), "OTHER INFORMATION - Legal Investments and Eligibility to Secure Public Fund in Texas", and "OTHER INFORMATION - Legal Matters" (excluding the last two sentences of the second paragraph thereof), and such firms are of the opinion that the information contained under such captions and subcaptions is an accurate and fair description to 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 on the sale and delivery of the Bonds. The legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by Bracewell LLP, San Antonio, Texas, whose legal fee is contingent upon the sale and delivery of the Bonds.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorneys do not become an insurer or guarantors 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.

Co-Bond Counsel represent the Underwriters and Financial Advisor from time to time in matters not related to the District or the Bonds.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION . . . The financial data and other information contained hereunder have been obtained from the District's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

CONTINUING DISCLOSURE OF INFORMATION . . . The District, in the Order, has made the following agreement for the benefit of the owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board ("MSRB"). This information will be available to the public at no charge via the MSRB's Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org as described below under "Availability of Information from MSRB".

ANNUAL REPORTS . . . The District will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in Tables 1 through 5 and 7 through 12 in this Official Statement and in Appendix B to this Official Statement. The District will update and provide this information within six months after the end of each fiscal year ending in or after 2019. The District will provide the updated information to the MSRB. The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by Rule 15c2-12 of the SEC (the "Rule"). The updated information will include audited financial statements for the District, if the District commissions an audit and it is completed by the required time. If audited financial statements are not provided by that time, the District will provide unaudited financial statements for the applicable fiscal year to the MSRB, with the financial information and operating data and will file the annual audit report when and if the same becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the District's annual financial statements or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

The District's current fiscal year end is June 30. Accordingly, it must provide updated information by the end of December in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

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

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 order of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District, and (b) the District intends to comply with the words used in immediately preceding clauses (15) and (16), and in the definition of "Financial Obligation", above to have the meaning ascribed to them in SEC Release No. 34-83885 dated August 20, 2018.

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

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

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

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if the agreement, as amended, would have permitted Underwriters to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The District may also repeal or amend these provisions if the SEC amends or repeals the applicable provisions of the Rule or any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, and the District also may amend the applicable provisions of the Order in its discretion in any other manner or circumstance, but in either case 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 giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of the Rule. If the District amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . The District recently changed its fiscal year end from August 31 to June 30 during fiscal year 2019. The District completed its June 30, 2019 audit in a timely manner and posted it on its website by December 30, 2019 however, due to an administrative oversight the District's fiscal year 2019 financial information and audited financial statements were not timely filed with the MSRB. The fiscal year 2019 audited financial statements and notice of fiscal year end change were filed on February 12, 2020. The fiscal year 2019 continuing disclosure statement and notice of late filing related thereto were filed on February 27, 2020. Aside from this most recent exception, within the past five years, the District has complied in all material respects with all continuing disclosure agreements made in accordance with the Rule.

FINANCIAL ADVISOR . . . Estrada Hinojosa & Company, 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. Estrada Hinojosa & Company, Inc., in its capacity as Financial Advisor, has relied on the opinion of Co-Bond Counsel and 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 their responsibilities 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.

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS . . . The arithmetical accuracy of certain computations included in the schedules provided by Estrada Hinojosa & Company, Inc. on behalf of the District relating to (a) computation of forecasted receipts of principal and interest on the Governmental Obligations and the forecasted payments of principal and interest to redeem the Refunded Bonds, and (b) computation of the yields of the Obligations and the restricted Governmental Obligations were verified by Causey, Demgen & Moore, PC, certified public accountants. Such verification will be relied upon by Co-Bond Counsel in rendering its opinions with respect to defeasance of the Refunded Bonds. Such computations were based solely on assumptions and information supplied by Estrada Hinojosa & Company, Inc. on behalf of the District. Causey, Demgen & Moore, PC, has restricted its procedures to verifying the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information on which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

UNDERWRITING . . . The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the District at an underwriting discount of $64,329.96. The Underwriters' obligation is subject to certain conditions precedent. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such offering prices, and such public prices may be changed, from time to time, by the Underwriters.

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

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 included 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 will prove to be accurate.

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

In the Order the District approved, (i) the form and content of this Official Statement, and any addenda, supplement, or amendment thereto and (ii) the Underwriters' use of this Official Statement in connection with the public offering and sale of the Bonds in accordance with the provisions of the Rule.

LAREDO INDEPENDENT SCHOOL DISTRICT

/s/ Hector Noyola
President, Board of Trustees
Laredo Independent School District

ATTEST:

/s/ Monica Garcia
Secretary, Board of Trustees
Laredo Independent School District

SCHEDULE I

SCHEDULE OF REFUNDED BONDS

Description	Maturity Date	Interest Rate	Principal Amount		Call Date	Call Price
Unlimited Tax Refunding Bonds, Series 2010						
	8/1/2021	5.000%	$	2,845,000	8/1/2020	100%
	8/1/2022	5.000%		3,000,000	8/1/2020	100%
	8/1/2023	4.000%		3,155,000	8/1/2020	100%
	8/1/2024	4.000%		3,280,000	8/1/2020	100%
	8/1/2025	4.000%		3,415,000	8/1/2020	100%
Total Refunded Bonds			$	15,695,000		

APPENDIX A

GENERAL INFORMATION REGARDING THE DISTRICT

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LOCATION

The District is located in the City of Laredo in the western portion of Webb County, approximately 150 miles southwest of San Antonio. The District boundaries cover the older area of Laredo's city limits and comprises 13.83 square miles.

ADMINISTRATION

Policy making and supervisory functions are the responsibility of and are vested in a seven-member Board of Trustees (the "Board"). Members of the Board serve four-year staggered terms with elections being held in November of each year. The Board delegates administrative responsibilities to the Superintendent of Schools.

ENROLLMENT AND FACILITIES

The school facilities currently provided by the District include 20 elementary schools, four middle schools, five high schools (including the Early College High School and a high school that serves as a safe house for students who are at risk of dropping out due to substance abuse), three magnet schools and one disciplinary alternative school (grades 6 through 12).

AVERAGE DAILY ATTENDANCE

Historical average daily attendance for the District is as follows:

School Year	Average Daily Attendance
2009-2010	22,346
2010-2011	22,494
2011-2012	22,530
2012-2013	22,451
2013-2014	22,545
2014-2015	22,358
2015-2016	22,094
2016-2017	21,962
2017-2018	21,756
2018-2019	21,422

Source: Texas Education Agency Regional ADA Report

HISTORICAL ENROLLMENT

Historical enrollment for the District is as follows:

School Year	Enrollment
2009-2010	24,682
2010-2011	24,680
2011-2012	24,761
2012-2013	24,797
2013-2014	24,915
2014-2015	24,659
2015-2016	24,166
2016-2017	24,200
2017-2018	24,022
2018-2019	23,645

Source: LISD Comprehensive Annual Financial Report
[1] Enrollment is as of the October reporting date to the Texas Education Agency through the Public Education Information Management System.

EMPLOYMENT STATISTICS

	Webb County			Texas		
	January 2020	January 2019	January 2018	January 2020	January 2019	January 2018
Civillian Labor Force	119,669	118,173	115,339	14,187,439	13,938,076	13,667,770
Total Employment	114,754	113,191	110,763	13,654,962	13,365,741	13,087,083
Total Unemployment	4,915	4,982	4,576	532,477	572,335	580,687
Percentage Unempoyment	4.11%	4.22%	3.97%	3.75%	4.11%	4.25%

Source: Texas Workforce Commission

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APPENDIX B

LAREDO INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL AND COMPLIANCE REPORT

For the Fiscal Year Ended June 30, 2019

The information contained in this Appendix consists of excerpts from the Laredo Independent School District Annual Financial and Compliance Report for the Fiscal Year Ended June 30, 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.

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Independent Auditor's Report

To the Board of Trustees
Laredo Independent School District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Laredo Independent School District (the District), as of and for the 10 months ended June 30, 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

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the 10 months then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, combining and other statements, TEA required schedules, capital assets section, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

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The Board of Trustees
Laredo Independent School District

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2019 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Austin, Texas
November 8, 2019

Weaver and Tidwell, L.L.P.
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LAREDO INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

In this section of the Annual Financial and Compliance Report, we, the managers of Laredo Independent School District, discuss and analyze the District's financial performance for the ten month period ended June 30, 2019. Please read it in conjunction with our transmittal letter on page v, the independent auditor's report on page 1, and the District's Basic Financial Statements which begin on page 18.

FINANCIAL HIGHLIGHTS

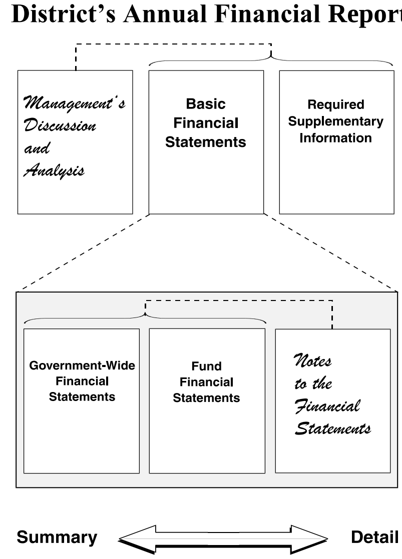
- The assets and deferred outflows of resources of the District exceeded its liabilities by $99,891,516 (*net position*). Of this amount, the unrestricted net position is a negative $92,851,699, affected by a prior period adjustment reported in the prior year as part of a new accounting rule change to improve the accounting and financial reporting by state and local governments for other post-employment benefits (OPEB) under GASB No. 75.
- During the ten month period, the District had expenses that were $20,756,107 less than the $296,732,806 generated in tax and other revenues for governmental programs, before a special item.
- The total cost of the District's programs increased by $60,158,217 mainly due to changes in GASB 68 and 75.
- The District's governmental funds reported combined fund balances of $262,549,432, an increase of $37,343,793 compared to last year. Approximately $60,172,085 or 23% of the total is available for spending at the government's discretion (*unassigned fund balance*).
- The total fund balance of the General Fund increased by $12,598,600 primarily due to the commitment of projects towards the end of the ten month period.
- The resources available for appropriation were $6,374,002 more than budgeted for the General Fund.
- The District elected to change its fiscal year start date from September 1st to July 1st; therefore, the impact to the fiscal year end date changed from August 31st to June 30th in the current period. The District's financial performance covered 10 months: September 1, 2018 to June 30, 2019.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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



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

Figure A-2 Major Features of the District's Government-wide and Fund Financial Statements

Type of Statements	District-Wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district, except fiduciary activities	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities of the district that operate like a business, such a self-insurance funds	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	• Statement of Net Position • Statement of Activities	• Balance Sheet • Statement of Revenues, Expenditures & Changes in Fund Balance	• Statement of Net Position • Statement of Revenues, Expenses & Changes in Fund Balance • Statement of Cash Flows	• Statement of Net Position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long term; the district's funds do not currently contain nonfinancial assets, though they can	All assets and liabilities, both short-term and long-term; the district's funds do not currently contain nonfinancial assets, though they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid.

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

Government-wide Statements

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

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

- Over time, increases or decreases in the District's net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional non-financial factors such as changes in the District's tax base and average daily attendance.

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

Fund Financial Statements

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

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

The District has the following kinds of funds:

- *Governmental funds*—Most of the District's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.

  As presented, the District maintains 31 individual governmental funds. The following are considered major funds for the ten month period ended June 30, 2019: General Fund, ESEA Title I - Part A, Debt Service Fund and EDA 2018 Bond Series. Data from the other 27 governmental funds are combined into a single aggregated presentation. Individual fund data for each of these non-major funds is provided in the form of combining statements elsewhere in this report.

- *Proprietary funds*—When a District charges other District funds for the services it provides, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and Statement of Activities. In fact, the District's Internal Service Fund is included within the governmental activities reported in the district-wide statements, but provides more detail and additional information, such as cash flows. The District uses the Internal Service Fund to report activities that relate to the District's self-insured health plan. The District implemented the self-insured plan on September 1, 2013.

- *Fiduciary funds*—The District is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that—because of a trust arrangement—can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

Notes to the Financial Statements

The notes provide additional information that are essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information and Other Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain Required Supplementary Information concerning budget to actual presentations for the General Fund in accordance with State Board of Education rules. The Schedule of the District's Proportionate Share of the Net Pension Liability and the Schedule of District Contributions related to the Teacher Retirement System of Texas are also included as Required Supplementary Information. In addition, budget to actual presentation for the Food Service Fund and Debt Service Fund are included in the TEA Required Schedules section.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the Required Supplementary Information.

GOVERNMENT-WIDE OVERALL FINANCIAL ANALYSIS

The net position over time serves as a useful indicator of the District's financial position. The District's net position was $99,891,516 for the ten month period ended June 30, 2019 (See Table A-1). Compared to the prior year, the net position increased by $20,756,107, less a special item of $4,148,657.

Table A-1
Laredo Independent School District's Net Position

	Governmental Activities		
	2019	2018	Percentage Change
Current assets and other assets	$ 302,404,434	$ 255,242,439	18%
Capital assets, net	370,039,107	375,773,124	-2%
Total assets	672,443,541	631,015,563	7%
Total deferred outflows of resources	61,853,068	25,954,689	138%
Current liabilities	45,917,692	29,595,443	55%
Non-Current liabilities	548,754,210	496,869,581	10%
Total liabilities	594,671,902	526,465,024	13%
Total deferred inflows of resources	39,733,191	47,221,162	-16%
Net position:			
Net investment in capital assets	151,440,521	158,566,357	-4%
Restricted	41,302,694	21,652,857	91%
Unrestricted	(92,851,699)	(96,935,148)	-4%
Total net position	$ 99,891,516	$ 83,284,066	20%

The District's current assets of $302,404,434 were sufficient to cover current liabilities (to include debt due within one year) of $65,911,111. When applying solvency ratios, the current ratio was calculated at 4.59:1, which means that for every dollar the District owed it had $4.59 available to pay its obligations. Also, by using the same formula and reducing current assets by the inventory amount, the quick ratio (acid test – a more conservative version of the current ratio) calculated at 4.57:1 indicated the existence of liquid assets to pay immediate bills. Another financial metric representing operating liquidity, known as working capital, was $234,493,323 representing the money available to meet current, short-term obligations.

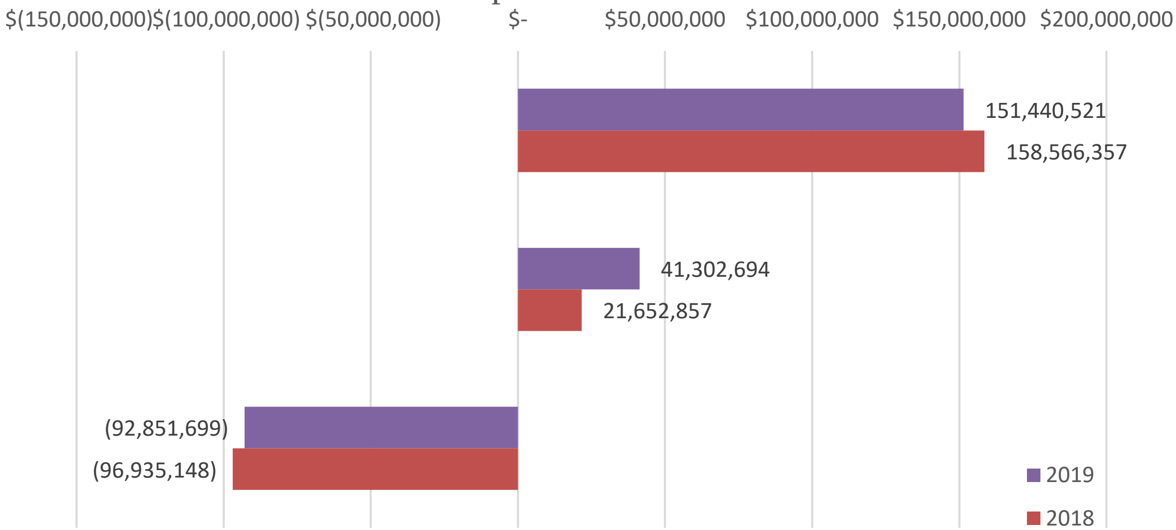
Capital assets, which consisted of the District's land, buildings and improvements, construction-in-progress and equipment, represent about 55% of total assets. The decrease in the capital assets was mainly due the demolition of the ballroom and meeting rooms in preparation for the construction of a new administration building.

About 92% of the District's largest liability was for the repayment of general obligation bonds (59%) and the net pension and OPEB liabilities (33%). Other liabilities, representing about 8% of the District's total liabilities, consist almost entirely of payables on accounts and salaries and benefits. The debt to worth ratio, also called the leverage ratio, was at a very high percentage. This represented high debt financing which adds a level of risk, especially by creditors. However, this level of risk can be mitigated with the State Aid the District continues to qualify at an approximate rate of 73% of the annual general obligation debt payment.

Table A-2 illustrated the District's net position at fiscal year-end. The largest portion the District's net position was represented by investments in capital assets (e.g., land, buildings, machinery, equipment, and vehicles). All related outstanding debt that was used to acquire these assets is reduced from the calculation, net of unspent bond proceeds. The District acquired these assets to provide public education services to the public. Accordingly, these assets are not available for future spending. Although investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate the associated liabilities.

An additional portion of the net position at $41,302,694 represented resources subject to external restrictions on how they may be used. The remaining negative balance of $92,851,699 reflected the impact of a major prior year adjustment as a result of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The District reported positive balances in two of the three categories of net position.

Table A-2
Laredo Independent School District Net Position



Governmental Activities

Governmental activities increased the District's net position by $16,607,450, including a special item of $4,148,657 (See Table A-3). Total revenues for the District's governmental activities increased by $53,049,105 or 22% compared to the prior year action taken during the 84th Texas Legislative session. The legislature significantly reduced the benefit terms of the Texas pension plan. The effects of the actions caused material changes in the actuarial assumptions that affected the measurement year and caused a negative expense amount in the plan. The reporting of the NECE on-behalf activity for the proportionate share of the NECE OPEB expense of the plan caused overall significant decrease in grant revenue and most expenses to the District in the prior year; therefore, creating the majority of the increase in the current period.

Total expenses were $275,976,107, plus a special item of $4,148,657 due to the demolition of buildings in preparation for the construction of an administration building. Total expenses increased by $60,158,217 or 28%. The increase was mainly caused GASB 68 and 75, even though operating expenses were less due to the ten month short year.

As stated previously, the special item represents the loss of $4,148,657 due to the demolition of the ballroom and meeting rooms in preparation for the construction of the new administration building.

Table A-3
Laredo Independent School District's Changes in Net Position

	Governmental Activities		
	2019	2018	Percentage Change
Revenues:			
Program revenues:			
Charges for services	$ 640,242	$ 1,244,731	-49%
Operating grants and contributions	61,674,934	4,088,082	1409%
General revenues:			
Property taxes	32,121,686	29,822,272	8%
State aid	185,805,357	187,601,244	-1%
Grants and contributions - unrestricted	7,186,508	14,515,478	-50%
Investment earnings	4,997,702	2,622,607	91%
Miscellaneous	4,306,377	3,789,287	14%
Total Revenues	296,732,806	243,683,701	22%
Expenses			
Instruction	153,783,312	115,657,365	33%
Instructional resources and media services	4,724,771	3,220,297	47%
Curriculum and staff development	3,141,298	1,892,948	66%
Instructional leadership	3,833,580	2,468,713	55%
School leadership	15,121,840	9,343,520	62%
Guidance, counseling, and evaluation services	8,592,604	5,990,563	43%
Social work services	1,903,535	1,390,842	37%
Health services	3,813,882	2,700,202	41%
Student transportation	4,622,935	3,462,486	34%
Food services	18,540,542	20,087,952	-8%
Extracurricular activities	6,955,544	5,155,082	35%
General administration	6,780,208	4,975,745	36%
Plant maintenance and operations	21,748,435	20,322,233	7%
Security and monitoring services	4,863,589	3,360,146	45%
Data processing services	4,597,614	3,416,169	35%
Community service	1,869,949	1,637,059	14%
Interest on long-term debt	11,031,825	9,729,953	13%
Bond Issuance Cost and Fees	7,000	924,419	-99%
Payments related to shared services arrangements	6,000	6,000	0%
Payments to Juvenile Justice Alt. Education Program	38,236	76,788	-50%
Total Expenses	275,976,699	215,818,482	28%
Excess (deficiency) before special item	20,756,107	27,865,219	-26%
Special Item	4,148,657	-	100%
Increase in net position	16,607,450	27,865,219	-26%
Net position at beginning of year	83,284,066	55,418,847	50%
Net position at end of year	$ 99,891,516	$ 83,284,066	20%

Figure A-1 highlights the District’s revenues by funding source for the governmental activities. As illustrated, State Aid comprised the majority of the total revenues by 62.6%, followed by 20.4% in operating grants and 10.8% in property taxes. Total revenues were $296,732,806. Overall, total revenues were $20,756,107 greater than total expenses for the year.

Figure A-1 District's Total Revenues

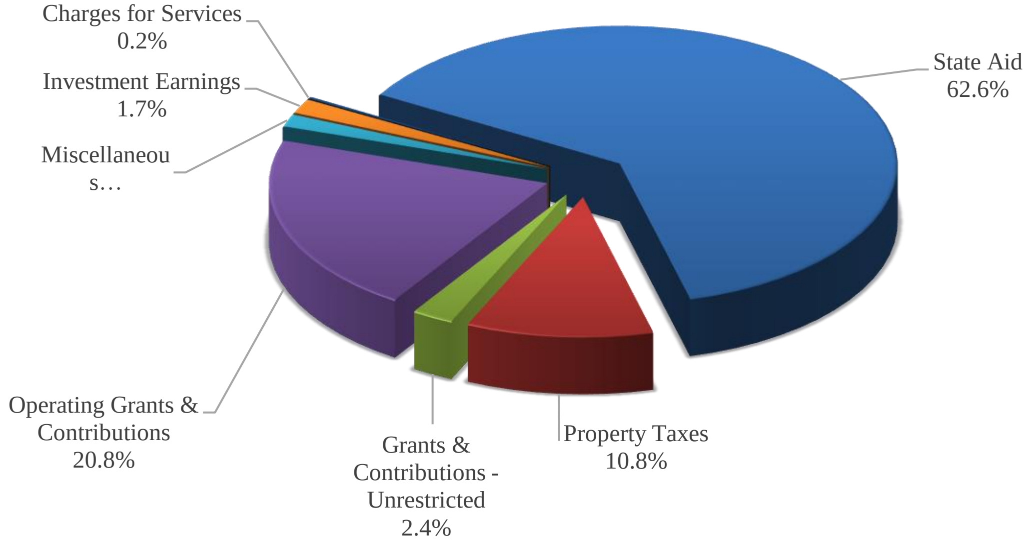
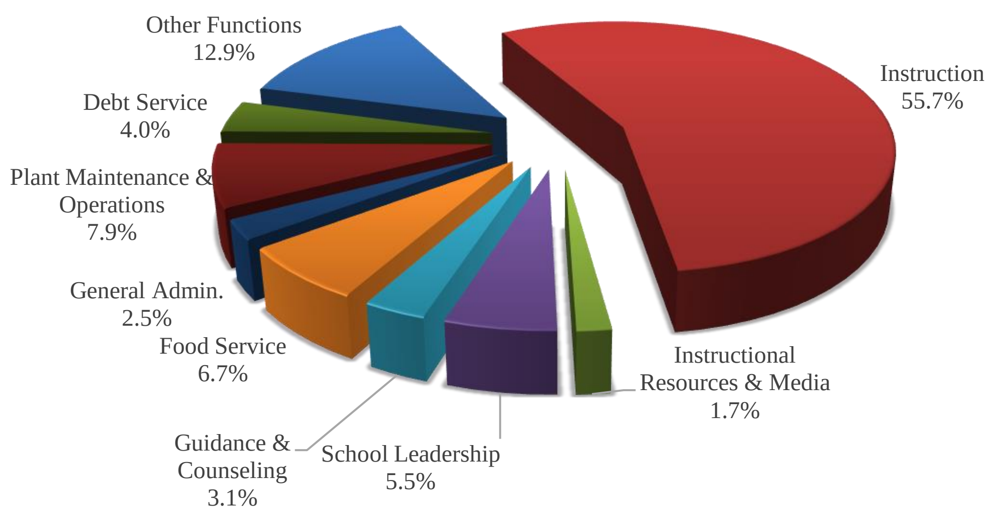


Figure A-2 presents the cost of each of the District's largest functions. Of the total expenses, instructional services represented the largest dollar expense at $153,783,312 or 53.7%, followed by plant maintenance & operations at $21,748,435 or 7.9% and food service at 18,540,542 or 6.7%. Due to the nature of our public service, these three functions historically have been the highest costs to the District.

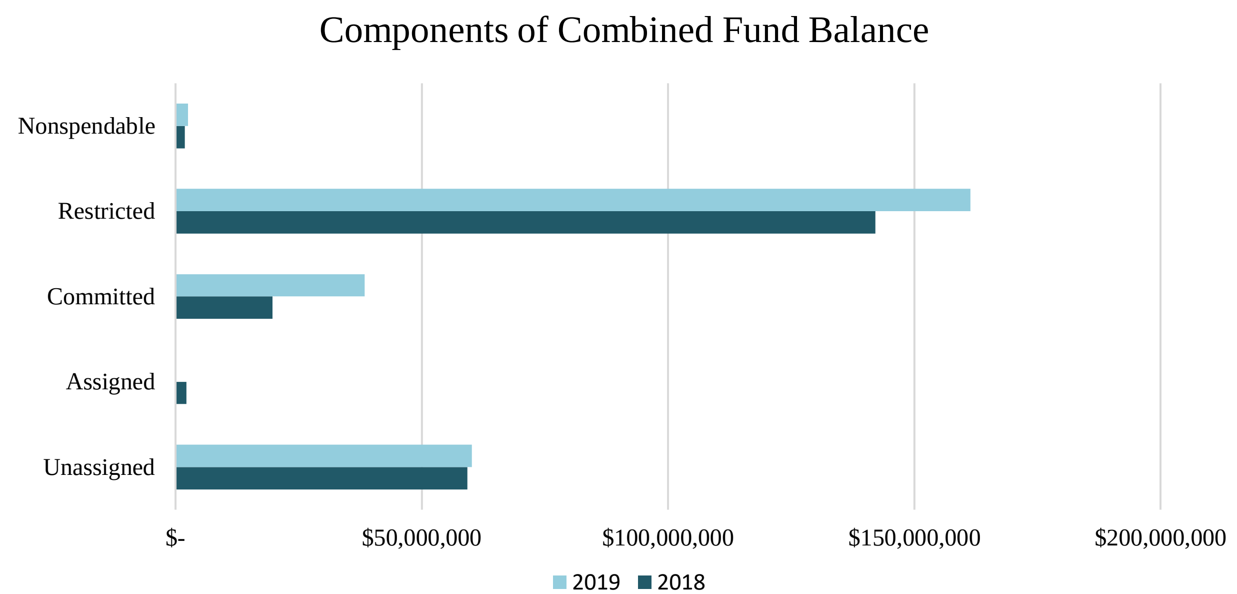
Figure A-2 District's Functional Expenses



Governmental Funds

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose.

Below is a chart with the components of the combined Fund Balance compared to the prior year. At the end of the ten month period, the District's governmental funds reported combined ending fund balance of $262,549,432, an increase of $37,343,793 in comparison with the prior year. The increase was due to the ten month short year, specifically the debt bond payment of $24,620,241 due in August now will be an expenditure in the following fiscal year. Of the combined fund balance, $60,172,085 constituted unassigned fund balance, which experienced in FYE 2017 a temporary decrease of $4,246,107 due to a one time draw, as an alternative to a bank loan, to refresh the secondary schools technology devices. Through a board resolution, it is the intent of the district to restore the unassigned fund balance to $62,652,991 in five years by increasing the unassigned fund balance by about $880,000 each year. The ending unassigned fund balance reflects the second repayment. The remainder of fund balance is either nonspendable, restricted, committed or assigned to indicate that it is 1) not in spendable form such as inventories $1,513,387 and as prepaid items $1,002,178; 2) legally required to be maintained intact such as Federal and State Grants $4,211,443, capital acquisition and contractual obligations $120,497,217, from the Webb County Permanent School Fund for the administration building $4,818,733, and for the retirement of long term debt $31,858,010; 3) committed for construction projects $24,395,182, equipment purchases $3,176,272 and for other local projects $10,808,750 (See Note T); and, 4) assigned balance for open encumbrances $96,175 (See Note T).



General Fund. The General Fund is the chief operating fund of the District. At the end of the current ten month fiscal year, unassigned fund balance of the General fund was $60,172,085, while total fund balance reached $82,239,045. As a measure of the district's financial wealth, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 30% of total general fund expenditures while total fund balance represents 41% of total general fund expenditures.

The unassigned fund balance gives the District a balance that is the equivalent of 109 days of expenditures based on 365 days of operations. This fund balance is adequate to minimize the likelihood of the District entering the short-term debt market to pay for current operating expenditures. The District continues to maintain the two month minimum expenditures required by the District's policy in the amount of $40,000,000. The unassigned fund balance is also useful in supporting supplemental programs without interruption while the District waits for state and federal reimbursements.

The fund balance of the general fund increased by $12,598,600 during the ten month period when compared to the prior year. The increase was due primarily to the ten months of operations which caused a decrease in expenditures, while revenues were mostly earned during the ten months.

Food Service Fund. The Food Service Fund is part of the General Fund. It had a total fund balance of $4,616,755, an increase of $3,942 compared to the prior year. The program cannot carry a negative fund balance into the next school year or maintain an excessive fund balance (no more than three months of operating expenditures) on hand. At the end of the ten month period, there was no excess cash balance in the fund; therefore, the District was compliant.

Table A-4
Laredo Independent School District's Food Service Fund

	2019	2018	Percent Change
Local Sources	$ 172,576	$ 175,748	-1.8%
State Program Revenues	93,373	97,567	-4.3%
Federal Program Revenues	17,283,314	19,715,293	-12.3%
Total revenues	17,549,263	19,988,608	-12.2%
Expenditures by function			
Food Service	17,303,027	20,104,673	-13.9%
Facilities Maintenance and Operations	242,294	284,938	-15.0%
Facilities Acquisition and Construction	-	35,050	100.0%
Total Expenditures	17,545,321	20,424,661	-14.1%
Net change in fund balance	3,942	(436,053)	-100.9%
Fund balance, beginning	4,612,813	5,048,866	-8.6%
Fund balance, ending	$ 4,616,755	$ 4,612,813	0.1%

As a result in the change of fiscal year start date, revenues and expenditures were less compared to the previous year.

Debt Service Fund. As illustrated in Table A-5, the Debt Service Fund ended with a fund balance of $31,858,010 some of which was reserved for the payment of an outstanding $8,000,000 Qualified Zone Academy Limited Maintenance Tax Note (QZAB) due to mature on October 3, 2021. The increase in fund balance during the current year in the Debt Service fund was $23,266,637. The increase was due to the ten month short year that pushed the principal and interest payment of $24,620,241 to the following fiscal year.

Table A-5
Laredo Independent School District's Debt Service Fund

	2019	2018	Percent Change
Revenues			
Property taxes	$ 10,397,740	$ 7,669,286	35.58%
State program revenues	19,097,341	19,203,979	-0.56%
Total revenues	29,495,081	26,873,265	9.76%
Expenditures by function			
Principal long term debt	-	13,265,764	-100.00%
Interest on long term debt	6,725,241	13,666,365	-50.79%
Other fees	7,000	4,999	40.03%
Total expenditures	6,732,241	26,937,128	-75.01%
Other financing sources (uses)	409,888	409,888	0.00%
	409,888	409,888	0.00%
Net change in fund balance	23,172,728	346,025	6596.84%
Fund balance, beginning	8,685,282	8,339,257	4.15%
Fund balance, ending	$ 31,858,010	$ 8,685,282	266.80%

The District received funding and will continue to receive funding under the Instructional Facilities Allotment (IFA) and Existing Debt Allotment (EDA) programs to assist with the debt service payments on qualifying bonds. The State provided a guaranteed yield of $35 per penny of tax effort per unweighted average daily attendance, which translated to about 73% in state aid for the annual debt payments. Since not all of our debt qualified, we used maintenance and operations (M&O) to pay for the QZAB.

Capital Project Funds. The District's Capital Projects Funds are used to account for costs incurred in acquiring and improving sites, constructing and remodeling of facilities, and procuring necessary equipment to provide educational programs for all District students. These funds are also used to account for projects funded by bonds approved by the voters. The increase of $1,410,192 in the combined capital project fund balance over last year was attributed to the net effect in funding $10,000,000 for a new administration building, the allocation of $450,504 to projects from the sale of properties and generating $3,884,087 in investment earnings, while the costs incurred were in the amount of $12,924,399 for the completion of several major projects that included the Veterans Baseball Field, Martin High School Practice Field and Field House, Lamar Middle School Final Phase and pre-construction costs associated with the new administration building.

Business-type Activities

The District uses the Internal Service Fund to report activities that relate to the District's self-insured health plan. The District's self-funded plan is designed to provide quality, cost-effective health benefits to eligible employees. In its sixth year of implementation, the plan suffered an operating loss of $919,086 at the end of the ten month operating period. Therefore, total net position in the plan decreased from $517,889 to a deficit $401,889.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Variances – Original and Final Budget

In general, the variances between the original and final budget are attributable to the timing and length of the budget preparation process. The original budget was prepared approximately nine months prior to the final budget approved in August 2018. The final budget reflects all budget revisions made throughout the ten month period to adjust for known facts. Consequently, when the original budget is compared to the final budget, it would be expected that significant variances can occur.

The most significant fund for the District is the General Fund, funded primarily through state aid and property tax revenue. Over the course of the year, the District revised its budget several times and the original appropriations had a net increase of $7,862,899, as of the final amended budget. The activities are listed below.

Revenues

- Increase to appropriate additional revenues from two new afterschool programs $35,640
- Increase to appropriate additional revenues from 2015-16 & 2016-17 School Health and Related Services (SHARS) cost report settlement revenues $1,400,976
- Increase to appropriate additional revenues from TRS on Behalf benefits due to implementation of GASB 75 (TRS Care Behalf Contribution) and increase in Medicare Part D $980,000
- Increase to appropriate additional revenues from revenues from the National School Lunch Program Equipment Grant $28,000

Expenditures

- Increase to fund two new afterschool programs $35,640
- Increase to fund FY 2017-2018 outstanding purchase orders $2,095,613
- Increase to fund laptops refresh for elementary teachers $424,567
- Increase to fund curriculum writing team payroll $227,000
- Increase to fund elementary teacher computers $813,403
- Increase to fund summer school $1,400,976
- Increase to fund TRS on Behalf benefits due to implementation of GASB 75 (TRS Care Behalf Contribution) and increase in Medicare Part D $980,000
- Decrease to fund the Health Insurance Program Fund to support the self-funded health plan with a contribution of $1,200,000

- Increase to fund the National School Lunch Program Equipment Grant $28,000
- Increase to fund computer purchases through ERATE $1,393,687
- Increase to fund athletics game expenses, maintenance of equipment, general supplies, coaches travel, team travel, transportation, and incentives/awards $125,000

Other Sources and (Uses)

- Decrease to other uses to the Martinez Performing Arts Center Fund to fund curriculum writing team payroll $227,000.
- Increase to other uses to the Health insurance Program Fund to fund to the self-funded health plan with a contribution of $1,200,000.
- Increase to other sources to the ERATE Fund to fund computer purchases $67,397

Variances – Final Budget and Actual Results

The significant budgetary variances between the final amended budget and the actual results are listed below.

Revenues

- The decrease of local revenues was due to lower property tax collections of $109,387, higher interest income of $187,004, and lower miscellaneous income of $292,647.
- The decrease of state revenues was due to decrease in foundation school program payments and TRS on behalf payments of $1,350,572.
- The decrease of federal revenues was due to higher federal and grant indirect cost earnings of $198,904, and lower food service revenues for breakfast, lunch, USDA commodities, fresh fruits and vegetables of $2,824,748.

Expenditures

- The District had payroll, payroll taxes and benefits savings of $3,968,970.
- The District did not complete the purchase of professional and contracted services for $1,335,653.
- The District did not complete the purchase of supplies and materials for $3,258,414.
- The District did not complete the purchase of miscellaneous operating expenditures for $468,676.
- The District did not complete the purchase of capital outlay for building and equipment for $1,221,291.

Other Sources and (Uses)

- The District did not require the transfer into Athletics of $226,356.
- The District transferred out less funds to Athletics and to Jesus Martinez Performing Arts Center for $389,396.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of the ten month period, the District had invested a total of $370,039,107 in a broad range of capital assets, including: equipment, buildings, and improvements as shown in Table A-6. This amount represented a net decrease (additions and deductions) of $5,734,017 over the previous year.

The increase in buildings and improvements was due to the completion of the Lamar Middle School – Gymnasium, Martin High School Practice Field and Field House, and the Dr. Cecilia Moreno Aquatic Center. Completed projects totaled $16,359,721 and dispositions totaled $5,446,292. The majority of the dispositions and adjustments amount for buildings was due to the demolition of a portion of the Performing Arts Complex. Additionally, several district properties located in the downtown area were sold.

More information about the District's capital assets is presented in the notes to the financial statements (Note G).

Table A-6
Laredo Independent School District's Capital Assets

	2019	2018	Percentage Change
Land	$ 19,349,191	$ 19,372,448	-0.1%
Buildings and improvements	529,851,523	518,938,094	2.1%
Equipment	38,354,090	38,541,618	-0.5%
Construction in progress	5,547,300	9,198,903	-39.7%
Totals at historical cost	593,102,104	586,051,063	1.2%
Total accumulated depreciation	223,062,997	210,277,939	6.1%
Net capital assets	$ 370,039,107	$ 375,773,124	-1.5%

Long Term Debt

At the end of the ten month period, the District had loans, bonds, and compensated absences outstanding as shown in Table A-7. The table indicates a decrease of $1,862,856 or 0.5% compared to the previous year. More information about the District's debt is presented in the notes to the financial statements (Note K).

Table A-7
Laredo Independent School District's Long-Term Debt

	2019	2018	Percentage Change
Loans payable	$ 8,000,000	$ 8,000,000	0.0%
Bonds payable	342,121,822	343,853,533	-0.5%
Compensated absences	2,647,557	2,778,702	-4.7%
Total long term debt payable	$ 352,769,379	$ 354,632,235	-0.5%

Bond Ratings: The District's bonds carry AAA rating with underlying ratings as follows: Moody's Investor Services A1, Fitch's AA- and Standard & Poor's AA-.

During the short year, the District did not retire bonds because of the change in fiscal year start date. The principal payment was moved to the following fiscal year. The decrease in bonds payable was attributed to the $2,744,080 amortization of bond premium.

The District continues to maintain it credit ratings. A credit rating is a score that shows the capacity of the District to meet its financial payments to the investors. It is a financial indicator to potential investors that help us achieve lower interest rate costs. The bonds issued by the District are fully guaranteed by the Permanent School Fund (PSF) Bond Guarantee Program for the timely payment of the principal and interest in the event the school district is unable to meet debt service requirements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's board members considered many factors when setting the fiscal year 2019-20 budget and tax rates. Some of these factors were the district needs, the campus needs, appraised values, and Laredo's economy. The following factors listed below are highlights of the budget.

- The District experienced an increase in net taxable value of $67,726,866 or 3% due to increases in land and improvements.
- The interest and sinking tax rate remained the same at .4265 per $100 property value.
- The District's refined average daily attendance (ADA) was estimated at 21,400, compared to last year's actual of 21,422.

- The basic allotment, which is the amount every school district is guaranteed to receive in state and local funds for each student in ADA, increased from $5,140 to $6,160.

The Board of Trustees approved a balanced budget for the fiscal year ending June 30, 2019. The health benefit plan employer monthly contribution increased from $390.50 to $475. The employee contribution in all three plans remained the same and the benefits remained the same. Included in the budget is a $4,000 increase for full-time classroom teachers, librarians, and any other positions on a teacher salary schedule. The aggregate cost of this salary increase was estimated at $6,496,509. Professional employees were approved 5% increase at an approximate cost of $1,585,224. Para-professional employees were approved a 6% increase from the midpoint at an approximate cost of $2,841,597.

CONTACTING THE DISTRICT'S DIVISION OF FINANCE

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability and transparency for the money it receives. If you have questions about this report or need additional financial information, please contact the District's Division of Finance and Business Services at (956) 273-1043.

BASIC FINANCIAL STATEMENTS

EXHIBIT A-1

LAREDO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2019

Data Control Codes		Primary Government Governmental Activities
	ASSETS	
1110	Cash and Cash Equivalents	$ 176,977,485
1120	Current Investments	91,387,382
1220	Property Taxes - Delinquent	4,800,330
1230	Allowance for Uncollectible Taxes	(2,904,820)
1240	Due from Other Governments	28,118,037
1250	Accrued Interest	1,392,129
1290	Other Receivables, Net	118,326
1300	Inventories	1,513,387
1410	Prepayments	1,002,178
	Capital Assets:	
1510	Land	19,349,191
1520	Buildings, Net	336,557,443
1530	Furniture and Equipment, Net	8,585,173
1580	Construction in Progress	5,547,300
1000	Total Assets	672,443,541
	DEFERRED OUTFLOWS OF RESOURCES	
1701	Deferred Charge for Refunding	5,373,274
1703	Deferred Resource Outflow Related to TRS OPEB	10,703,315
1705	Deferred Resource Outflow for TRS Pension	45,776,479
1700	Total Deferred Outflows of Resources	61,853,068
	LIABILITIES	
2110	Accounts Payable	6,861,062
2140	Interest Payable	6,729,368
2150	Payroll Deductions and Withholdings	18,636
2160	Accrued Wages Payable	25,781,127
2180	Due to Other Governments	2,114,970
2200	Accrued Expenses	1,456,967
2300	Unearned Revenue	2,955,562
	Noncurrent Liabilities:	
2501	Due Within One Year	19,993,419
2502	Due in More Than One Year	332,775,960
2540	Net Pension Liability (District's Share)	88,743,863
2545	Net OPEB Liability (District's Share)	107,240,968
2000	Total Liabilities	594,671,902
	DEFERRED INFLOWS OF RESOURCES	
2602	Deferred Gain on Refunding	500,757
2603	Deferred Resource Inflow For TRS OPEB	33,912,178
2605	Deferred Resource Inflow Related for TRS Pension	5,320,256
2600	Total Deferred Inflows of Resources	39,733,191
	NET POSITION	
3200	Net Investment in Capital Assets	151,440,521
3820	Restricted for Federal and State Programs	4,625,951
3850	Restricted for Debt Service	31,858,010
3860	Restricted for Capital Projects	4,818,733
3900	Unrestricted	(92,851,699)
3000	Total Net Position	$ 99,891,516

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

LAREDO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2019

Data Control Codes		1 Expenses	Program Revenues 3 Charges for Services	Program Revenues 4 Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position 6 Primary Gov. Governmental Activities
	Primary Government:				
	GOVERNMENTAL ACTIVITIES:				
11	Instruction	$ 153,783,312	$ -	$ 29,763,257	$ (124,020,055)
12	Instructional Resources and Media Services	4,724,771	-	570,721	(4,154,050)
13	Curriculum and Instructional Staff Development	3,141,298	-	2,044,010	(1,097,288)
21	Instructional Leadership	3,833,580	-	976,873	(2,856,707)
23	School Leadership	15,121,840	-	1,482,066	(13,639,774)
31	Guidance, Counseling and Evaluation Services	8,592,604	-	2,560,422	(6,032,182)
32	Social Work Services	1,903,535	-	372,474	(1,531,061)
33	Health Services	3,813,882	-	1,377,121	(2,436,761)
34	Student (Pupil) Transportation	4,622,935	-	454,103	(4,168,832)
35	Food Services	18,540,542	89,076	17,808,559	(642,907)
36	Extracurricular Activities	6,955,544	161,758	213,498	(6,580,288)
41	General Administration	6,780,208	19,470	562,709	(6,198,029)
51	Facilities Maintenance and Operations	21,748,435	-	1,460,800	(20,287,635)
52	Security and Monitoring Services	4,863,589	-	533,318	(4,330,271)
53	Data Processing Services	4,597,614	-	393,820	(4,203,794)
61	Community Services	1,869,949	369,938	1,095,183	(404,828)
72	Debt Service - Interest on Long-Term Debt	11,031,825	-	-	(11,031,825)
73	Debt Service - Bond Issuance Cost and Fees	7,000	-	-	(7,000)
93	Payments Related to Shared Services Arrangements	6,000	-	6,000	-
95	Payments to Juvenile Justice Alternative Ed. Prg.	38,236	-	-	(38,236)
[TP]	TOTAL PRIMARY GOVERNMENT:	$ 275,976,699	$ 640,242	$ 61,674,934	(213,661,523)

Data Control Codes		
	General Revenues:	
	Taxes:	
MT	Property Taxes, Levied for General Purposes	22,961,084
DT	Property Taxes, Levied for Debt Service	9,160,602
SF	State Aid - Formula Grants	185,805,357
GC	Grants and Contributions not Restricted	7,186,508
IE	Investment Earnings	4,997,702
MI	Miscellaneous Local and Intermediate Revenue	4,306,377
S2	Special Item - (Use)	(4,148,657)
TR	Total General Revenues & Special Items	230,268,973
CN	Change in Net Position	16,607,450
NB	Net Position - Beginning	83,284,066
NE	Net Position--Ending	$ 99,891,516

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

LAREDO INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2019

Data Control Codes		10 General Fund	20 ESEA I, A Basic Program	50 Debt Service Fund
	ASSETS			
1110	Cash and Cash Equivalents	$ 69,847,962	$ -	$ 7,257,574
1120	Investments - Current	14,140,186	-	24,274,014
1220	Property Taxes - Delinquent	3,654,800	-	1,145,530
1230	Allowance for Uncollectible Taxes	(2,211,626)	-	(693,194)
1240	Due from Other Governments	16,380,708	7,369,628	-
1250	Accrued Interest	185,877	-	167,683
1260	Due from Other Funds	8,725,698	292	70,731
1290	Other Receivables	86,159	4,025	-
1300	Inventories	1,513,387	-	-
1410	Prepayments	1,002,178	-	-
1000	Total Assets	$ 113,325,329	$ 7,373,945	$ 32,222,338
	LIABILITIES			
2110	Accounts Payable	$ 3,049,608	$ 30,216	$ -
2150	Payroll Deductions and Withholdings Payable	18,636	-	-
2160	Accrued Wages Payable	22,758,208	1,578,993	-
2170	Due to Other Funds	1,664,116	5,568,707	8,763
2180	Due to Other Governments	1,972,761	-	142,209
2300	Unearned Revenue	768,436	196,029	-
2000	Total Liabilities	30,231,765	7,373,945	150,972
	DEFERRED INFLOWS OF RESOURCES			
2601	Unavailable Revenue - Property Taxes	854,519	-	213,356
2600	Total Deferred Inflows of Resources	854,519	-	213,356
	FUND BALANCES			
	Nonspendable Fund Balance:			
3410	Inventories	1,513,387	-	-
3430	Prepaid Items	1,002,178	-	-
	Restricted Fund Balance:			
3450	Federal or State Funds Grant Restriction	3,465,609	-	-
3470	Capital Acquisition and Contractual Obligation	-	-	-
3480	Retirement of Long-Term Debt	-	-	31,858,010
3490	Administration Building WCPSF	-	-	-
	Committed Fund Balance:			
3510	Construction	2,419,097	-	-
3530	Capital Expenditures for Equipment	3,176,272	-	-
3545	Other Committed Fund Balance	10,490,417	-	-
	Assigned Fund Balance:			
3590	Other Assigned Fund Balance	-	-	-
3600	Unassigned Fund Balance	60,172,085	-	-
3000	Total Fund Balances	82,239,045	-	31,858,010
4000	Total Liabilities, Deferred Inflows & Fund Balances	$ 113,325,329	$ 7,373,945	$ 32,222,338

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

60 EDA 2018 Series	Other Funds	Total Governmental Funds
$ 62,982,424	$ 34,487,839	$ 174,575,799
40,000,000	12,973,182	91,387,382
-	-	4,800,330
-	-	(2,904,820)
-	4,367,701	28,118,037
823,681	214,888	1,392,129
-	37,131	8,833,852
-	21,894	112,078
-	-	1,513,387
-	-	1,002,178
$ 103,806,105	$ 52,102,635	$ 308,830,352
$ 98,297	$ 2,896,162	$ 6,074,283
-	-	18,636
-	1,443,926	25,781,127
-	2,792,659	10,034,245
-	-	2,114,970
-	225,319	1,189,784
98,297	7,358,066	45,213,045
-	-	1,067,875
-	-	1,067,875
-	-	1,513,387
-	-	1,002,178
-	745,834	4,211,443
103,707,808	16,789,409	120,497,217
-	-	31,858,010
-	4,818,733	4,818,733
-	21,976,085	24,395,182
-	-	3,176,272
-	318,333	10,808,750
-	96,175	96,175
-	-	60,172,085
103,707,808	44,744,569	262,549,432
$ 103,806,105	$ 52,102,635	$ 308,830,352

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2019

	Total Fund Balances - Governmental Funds	$ 262,549,432
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 decrease net position.	(401,197)
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 $586,051,063 and the accumulated depreciation was ($210,277,939). In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position. Note: Beginning Balances related to TRS are NOT included in this amount.	25,322,333
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 2019 capital outlays and debt principal payments is to increase net position.	5,855,975
4	Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68. The net position related to TRS included a deferred resource outflow in the amount of $45,776,476, deferred resource inflow in the amount of $5,320,256, and a net pension liability in the amount of $88,743,863. This resulted in a decrease in net position.	(48,287,640)
5	Included in the items related to debt is the recognition of the District's proportionate share of the net OPEB liability required by GASB 75. The net position related to TRS included a deferred resource outflow in the amount of $10,703,315, a deferred resource inflow in the amount of $33,912,178, and a net OPEB liability in the amount of $107,240,968. This resulted in a decrease in net position.	(130,449,831)
6	The 2019 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(15,765,431)
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 bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.	1,067,875
19	**Net Position of Governmental Activities**	$ 99,891,516

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

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LAREDO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2019

Data Control Codes		10 General Fund	20 ESEA I, A Basic Program	50 Debt Service Fund
	REVENUES:			
5700	Total Local and Intermediate Sources	$ 27,625,353	$ 40,129	$ 10,397,740
5800	State Program Revenues	175,217,394	-	19,097,341
5900	Federal Program Revenues	23,731,194	14,297,457	-
5020	Total Revenues	226,573,941	14,337,586	29,495,081
	EXPENDITURES:			
	Current:			
0011	Instruction	110,323,180	9,721,006	-
0012	Instructional Resources and Media Services	3,897,671	171,031	-
0013	Curriculum and Instructional Staff Development	1,022,008	1,312,612	-
0021	Instructional Leadership	2,650,795	236,488	-
0023	School Leadership	12,619,485	44,962	-
0031	Guidance, Counseling and Evaluation Services	5,828,686	664,470	-
0032	Social Work Services	1,499,716	221,219	-
0033	Health Services	2,177,801	922,910	-
0034	Student (Pupil) Transportation	3,821,123	-	-
0035	Food Services	17,303,027	-	-
0036	Extracurricular Activities	6,062,281	2,021	-
0041	General Administration	5,953,466	-	-
0051	Facilities Maintenance and Operations	19,718,446	25,588	-
0052	Security and Monitoring Services	3,959,680	26,357	-
0053	Data Processing Services	3,713,715	171	-
0061	Community Services	303,786	988,751	-
	Debt Service:			
0072	Interest on Long-Term Debt	-	-	6,725,241
0073	Bond Issuance Cost and Fees	-	-	7,000
	Capital Outlay:			
0081	Facilities Acquisition and Construction	1,365,214	-	-
	Intergovernmental:			
0093	Payments to Fiscal Agent/Member Districts of SSA	-	-	-
0095	Payments to Juvenile Justice Alternative Ed. Prg.	38,236	-	-
6030	Total Expenditures	202,258,316	14,337,586	6,732,241
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	24,315,625	-	22,762,840
	OTHER FINANCING SOURCES (USES):			
7912	Sale of Real and Personal Property	-	-	-
7915	Transfers In	1,967,231	-	409,888
8911	Transfers Out (Use)	(13,684,256)	-	-
7080	Total Other Financing Sources (Uses)	(11,717,025)	-	409,888
1200	Net Change in Fund Balances	12,598,600	-	23,172,728
0100	Fund Balance - (Beginning)	69,640,445	-	8,685,282
3000	Fund Balance - June 30 (Ending)	$ 82,239,045	$ -	$ 31,858,010

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

60 EDA 2018 Series	Other Funds	Total Governmental Funds
$ 2,074,096	$ 3,732,522	$ 43,869,840
-	1,225,778	195,540,513
-	9,620,713	47,649,364
2,074,096	14,579,013	287,059,717
-	8,222,668	128,266,854
-	25,030	4,093,732
-	752,585	3,087,205
-	482,502	3,369,785
-	45,532	12,709,979
-	1,287,476	7,780,632
-	8,192	1,729,127
-	246,905	3,347,616
-	3,013	3,824,136
-	431,872	17,734,899
-	441,721	6,506,023
-	51,079	6,004,545
-	183,520	19,927,554
-	87,210	4,073,247
-	37,611	3,751,497
-	552,790	1,845,327
-	-	6,725,241
-	-	7,000
544,895	12,227,684	14,137,793
-	6,000	6,000
-	-	38,236
544,895	25,093,390	248,966,428
1,529,201	(10,514,377)	38,093,289
-	450,504	450,504
-	10,174,533	12,551,652
-	(67,396)	(13,751,652)
-	10,557,641	(749,496)
1,529,201	43,264	37,343,793
102,178,607	44,701,305	225,205,639
$ 103,707,808	$ 44,744,569	$ 262,549,432

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2019

Total Net Change in Fund Balances - Governmental Funds	$	37,343,793
The District uses internal service funds to charge the costs of certain activities, such as self-insurance, to appropriate functions in other funds. The net income (loss) of internal service funds are reported with governmental activities. The net effect of this consolidation is to decrease net position.		(919,086)
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 2019 capital outlays and debt principal payments is to increase net position.		5,855,975
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.		(15,765,431)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.		23,534
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 $4,591,757. 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 net position totaling $5,431,403. Finally, the proportionate share of the TRS pension expense on the plan as a whole had tobe recorded. The net pension expense decreased the change in net position by $7,408,618. The net result is a decrease in the change in net postion.		(8,248,264)
GASB 75 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These conditions made after the measurement date of the plan caused the change in ending net position to increase by $1,246,004. 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 net position totaling $1,481,666. 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 $1,447,409. The net result is a decrease in the change in net position.		(1,683,071)
Change in Net Position of Governmental Activities	$	16,607,450

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

LAREDO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2019

	Governmental Activities - Health Plan Internal Service Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 2,401,687
Due from Other Funds	1,200,393
Other Receivables	6,248
Total Assets	3,608,328
LIABILITIES	
Current Liabilities:	
Accounts Payable	786,780
Accrued Expenses	1,456,967
Unearned Revenues	1,765,778
Total Liabilities	4,009,525
NET POSITION	
Unrestricted Net Position	(401,197)
Total Net Position	$ (401,197)

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

EXHIBIT D-2

LAREDO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2019

	Governmental Activities - Health Plan Internal Service Fund
OPERATING REVENUES:	
Local and Intermediate Sources	$ 17,442,413
Total Operating Revenues	17,442,413
OPERATING EXPENSES:	
Other Operating Costs	19,561,499
Total Operating Expenses	19,561,499
Income (Loss) Before Transfers	(2,119,086)
Transfer In	1,200,000
Change in Net Position	(919,086)
Total Net Position - (Beginning)	517,889
Total Net Position - June 30 (Ending)	$ (401,197)

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

LAREDO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2019

	Governmental Activities - Health Plan Internal Service Fund
Cash Flows from Operating Activities:	
Cash Received from User Charges	$ 18,496,780
Cash Payments for Insurance Claims	(17,054,748)
Cash Payments for Suppliers	(1,962,730)
Net Cash Used for Operating Activities	(520,698)
Net Decrease in Cash and Cash Equivalents	(520,698)
Cash and Cash Equivalents at Beginning of Year	2,922,385
Cash and Cash Equivalents at End of Year	$ 2,401,687
Reconciliation of Operating Income (Loss) to Net Cash Used for Operating Activities:	
Operating Income (Loss):	$ (2,119,086)
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease in Due from Other Funds & Transfers In	941,376
Increase in Receivables	(6,248)
Increase in Accounts Payable	241,551
Increase in Unearned Revenues	125,276
Increase in Accrued Expenses	298,777
Decrease in Due to Other Funds	(2,344)
Net Cash Used for Operating Activities	$ (520,698)

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

LAREDO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2019

	Agency Funds
ASSETS	
Cash and Cash Equivalents	$ 678,408
Total Assets	$ 678,408
LIABILITIES	
Due to Student Groups	$ 678,408
Total Liabilities	$ 678,408

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

A. Summary of Significant Accounting Policies

The basic financial statements of Laredo Independent School District (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to governmental units in conjunction with the Texas Education Agency's *Financial Accountability System Resource Guide* ("Resource Guide"). The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The Board of School Trustees ("Board"), a seven-member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is appointed and has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency ("TEA") or to the State Board of Education are reserved to the Board, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District receives funding from local, state, and federal government sources and must comply with the requirements of those funding entities. However, the District is not included in any other governmental "reporting entity" as defined by the GASB in its Statement No.14, *The Financial Reporting Entity*, and GASB Statement No.61, *The Financial Reporting Entity: Omnibus*. The District has no component units.

The 76th Texas Legislature enacted House Bill 98 which amended the Education Code to allow school districts to change their fiscal year-end from August 31 to June 30 beginning with the 2001-2002 fiscal year. The Board elected to change its fiscal year beginning with the 2018-2019 reporting period. As a result, the financial statements are presented for a ten-month period of September 1, 2018 through June 30, 2019. Prior year information has not been restated and comparability of current period financial information to prior years should be observed with this knowledge.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net position and statement of activities include the financial activities of the overall government, except for fiduciary activities. Since the resources in the Fiduciary funds cannot be used for District operations, they are not included in the government-wide statements. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function. Indirect cost expenditures are determined by applying approved indirect cost rates to actual applicable expenditures of federally funded grant programs and therefore are included as an element of functional expenses. Indirect cost revenues are reported in the General Fund.

Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

A. Summary of Significant Accounting Policies (Continued)

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

b. Fund Accounting

Major Governmental funds

- General Fund - District's primary operating fund: This classification must be used to account for funds in which the local governing board designates. It accounts for all financial resources of the District except those required to be accounted for in another fund.

- ESEA I, A Basic Program: The District accounts, on a project basis, for funds allocated to local educational agencies to enable schools to provide opportunities for children served to acquire the knowledge and skills contained in the challenging State content standards and to meet the challenging State performance standards developed for all children.

- Debt Service Fund: Governmental fund that must be used to account for general long-term debt principal and interest for debt issues and other long-term debts for which a tax has been dedicated.

- EDA 2018 Bond Series - Capital Projects Funds: The District accounts for proceeds from long-term debt financing (including the sale of bonds) and revenues and expenditures related to authorized construction and other capital asset acquisitions in this fund. The Board approves project budgets, not annual appropriated budgets.

Fiduciary Funds

Agency Funds: These Fiduciary Funds are used to account for assets secured by the District to serve as a trustee or as an agent for activities from student groups and other resources held in custodial nature (assets equal liabilities). Agency Funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, scholarships and/or other governmental units. These Fiduciary Funds consist of District Student Activity Funds, Donations and Scholarship Funds. Agency Funds have no measurement focus.

Fiduciary Fund Financial Statement is referenced as Exhibit E-1.

Proprietary Funds

Internal Service Fund: Revenues and expenses related to services provided to organizations within the District on a cost-reimbursement basis and are accounted for in an Internal Service Fund. The Internal Service Fund accounts for the operations of the self-funded health insurance program.

c. Measurement Focus, Basis of Accounting

Government-wide Financial Statements: These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of

A. Summary of Significant Accounting Policies (Continued)

when the related cash flows take place. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end.

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

Unavailable revenue from property taxes arises only under modified accrual basis of accounting. The governmental funds report this unavailable revenue as a deferred inflow of resources, which is recognized as revenue in the period the amounts become available.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources. Furthermore, committed fund balances are reduced first, followed by assigned amounts and then unassigned amounts where expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

3. Financial Statement Amounts

a. Deposits

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

The funds of the District must be deposited and invested under the terms of a depository contract, contents of which are set out in the Depository Contract Law. The depository bank may either place approved pledged securities for safekeeping or trust with the District's agent bank or letters of credit from FHLB in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation insurance.

b. Inventories and Prepaid Items

Inventories of supplies on the balance sheet are carried at cost, which is determined principally by the average cost method, while investments of food commodities are recorded at market values supplied

A. Summary of Significant Accounting Policies (Continued)

by the United States Department of Agriculture (USDA). Inventories are considered expenditures or expenses as they are consumed. Supplies are used for almost all functions of activity, while food commodities are used only in the food service program. Although commodities are received at no cost, their fair market value is supplied by the USDA and recorded as inventory and unearned revenues when received. When requisitioned, inventory and unearned revenues are relieved, expenditures are charged, and revenue is recognized for an equal amount. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

c. 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 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 1 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 and (2) when they are expected to be collected during a 60-day period after the close of the fiscal year.

Allowances for uncollectible tax receivables within the General Fund are $2,211,626 and $693,194 for the Debt Service Fund which is based upon 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. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated acquisition value at the date of the donation. Land and Construction in Progress are not depreciated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives is not capitalized. A capitalization threshold of $5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (Years)
Buildings	15 – 30
Furniture and Equipment	3 – 15
Vehicles	7 – 10

e. Receivable and Payable Balances

The District believes sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances. There are no significant receivables which are not scheduled for collection within one year of year-end.

A. Summary of Significant Accounting Policies (Continued)

f. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation.

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement.

All other inter-fund transactions are treated as transfers. Transfers In and Transfers Out are presented gross on the governmental fund financial statements. The effect of interfund activity has been eliminated from the government-wide financial statements.

g. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the District's management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates. Significant assumptions are required in the calculation of the revenue from the Foundation School Program. It is possible this estimate could be revised in the near term and that the revision could be material.

h. Data Control Codes

Data Control Codes appear in the rows and above the columns of certain financial statements. TEA requires the display of these codes in the financial statements filed with TEA in order to ensure accuracy in building a statewide database for policy development and funding plans.

i. Budgets

The budget was prepared for adoption for all required governmental fund types. The following procedures are followed in establishing the budgetary data:

1) Prior to June 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.

2) A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days of the public notice for the meeting has been provided.

3) Prior to July 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. During the year, several amendments were necessary.

A. Summary of Significant Accounting Policies (Continued)

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund, General Fund – Food Service, and Debt Service Fund. The Food Service Fund is accounted in the general fund. A more detailed budget versus actual presentation for the Food Service Fund is reported as supplementary information to demonstrate legal compliance at the legal level of budgetary control.

The Special Revenue Funds and Capital Projects Funds adopt project-length budgets which do not correspond to the District's fiscal year. Each annual budget is presented on the modified accrual basis of accounting which is consistent with accounting principles generally accepted in the United States of America. The budget was properly amended throughout the year by the Board.

Each budget is controlled by the budget coordinator at the expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year-end. Budget information is summarized next:

	Original Budget	Increase / (Decrease)	Amended Budget
General Fund	$185,794,405	$6,295,886	$192,090,291
General Fund – Food Service	20,393,029	28,000	20,421,029
Debt Service Fund	6,745,241	-	6,745,241

It is noted that during this fiscal year, the budget appropriations in General Fund were increased to appropriate expenditures from assigned fund balance for outstanding purchase orders in the amount of $2,095,613. Budget appropriations in the General Fund were also increased to appropriate expenditures from committed fund balance for elementary school teacher laptops in the amount of $424,567. Moreover, budget appropriations in the General Fund were increased to appropriate revenues and expenditures for two new afterschool elementary programs in the amount of $35,640, increased due to transfer out savings that were used to fund payroll for curriculum writing team in the amount of $227,000, and appropriations were decreased to fund a transfer out to the Health Plan Internal Service Fund to fund a lump-sum employer contribution to support the self-funded health plan in the amount of $1,200,000. Furthermore, budget appropriations in the General Fund were increased to appropriate expenditures from unassigned fund balance for elementary school teacher laptops in the amount of $813,403, and to appropriate expenditures for athletic extracurricular expenses in the amount of $125,000. Additionally, budget appropriations in the General Fund were increased to appropriate additional revenues and expenditures for increased schools and health related services claim reimbursement in the amount of $1,400,976, and for TRS on behalf payments in the amount of $980,000. Lastly, budget appropriations in the General Fund (E-Rate) computer equipment purchases were increased due to the additional funding in the amount of $1,393,687. Budget appropriations in General Fund – Food Service were increased to appropriate revenues and expenditures for the NSLP Equipment Grant in the amount of $28,000.

A. Summary of Significant Accounting Policies (Continued)

j. Encumbrances

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at June 30. However, encumbrances outstanding at year end, not otherwise restricted or committed, are reported as assignments of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

Significant encumbrances included in governmental fund balances are as follows:

	Encumbrances included in:	
	Restricted Fund Balance	
EDA 2018 Bond Series	$	4,078,997
Nonmajor Governmental Funds		96,175
Total	$	4,175,172

k. Arbitrage Payable

The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt to make payments to the United States Treasury for investment income received at yields that exceed the issuer's tax exempt borrowing rates. The Treasury requires payment for each issue every five years. The estimated liability is updated annually for all tax-exempt issuances or changes in yields until such time payment of the calculated liability is due. There is no District liability as of June 30, 2019.

l. Unearned Revenues

Unearned revenues arise principally from amounts received from the state that relate to the subsequent fiscal year.

m. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. 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 issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

A. Summary of Significant Accounting Policies (Continued)

n. 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.

o. Other Post-Employment Benefits

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

p. Deferred Outflows/Inflows of Resources

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. The District has two items that qualify for reporting in this category.

The deferred charge on refunding reported in the government-wide statement of net position results from the difference in the reacquisition price over the carrying value of the refunded debt. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Deferred outflows of resources for pension and OPEB are reported in the government-wide financial statement of net position. Deferred outflows result from pension plan contributions made after the measurement date of the net pension liability. Deferred outflows also include the District's proportionate share of the deferred outflows of resources of the TRS plan and TRS Care Plan. These deferred outflows include the differences between expected and actual economic experience and changes in actuarial assumptions. The deferred outflows of resources related to the District's contributions which are subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The other pension and OPEB related deferred outflows will be amortized over the expected remaining service lives of all employees.

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.

A. Summary of Significant Accounting Policies (Continued)

Accordingly, the District reports a deferred gain on refunding and Deferred Inflow related to TRS and TRS Care Plan in the government-wide statement of net position, and unavailable revenue-property taxes in the governmental balance sheet.

A deferred gain on refunding results from the difference in the carrying value of refunded debt over its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Deferred inflows of resources for pension and OPEB are reported in the government-wide financial statement of net position. These deferred inflows result primarily from differences between projected and actual earnings on pension plan investments and changes in actuarial assumptions. These amounts will be amortized over a closed five-year period.

Unavailable revenue-property taxes are deferred and recognized as an inflow of resources in the period that the amounts become available. These are reported as deferred inflows of resources at the fund level and are recognized as revenues at the government-wide level.

q. Investment Policy

The District's general policy is to report money market investments, short-term participating interest-earning investment contracts, and investments in certain qualifying external investment pools at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure.
However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value.

The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase.

The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

Public funds investment pools in Texas ("Pools") are established under the authority of the Inter-local Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: (1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; (2) maintain a continuous rating of no lower than AAA or AAAm or an equivalent rating by at least one nationally recognized rating service; and (3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares. As of June 30, 2019, the District invested part of its money with Texas DAILY and TexPool, which hold an AAAm rating from Standard and Poor's (S&P).

TexPool and TexasDAILY are external investment pool measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, investment pools must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity and diversification requirements within the

A. Summary of Significant Accounting Policies (Continued)

investment pool. The investment pools transact at a net asset value of $1.00 per share, have weighted average maturity of 60 days or less and weighted average life of 120 days or less, investments held are highly rated by nationally recognized statistical rating organization, have no more than 5% of portfolio with one issuer (excluding US government securities), and can meet reasonably foreseeable redemptions. Texpool and Texas DAILY have a redemption notice period of one day and no maximum transaction amounts. The investment pools' authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities market, general banking moratorium or national or state emergency that affects the pools' liquidity.

r. Fund Balance and Net Position

Governmental Fund Financial Statements

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

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

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

Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts restricted due to constitutional provisions or enabling legislation. This classification includes Federal, State and local grants, contractual obligations for personal property, bond proceeds, and retirement of long-term debt.

Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the District through formal action of the highest level of decision-making authority. Committed fund balance is reported pursuant to resolution passed by the District’s Board of Trustees. This classification includes construction projects not funded by bonded debt, retirements of loans or notes committed by the Board, equipment not funded by bonded debt and local Special Revenue funds.

Assigned - includes fund balance amounts that are self-imposed by the District to be used for a particular purpose. As per the District’s policy, fund balance can only be assigned by the District Board of Trustees. This classification includes construction and encumbrances.

A. Summary of Significant Accounting Policies (Continued)

Unassigned - includes residual positive fund balance within the General Fund which has not been classified within the other above-mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes. In this category funds are available for appropriation at Board's discretion as per Fund Balance policy.

Government-Wide Financial Statements

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

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

Restricted for Federal and State Programs - the component of net position that reports the difference between assets and liabilities for all state and federal programs.

Restricted for Debt Service - the component of net position that reports the difference between assets and liabilities with constraints placed on their use by law.

Restricted for Capital Projects - the component of net position that accounts for the difference between assets and liabilities for all district construction projects.

Unrestricted - the difference between the assets and liabilities that is not reported in any of the classifications above.

B. Reconciliation of Government –Wide and Fund Financial Statements

Explanation of certain differences between the governmental fund balance sheet and the Government-Wide Statement of Net Position:

The governmental funds balance sheet includes a reconciliation between fund balance of the total governmental funds and net position of the governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains: "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 details of the $5,855,975 difference is as follows:

B. Reconciliation of Government –Wide and Fund Financial (Continued)

Assets:			
Decrease in Land		$ (23,257)	
Increase in Buildings and Improvements		10,913,429	
Net Decrease in Equipment		(187,528)	
Depreciation on Disposed Buildings		1,186,955	
Depreciation on Disposed Equipment		1,793,418	
Decrease in Construction in Progress		(3,651,603)	
	Subtotal		$ 10,031,414
Deferred outflows of Resources:			
Decrease in Deferred Charge for refunding			(470,850)
Long - Term Liabilities:			
Decrease in termination benefits & compensated absences		131,145	
Increase in Interest payable		(5,608,495)	
Accreted interest on bonds payable		(1,012,369)	
Amortization of premium on bonds		2,744,080	
	Subtotal		(3,745,639)
Deferred inflows of Resources:			
Decrease in Deferred Gain for refunding			41,050
Net Adjustment to decrease fund balance - total governmental funds to arrive at net position - governmental activities			$ 5,855,975

C. Compliance and Accountability

Excess Actual Over Budget

For the ten month period ended June 30, 2019, appropriations exceeded expenditures in all legally budgeted funds.

D. Deposits and Investments

Cash Deposits: The District's cash and cash equivalents are considered to be cash on hand and demand deposits. The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Texas School Depository Act. The depository bank pledges securities and letters of credit which comply with state. These securities are held for safekeeping and trust with the District's and the depository banks' agent bank. The pledged securities and letters of credit are in compliance with the Texas Government Code, Chapter 2257 “Collateral for Public Funds”, and are sufficient to meet the terms agreed to in the current depository contract as approved by TEA. The pledge of approved securities and letter of credits is waived only to the extent of the depository bank’s dollar amount of Federal Deposit Insurance Corporation (“FDIC”) insurance.

Investments: Investments, except for the investment pools, for the District are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost. The District’s investment policy is in accordance with the Public Funds Investment Act, the Public Funds Collateral Act, and federal and state laws. The District further limits its investments to U.S. Agencies, certificates of deposit and investment pools.

D. Deposits and Investments (Continued)

The carrying amount of the District's deposits and investments are as follows:

Cash in Bank or On Hand - Primary Government		$	28,516,480
Cash Equivalents			
Investment Pools Accounts:			
TexasDAILY	139,364,297		
TexPool	9,096,708		
Current Investments			
Certificates of Deposit:			
BBVA	73,267,368		
Texas Term	11,846,000		
Discount Notes:			
U S Treasury Bill	6,274,014		
Total Cash Equivalents and Current Investments			239,848,387
Total Deposits and Investments - Primary Government		$	268,364,867

Deposits:

At June 30, 2019, the District's bank deposits (cash and interest bearing accounts) were $183,484,068. The District's cash deposits at June 30, 2019 and during the ten month period ended June 30, 2019, were entirely covered by FDIC insurance, by pledged collateral held by the District's agent bank in the District's name and letters of credit from the Federal Home Loan Bank.

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

a. Depository: BBVA Compass Bank. The total collateral amount at the highest combined balance on deposits was $119,000,000 which is the sum of six letters of credit.
b. The highest combined balances of cash, savings, and time deposit accounts amounted to $108,357,284 and occurred during the month of June 2019.
c. Total amount of FDIC coverage at the time of the largest combined balance was $250,000.

Investments:

Investments, except for the investment pools, for the District are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost. The District's investment policy is in accordance with the Public Funds Investment Act, the Public Funds Collateral Act, and federal and state laws

The District is required by Government Code Chapter 2256, The Public Funds Investment Act, 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

D. Deposits and Investments (Continued)

average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

The Act determines the types of investments which are allowable for the District. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. agencies, the state of Texas, (2) certificates of deposit and Share Certificates, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds.

External Investment Pool-Primary Government:

Texas DAILY is a portfolio established by Texas Term Advisory Board pursuant to the provisions of the Texas Term Common Investment Contract that established the Pool. Texas DAILY is a local government investment portfolio established to allow school districts and other governmental entities in Texas to pool their funds for investment under the provisions of the Inter local Cooperation Act, Chapter 791 of the Texas Government Code, the Public Funds Investment Act and other similar cooperative statutes and under the statutes governing investment of funds by those local governments.

TexPool is a local government investment pool created on behalf of Texas entities whose investment objectives are preservation and safety of principal, liquidity and yield consistent with the Public Funds Investment Act. Pursuant to subchapter G of chapter 404, the Comptroller of Public Accounts administers the Texas Local Government Investment Pools (the "TexPool Portfolios") as public funds investment pools through the Texas Treasury Safekeeping Trust Company (the "Trust Company").

The Trust Company is a special-purpose trust company authorized to receive, transfer, and disburse money and securities as provided by statute or belonging to the state, agencies, and local political subdivisions and other organizations created on behalf of the state or agency or political subdivision of the state.
The Comptroller and the Trust Company have contracted with Federated Investors, Inc. ("Federated"), as administrator and investment manager for the TexPool Portfolios.

As noted in the District's Significant Accounting Polices, the District reports its local government investment pools at amortized cost as permitted by GASB Statement No. 79 *Certain External Investment Pools and Pool Participants.*

Credit Risk. In accordance with state law and the District's investment policy, investments in investment pools must be rated at least AAA or have an equivalent rating, commercial paper must be rated at least A-1,P-1, or have an equivalent rating, and obligations of states, agencies, counties, and cities must be rated at least A or its equivalent. As of June 30, 2019, Texas Daily and Texpool were rated AAAm by Standard and Poor's (S&P). The District did not have any investments in commercial paper as of June 30, 2019.

Concentration of Credit Risk. The District places no limit on the amount the District may invest in any one issuer, rather investments are governed by the objectives of preservation and safety of principal, liquidity, and

D. Deposits and Investments (Continued)

yield. In addition, the investment portfolio is diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting from over-concentration of assets in a specific class of investments, specific maturity, or specific issuer. The District's deposits and investments are allocated as follows: US Treasury Bill (2.34%), Texas DAILY (51.93%), Texas Term (4.41%), TexPool (3.39%), and BBVA (37.93%).

Interest Rate Risk. In accordance with state law and the District's investment policy, the District does not purchase any investments with maturities greater than two and a half (2.5) years for its Operating Funds.

The investment maturities in the following table reflect the maturity date of the investments in each category due 12 months from the balance sheet date. The District uses its investments in the investment pools, certificates of deposits and a discount note to further mitigate interest rate risk.

The District's investments at June 30, 2019 are shown below:

		Investment Maturities in Years	
Investment	Book Value	Less than 1 Year	1 to 2 Years
Agency Bonds & Discount Notes			
U S Treasury Bill	$ 6,274,014	$ 6,274,014	$ -
	6,274,014	6,274,014	-
Investment Pools			
Texpool	9,096,708	9,096,708	-
Texas DAILY	139,364,297	139,364,297	-
	148,461,005	148,461,005	-
Certificates of Deposit			
BBVA	73,267,368	73,267,368	-
Texas Term	11,846,000	11,846,000	-
	85,113,368	85,113,368	-
Total Book Value	$ 239,848,387	$ 239,848,387	$ -

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

D. Deposits and Investments (Continued)

Fair Value of Investments:

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

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

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement. The District's investments, whether recorded at fair value, cost, or amortized cost, at June 30, 2019 are shown below:

Investment Type	Cost or Amortized Cost	Fair Value Measurements Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs	Total
Agency Bonds & Discount Notes					
U S Treasury Bill	$ -	$ -	$ 6,274,014	$ -	$ 6,274,014
	-	-	6,274,014		6,274,014
Investment Pools					
Texpool	9,096,708	-	-	-	9,096,708
Texas DAILY	139,364,297	-	-	-	139,364,297
	148,461,005	-	-	-	148,461,005
Certificates of Deposit					
BBVA	73,267,368	-	-	-	73,267,368
Texas Term	11,846,000	-	-	-	11,846,000
	85,113,368	-	-	-	85,113,368
Total Investments	$ 233,574,373	$ -	$ 6,274,014	$ -	$ 239,848,387

D. Deposits and Investments (Continued)

The fair value of agency bonds and discount notes is determined using quoted prices for comparable instruments, which is considered a market approach. The fair value of the investments in U.S. Government Agency securities is based on quoted market prices. The amount of increase in the fair value of these investments is $65,576 during the ten month period ended June 30, 2019. The total investment income for the year is $151,834.

E. Due to and from Other Governments and Agencies

The District participates in a variety of federal, state, and local programs from which it receives grants to partially or fully finance certain activities. Amounts due to and from federal, state, and local governments as of June 30, 2019 are summarized below and are reported on the government-wide statement of net position.

	Due to Other Governments	Due from Other Governments
Major Governmental Funds:		
General Fund	$ 1,972,761	$ 16,380,708
Food Service Fund	-	-
ESEA I, A Improving Basic Program	-	7,369,628
Debt Service Fund	142,209	-
Total Major Governmental Funds	2,114,970	23,750,336
Nonmajor Governmental Funds:		
ESEA Title X, C Homeless	-	2,200
ESEA Title I Part C Migrant	-	99,597
IDEA - Part B Formula	-	1,461,266
IDEA - Part B Preschool	-	587
IDEA - Part B Discretionary	-	11,035
Summer Feeding Program	-	431,028
Career and Technical - Basic Grant	-	182,543
ESEA II, A Training and Recruiting	-	609,244
Title III, A English Lang. Acquisition	-	481,587
College Now Career Connected!	-	126,084
ESSA Title IV Part A	-	433,419
Other State Grants	-	352,787
SSA Regional Day School Deaf	-	53,942
OCDETF Grant	-	12,741
AEP Foundation Grant	-	109,641
Total Nonmajor Governmental Funds	-	4,367,701
Total Governmental Funds	$ 2,114,970	$ 28,118,037

F. Interfund Balances and Activities

1. Interfund Receivables and Interfund Payables

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All amounts due are scheduled to be repaid within one year. Interfund balances between governmental funds and proprietary funds are eliminated in the statement of net position and reported as internal balances.

The composition of interfund balances at June 30, 2019 consisted of the following:

	Interfund Receivables	Interfund Payables
Governmental Funds:		
General Fund	$ 8,725,698	$ 1,664,116
ESEA I, A Improving Basic Program	292	5,568,707
Debt Service	70,731	8,763
Nonmajor Governmental Funds	37,131	2,792,659
Total Governmental Funds	8,833,852	10,034,245
Proprietary Fund:		
Health Plan Internal Service Fund	1,200,393	-
Total – All Funds	$ 10,034,245	$ 10,034,245

2. Transfers To/From Other Funds

Transfers between the Special Revenue Funds, Capital Projects Funds, and the General Fund are to account for the District's local share of grant funds. Transfers to the Debt Service Fund are related to amounts to cover interest and principal on debt. Transfers to and from other funds at June 30, 2019 consisted of the following:

Transfers From	Transfers To	Amount	Purpose
General Fund	Capital Projects	$ 10,000,000	Transfer to cover for capital improvement projects.
General Fund	Debt Service	409,888	Transfer to cover for principal payments and agent fees.
General Fund	Athletics Program	1,444,835	Transfer to cover athletic costs for the District.
General Fund	J. Martinez PAC	174,533	Transfer to cover J. Martinez PAC costs for the District.
General Fund	E-Rate	455,000	Transfer to cover local 10% share of grant and items ineligible for E-Rate.
General Fund	Health Plan ISF	1,200,000	Transfer to cover a lump-sum employer contribution to support the self-funded health plan.
Capital Projects	E-Rate	67,396	Transfer to cover local 10% share of grant and items ineligible for E-Rate.
		$ 13,751,652	

G. Capital Assets

Capital asset activity for the ten month period ended June 30, 2019 was as follows:

	Beginning Balances	Additions	Dispositions and Adjustments	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 19,372,448	$ -	$ 23,257	$ 19,349,191
Construction in Progress	9,198,903	12,708,118	16,359,721	5,547,300
Total capital assets not being depreciated	28,571,351	12,708,118	16,382,978	24,896,491
Capital assets being depreciated:				
Buildings and Improvements	518,938,094	16,359,721	5,446,292	529,851,523
Equipment	38,541,618	1,670,931	1,858,459	38,354,090
Total capital assets being depreciated	557,479,712	18,030,652	7,304,751	568,205,613
Less accumulated depreciation:				
Building and Improvements	180,646,818	13,834,217	1,186,955	193,294,080
Equipment	29,631,121	1,931,214	1,793,418	29,768,917
Total accumulated depreciation	210,277,939	15,765,431	2,980,373	223,062,997
Total capital assets being depreciated, net	347,201,773	2,265,221	4,324,378	345,142,616
Governmental activities capital assets, net	$375,773,124	$14,973,339	$20,707,356	$370,039,107

Depreciation was charged to the following functions as follows:

Instruction	$ 11,129,514
Instruction Resources and Media Services	166,154
Curriculum Development and Instructional Staff Development	15,413
Instructional Leadership	128,848
School Leadership	810,911
Guidance, Counseling & Evaluation Services	34,171
Social Work Services	13,556
Health Services	181,733
Student (Pupil) Transportation	541,269
Food Services	792,687
Extracurricular Activities	161,132
General Administration	194,031
Facilities Maintenance and Operations	620,008
Security and Monitoring Services	455,768
Data Processing Services	512,589
Community Services	7,647
Total Depreciation	$ 15,765,431

H. Unearned Revenues

Unearned revenues at June 30, 2019 consisted of the following:

Major Governmental Funds:		
General Fund - Food Service	$	648,631
General Fund - Headstart Program		70,833
General Fund - Escrow Taxes		48,972
ESEA I, A Basic Program		196,029
Total Major Governmental Funds		964,465
Nonmajor Governmental funds:		
Summer Feeding Program		8,460
Title III, A English Lang. Acquisition		44,049
Instructional Materials Allotment		34,640
LEOSE		3,813
Equitable Sharing Program		130,704
J. Martinez Performing Arts Complex		3,653
Summer Feeding Program		8,460
Total Nonmajor Governmental funds		225,319
Total Governmental funds		1,189,784
Proprietary Fund:		
Health Plan Internal Service Fund		1,765,778
Total – All Funds	$	2,955,562

I. Loans Payable

The District may borrow money for the purpose of paying maintenance expenses and may evidence those loans with negotiable notes. The District pledged proceeds of its maintenance tax to secure maintenance tax notes for the purpose of financing the renovation and equipment of qualified zone academies, within the meaning of section 1397(d) of the Internal Revenue Code of 1986, located within the District in accordance with the provisions of Section 45.108, Texas Education Code, as amended.

A Qualified Zone Academy Limited Maintenance Tax Note of $8,000,000 was entered into on October 3, 2005, for the purpose of financing the construction of academies for three middle schools and two high schools. The loan has an interest rate of 0% and an original term of sixteen years. The principal payment of $8,000,000 is due to mature on October 3, 2021. In connection with the Qualified Zone Academy Limited Maintenance Tax Note, within the Interest and Sinking Fund, there shall be established a "Cumulative Sinking Fund Deposit Account"; provided however that the Cumulative Sinking Fund Deposit Account shall at all times be maintained by the District with, and held by, the Registrar.

I. Loans Payable (Continued)

The following is a summary of loan transaction of the District for the year ending June 30, 2019.

Description	Balance Outstanding 9/1/2018	Issued Current Year	Retired Current Year	Balance Outstanding 6/30/2019	Amounts Due Within One Year
Note - October 3, 2005	$ 8,000,000	$ -	$ -	$ 8,000,000	$ -
	$ 8,000,000	$ -	$ -	$ 8,000,000	$ -

No interest was paid during the year on loans. All loans are funded from Maintenance and Operations (M&O) tax.

The following is a schedule of the required payments for this loan:

Year Ending June 30,	Principal	Interest	Total
2020	$ -	$ -	$ -
2021	-	-	-
2022	8,000,000	-	8,000,000
	$ 8,000,000	$ -	$ 8,000,000

The future sinking fund requirements for the Qualified Zone Academy Limited Maintenance Tax Note of $8,000,000 are as follows:

Year Ending June 30,	Amount
2020	$ 389,887
2021	389,887
2022	389,887
Total	$ 1,169,661

J. Long-Term Obligations

The District issues general obligation bonds for the governmental activities to provide funds for the acquisition and construction of major capital facilities. The bonds are supported by a pledge of the District's full faith and credit and require a levy and collection of taxes without limitation as to rate or amount on all property subject to taxation by the District sufficient in amount to pay the principal and interest on such bonds as they become due. The indentures also require that a Debt Service Fund be created and administered by the District solely for paying principal and interest when due.

J. Long-Term Obligations (Continued)

The District has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas, which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the District.

Bonded indebtedness of the District reflected in the General Long Term Debt and current requirements for principal and interest expenditures are accounted for in the Debt Service Fund. Total principal amount of Tax Bond indebtedness cannot exceed 10 percent of the taxable assessed valuation of property in the School District.

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the ten month period ended June 30, 2019 are as follows:

Description	Rate Payable	Original Issue	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Unlimited Tax Refunding Bonds, Series 2010:							
Current Interest	4.00-5.00%	$ 18,420,000	$ 18,420,000	$ -	$ -	$ 18,420,000	$ -
Unlimited Tax Refunding Bonds, Series 2011:							
Current Interest	2.00-5.00%	18,415,000	7,835,000	-	-	7,835,000	1,000,000
Unlimited Tax School Building Bonds, Series 2013:							
Current Interest	4.00-5.00%	43,425,000	32,820,000	-	-	32,820,000	2,315,000
Unlimited Tax School Building Bonds, Series 2014:							
Current Interest	4.00-5.00%	67,160,000	60,170,000	-	-	60,170,000	2,545,000
Unlimited Tax School Refunding Bonds, Series 2014:							
Current Interest	4.00%	11,310,000	11,310,000	-	-	11,310,000	-
Capital Appreciation	9.63-9.68%	22,690,000	20,951,442	1,012,369	-	21,963,811	2,275,000
Unlimited Tax School Refunding Bonds, Series 2015:							
Current Interest	2.00-5.00%	65,560,000	56,555,000	-	-	56,555,000	8,410,000
Unlimited Tax School Building Bonds, Series 2018:							
Current Interest	3.125-5.00%	90,375,000	90,375,000	-	-	90,375,000	-
TOTALS		$337,355,000	$298,436,442	$ 1,012,369	$ -	$299,448,811	$16,545,000

Interest paid on bonded indebtedness during the current year was $6,725,241.

J. Long-Term Obligations (Continued)

The following is a schedule of the required payments for these general obligation bonds:

Year Ending June 30,	Principal	Capital Appreciation Bond	Interest	Total
2020	$ 16,545,000	$ 1,183,250	$ 14,448,732	$ 30,993,732
2021	19,095,000	1,080,340	13,891,582	32,986,582
2022	19,725,000	982,155	13,225,041	32,950,041
2023	20,445,000	892,100	12,486,975	32,931,975
2024	21,235,000	811,648	11,698,825	32,933,825
2025-2029	84,525,000	2,579,318	45,265,206	129,790,206
2030-2034	55,010,000	-	19,262,087	74,272,087
2035-2039	27,270,000	-	10,004,500	37,274,500
2040-2044	28,070,000	-	3,645,509	31,715,509
	$ 291,920,000	$ 7,528,811	$ 143,928,457	$ 435,848,457

Capital Appreciation Bonds

The total accretion of discount on capital appreciation bonds that is included in the June 30, 2019 ending balance of $299,448,811 is $7,528,811.

Defeased Bonds

In prior years, the District defeased certain general obligation bonds by placing the proceeds of the bonds in an irrevocable trust for all future debt service payments on the refunded bonds. Accordingly, the trust accounts for the assets and liabilities for the defeased bonds and are not included in the District's financial statements in the amount of $230,744,630.

K. Changes in Long-Term Liabilities

Long-term liability activity for the governmental activities for the ten month period ended June 30, 2019, was as follows:

Description	Balance Outstanding 9/1/2018	Issued/Increase Current Year	Retired/Decrease Current Year	Balance Outstanding 6/30/2019	Amounts Due Within One Year
Loans	$ 8,000,000	$ -	$ -	$ 8,000,000	$ -
Total Loans Payable	8,000,000	-	-	8,000,000	-
General Obligation Bonds	298,436,442	1,012,369	-	299,448,811	16,545,000
Bonds Premium Amortization - Net	45,417,091	-	2,744,080	42,673,011	3,292,896
Total Bonds Payable	343,853,533	1,012,369	2,744,080	342,121,822	19,837,896
Other Liabilities					
Compensated Absences	2,778,702	24,378	155,523	2,647,557	155,523
Total Other Liabilities	2,778,702	24,378	155,523	2,647,557	155,523
Total Governmental Activities Long-term Liabilities	$ 354,632,235	$ 1,036,747	$ 2,899,603	$ 352,769,379	$ 19,993,419

General Operating Fund is used to liquidate the liability for compensated absences.

L. Major Sources of Revenue from Local and Intermediate Sources

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

	General Fund	ESEA 1, A Basic Program	Debt Service Fund	EDA 2018 Series	Other Governmental Funds	Total
Property Taxes	$ 23,901,842	$ -	$ 9,767,030	$ -	$ -	$ 33,668,873
Penalties & Interest	400,635	-	142,445	-	-	543,080
Investment Income	1,587,733	-	487,562	2,044,234	880,844	5,000,374
Rental of Facilities & Insurance	87,820	-	-	-	9,665	97,485
Co-curricular	249,990	-	-	-	-	249,990
Webb County Permanent Fund	-	-	-	-	935,532	935,532
Miscellaneous	1,397,333	40,129	703	29,862	1,906,480	3,374,506
	$ 27,625,353	$ 40,129	$ 10,397,740	$ 2,074,096	$ 3,732,522	$ 43,869,840

M. Accumulated State Personal and Sick Leave Benefits

Buy back of accrued sick leave at retirement – The District buys back accrued unused sick leave from employees when they retire from the District with full benefits under the Teacher Retirement System. Buy back of accrued leave is at the rates established in the District's Local Policy. This one-time-only benefit is available to employees who have served at least ten consecutive years in the District; however, the plan applies also to employees who die while employed in the District, regardless of the length of their employment, with payment made to the designated beneficiary.

Rate for professional employees – A professional employee who retires meeting the eligibility criteria specified above shall be paid for accumulated leave up to a maximum of 40 days of state/personal leave, of which 5 days are at 100% daily base rate, 10 days at 75% daily base rate, and 25 days at 50% of the daily base rate of pay; in addition, 40 days of local sick leave are at $100 per day.

Rate for para-professional and auxiliary employees – A paraprofessional or auxiliary employee who retires meeting the eligibility criteria specified above shall be paid for accumulated leave up to a maximum of 80 days of leave combination of state/personal plus local leave, of which the first 10 days are at 100% daily base rate, the next 15 days are at 75% daily base rate, and the next 55 days are at 50% of the daily base rate of pay.

As of June 30, 2019, the balance for the State Personal and Sick Leave is $2,647,557. The estimated amount due within a year is $155,523. The General Fund and Special Revenue Funds, if allowed, are expected to pay for these.

N. Risk Financing Activities

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 fiscal year 2019, the District purchased commercial insurance to cover these risks. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

Workers' Compensation

The District was self-insured for workers' compensation claims in fiscal years 2002, 2003, and 2004. The following liabilities reported are based on the reserves that were earmarked through June 30, 2019. These reserves are estimates based on client's current medical condition and medical plan but may change as client's condition changes in either a positive or negative manner. Laredo ISD has partnered with Broadspire to manage the historical claims for clients. Boardspire will continue to perform the daily management of the client's medical treatment plan. Laredo ISD shall oversee the medical expenses periodically through client review on at least a quarterly basis to ensure efficient and effective expenditures. The medical expenditures of the client are based on client's current health but can change dependent on client's health. The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. The District accounts for claim payments in the General Fund.

A summary of the workers' compensation claims aggregate for prior and current year is presented below:

Year	Beginning of Fiscal Year Liability	Current Year Claims &/or changes In Estimated	Claims Payments	Balance at Fiscal Year-End
2017-2018	$71,860	-	$12,923	$58,937
2018-2019	$58,937	-	$2,589	$56,348

N. Risk Financing Activities (Continued)

Health Insurance

The claims for the health insurance liability of $1,456,967 reported in the Health Plan Internal Service Fund at June 30, 2019 is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the Fund's claims liability amounts are as follows:

	2018	2019
Beginning of the year liability	$ 1,019,115	$ 1,158,190
Current year claims	20,370,267	17,311,528
Changes in estimates	139,075	298,777
Claims payments	(20,370,267)	(17,311,528)
End of year liability	$ 1,158,190	$ 1,456,967 [1]

[1]Claim liabilities are due within one year of the date of net position.

O. 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. Detail 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.

Benefits Provided. TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited

O. Defined Benefit Pension Plan (Continued)

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. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 85th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2018 and 2019 would remain the same. *Contribution Rates can be found in the TRS 2018 CAFR, Note 11 on page 76.*

Contribution Rates

	2018	**2019**
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
2019 Employer Contributions		$4,591,757
2019 Member Contributions		$10,776,725
2019 NECE On-Behalf Contributions		$7,788,220

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the 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 (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

O. Defined Benefit Pension Plan (Continued)

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.

- During a new member's first 90 days of employment.

- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.

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

- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

- When a school district does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

Actuarial Assumptions. The total pension liability in the August 31, 2017 actuarial valuation rolled forward to August 31, 2018 was determined using the following actuarial assumptions: *Actuarial Assumptions can be found in the 2018 TRS CAFR, Note 11 page 77.*

Valuation Date	August 31, 2017 rolled forward to August 31, 2018
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	6.907%
Long-term expected Investment Rate of Return	7.25%
Inflation	2.30%
Municipal Bond Rate as of August 2018[1]	3.69%
Salary Increases Including Inflation	3.05 to 9.05%
Last yr. ending Aug 31 in Projection Period (100 yrs.)	2116
Ad hoc Post Employment Benefit Changes	None

[1]Source for the rate is the Fixed Income Market Data/Yield Curve/Data Municipal Bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index."

The actuarial methods and assumptions are based primarily on a study of actual experience for the three year period ending August 31, 2017 and adopted in July 2018.

Discount Rate. The discount rate used to measure the total pension liability was 6.907%. *The Discount Rate can be found in the 2018 TRS CAFR on page 77.* The single discount rate was based on the expected rate of return on pension plan investments of 7.25 percent and a municipal bond rate of 3.69 percent. 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

O. Defined Benefit Pension Plan (Continued)

rates. Based on those assumptions, the pension plan's fiduciary net position was sufficient to finance the benefit payments until the year 2069. As a result, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through the year 2069, and the municipal bond rate was applied to all benefit payments after that date. 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 arithmetic 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[1]	Long-Term Expected Arithmetic Real Rate of Return[2]	Expected Contribution to Long-Term Portfolio Returns
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%	0%
Hedge Funds (Stable Value)	4%	3.09%	0.12%
Cash	1%	-0.30%	0%
Real Return			
Global Inflation Linked Bonds	3%	0.70%	0.02%
Real Assets	14%	5.21%	0.73%
Energy and Natural Resources	5%	7.48%	0.37%
Commodities	0%	0%	0%
Risk Parity			
Risk Parity	5%	3.7%	0.18%
Inflation Expectation			2.30%
Volatility Drag[3]			-0.79%
Total	**100%**		**7.25%**

[1] *Target allocations are based on the FY2016 policy model.*
[2] *Capital market assumptions come from Aon Hewitt (2017 Q4)*
[3] *The volatility drag results from the conversion between Arithmetic and Geometric mean returns.*

O. Defined Benefit Pension Plan (Continued)

Discount Rate Sensitivity Analysis. The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (6.907%) in measuring the Net Pension Liability. *The discount rate can be found in the 2018 TRS CAFR, Note 11, page 78.*

	1% Decrease in Discount Rate (5.907%)	Discount Rate (6.907%)	1% Increase in Discount Rate (7.907%)
Proportionate share of the net pension liability:	$133,935,769	$88,743,863	$52,158,334

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2019, the District reported a liability of $88,743,863 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	$88,743,863
State's proportionate share that is associated with District	127,332,071
Total	$216,075,934

The District utilizes funds based on employee assignments to liquidate the Pension liability through employer contributions in the payroll process. The majority of the liability is paid from General Fund and the remaining is from various federal/state grants.

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

At August 31, 2018 the employer's proportion of the collective net pension liability was 0.1612281061% which was an increase of 0.0036244839% from its proportionate 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 pension liability since the prior measurement period.

- The Total Pension Liability as of August 31, 2018 was developed using a roll-forward method from the August 31, 2017 valuation.
- 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.
- Economic assumptions including rates of salary increase for individual participants was updated based on the same experience study.
- The discount rate changed from 8.0 percent as of August 31, 2017 to 6.907 percent as of August 31, 2018.

O. Defined Benefit Pension Plan (Continued)

- The long-term assumed rate of return changed from 8.0 percent to 7.25 percent.
- 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 ten month period ended June 30, 2019, the District recognized pension expense of $25,442,502 and revenue of $12,602,481 for support provided by the State.

At June 30, 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
Differences between expected and actual actuarial experience	$553,156	$2,177,424
Changes in actuarial assumptions	31,996,437	999,889
Difference between projected and actual investment earnings	-	1,683,852
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	8,635,129	459,091
Total as of August 31, 2018 measurement date	41,184,722	5,320,256
Contributions paid to TRS subsequent to the measurement date	4,591,757	-
Total as of fiscal year-end	$45,776,479	$5,320,256

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

Year ended June 30:	**Pension Expense Amount**
2020	$9,740,459
2021	6,196,914
2022	5,181,285
2023	5,693,115
2024	5,420,979
Thereafter	3,631,714

P. Health Care Coverage

The District is self-funded with Blue Cross Blue Shield of Texas (BCBSTX) acting as the health plan administrator. BCBSTX as well as the local servicing agency, Laurel Insurance Agency, services the group health program. The District maintains both aggregate and individual stop-loss coverage for catastrophic losses. The stop loss contracts renew on a calendar year basis. From 9/1/18 through 6/30/19 the individual stop loss deductible was $250,000 per individual.

The District contributed $355.00 for all Teacher Retirement System (TRS) qualified employees towards the cost of participation in the Preferred Provider Organization (PPO) medical plan program from 9/1/18 through 11/30/18. Between 12/1/18 and 6/30/19 the District contributed $390.50 for all Teacher Retirement System (TRS) qualified employees towards the cost of participation in the Preferred Provider Organization (PPO) medical plan program.

The District offered four (4) benefit plan options [Basic, Low, High, (7/1/18-6/30/19)] and [State Comparable (7/1/18-12/31/18)] as well as four (4) tier coverage levels (Employee Only, Employee & Spouse, Employee & Children, Employee & Family) within each option. The District complies with all federal law and state laws, mandates or requirements in the administration and offering of its health plan.

The District's self-funded approach to financing its health plan has been very efficient and successful in that the District has been able to provide employees different choices of plans and levels of benefits which are in compliance with the TRS Comparability Program. Employee participation in the District's medical plan is at 2,986 employees as of June 30, 2019. Upon review by TRS, via the mandatory comparability reporting requirements, it was determined that the District satisfied all of the reporting requirements of the Education Code for the ongoing required comparability study. It was determined that our district makes available to the employees group health coverage that is comparable to the basic health coverage; provided to state employees under the Texas Employees Uniform Group Insurance Benefits Act.

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 Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. In accordance with GASB Statement No. 24, the District has recognized as revenues and expenditures, contributions made by the State to TRS on-behalf of the District's employees. For the ten month period ended June 30, 2019, the state made contributions of $534,557 related to on-behalf Medicare Part D payments. These revenues equal expenditures and are reflected in the fund financial statements for the General Fund.

Q. Commitments and Contingencies

1. 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 collection of any related receivable may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

Q. Commitments and Contingencies (Continued)

2. Litigation

The District is a defendant in legal proceedings relating to its operations as a school district. In the best judgment of the District's management, the outcome of any present legal proceedings will not have any material adverse effect on the financial condition of the District. Accordingly, no provision for losses has been recorded in the accompanying financial statements for such contingencies.

R. Construction Commitments

As of June 30, 2019, the District was obligated under the terms of various agreements for the construction of the following projects:

Project Name	Contract Amount	Paid to Date	Commitment Balance Remaining	Retainage Payable Amount
New School Construction/Improvements	$ 8,224,947	$ 6,789,395	$ 1,435,552	$ 1,657,995
Environmental Services	197,286	30,516	166,770	-
Architect Services	6,937,516	2,054,225	4,883,291	-
Total	$ 15,359,749	$ 8,874,136	$ 6,485,613	$ 1,657,995

S. Shared Service Arrangements

The Laredo Independent School District (LISD) participates in the Regional Day School Program for the Deaf (RDSPD), a shared service arrangement with school districts: United Independent School District (UISD), Jim Hogg County Independent School District (JHCISD), and Webb Consolidated Independent School District (WCISD). The District is acting as the fiscal agent for the parties involved. The purpose of the Laredo Independent School District RDSPD is to serve students who are auditory impaired and between the ages of 0 and 21. Funding for the LISD RDSPD is provided by TEA and by the member Districts. Revenue from the respective member Districts is presented below:

LISD	$ 257,823
UISD	582,000
JHCISD	16,000
WCISD	8,000
	$ 863,823

As a fiscal agent, LISD RDSPD is responsible for reporting all financial activities of the shared service arrangement. The District accounts for the activity in Special Revenue Fund 435.

T. Fund Balance

As of June 30, 2019, the District has classified its Committed and Assigned Fund Balances as follows:

	General Funds	Nonmajor Funds	Total Governmental Funds
Committed Fund Balance			
Other Committed Fund Balance			
E-Rate projects	$ 1,396,738	$ -	$ 1,396,738
Demolition	8,400	-	8,400
Martin high school roofing	420,000	-	420,000
Police ac units	80,000	-	80,000
Human Resources digitized files	125,000	-	125,000
Transportation tools	25,000	-	25,000
Fixed assets fence	30,000	-	30,000
Fixed assets security cameras	12,500	-	12,500
Textbooks security cameras	12,500	-	12,500
Instructional television video camera	2,500	-	2,500
Communication dept. cameras	4,500	-	4,500
Custodial equipment	30,000	-	30,000
Fixed assets software	17,275	-	17,275
Records software	9,225	-	9,225
Nixon tuxedos	19,628	-	19,628
Cigarroa marachi uniforms	30,065	-	30,065
Laptop cases	40,322	-	40,322
Service center services	40,000	-	40,000
Cigarroa water leak equip	72,021	-	72,021
Copier maintenance	185,840	-	185,840
Security camera replacement	1,567,550	-	1,567,550
Daiches hvac supplies	60,000	-	60,000
Stabilization arrangement[1]	6,301,353	-	6,301,353
Campus activity funds	-	318,333	318,333
Total Other Committed Fund Balance	$ 10,490,417	$ 318,333	$ 10,808,750
Assigned Fund Balance			
Other Assigned Fund Balance			
District-Wide Projects	$ -	$ 96,175	$ 96,175
Total Other Assigned Fund Balance	$ -	$ 96,175	$ 96,175

[1]Stabilization arrangement

T. Fund Balance (Continued)

The Stabilization arrangement was established for the following purposes:

For Major Emergent Operating Issues - the District is exposed to major non-reoccurring costs related to various emergency events or situations as a result of catastrophic events. These emergent situations cannot be anticipated and budgeted for and it is not feasible to absorb the cost of such events in other budget areas in any given year. These emergent situations should fit the definition of a catastrophe as defined below:

- Fire, flood, earthquake, hurricane, tornado, or wind, rain, or snow storm;
- Power failure, transportation failure, or interruption of communication facilities;
- Epidemic; or
- Riot, civil disturbance, enemy attack, or other actual or threatened act of lawlessness or violence.

For One-Time and Intermittent Projects - the District undertakes certain one-time and/or intermittent projects that are larger in terms of costs. If these projects were funded from state aid and tax collections, annual spikes and subsequent declines may result; therefore, it is not prudent to fund these projects from current funding sources. These funds will be used to cover the underfunded costs of projects when such costs are 5% or more of the total project cost.

U. Defined Other Post-Employment Benefit Plans

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

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

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

Eligible retirees and their dependents not enrolled in Medicare may pay premiums to participate in one of two optional insurance plans with more comprehensive benefits (TRS-Care 2 and TRS-Care 3). Eligible retirees and dependents enrolled in Medicare may elect to participate in one of the two Medicare health plans for an additional fee. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system. The Board of Trustees is granted the authority to establish basic and optional group insurance coverage for participants as well as to amend benefit terms as needed under Chapter 1575.052. There are no automatic post-employment benefit changes; including automatic COLAs.
The premium rates for the optional health insurance are based on years of service of the member. The schedule below shows the monthly rates for the average retiree with and without Medicare coverage.

U. Defined Other Post-Employment Benefit Plans (Continued)

TRS-Care Monthly for Retirees
Effective January 1, 2018 – December 31, 2018

	Medicare Basic Plan	Non-Medicare Basic Plan
Retiree*	$ 135	$200
Retiree and Spouse	529	689
Retiree* and Children	468	408
Retiree and Family	1,020	999

**or surviving spouse*

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

Texas Insurance Code, section 1575.202 establishes the state's contribution rate which is 1.25% 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)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/private Funding remitted by Employers	1.25%	1.25%
2019 Employer Contributions		$1,246,004
2019 Member Contributions		$909,728
2019 NECE On-Behalf Contributions		$1,862,731

U. Defined Other Post-Employment Benefit Plans (Continued)

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 $182.6 million in fiscal year 2018. The 85th Texas Legislature, House Bill 30 provided an additional $212 million one-time, supplemental funding for the FY2018-19 biennium to continue to support the program. This was also received in FY2018 bringing the total appropriations received in fiscal year 2018 to $394.6 million.

Actuarial Assumptions

The total OPEB liability in the August 31, 2017 was rolled forward to August 31, 2018. The actuarial valuation was determined using the following actuarial assumptions: *Actuarial Assumptions can be found in the 2018 TRS CAFR, Note 9, page 71.*

The following assumptions and other inputs used for members of TRS are identical to the assumptions employed in the August 31, 2017 TRS annual pension actuarial valuation that was rolled forward to August 31, 2018:

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

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2017, rolled forward to August 31, 2018
Actuarial Cost Method	Individual Early Age Normal
Inflation	2.30%
Single Discount Rate[1]	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.
Payroll Growth Rate	2.50%
Projected Salary Increases[2]	3.05% to 9.05%
Healthcare Trend Rates[3]	6.75% to 11.00%
Election Rates	Normal Retirement: 70% participation prior to age 65 and 75% participation after age 65
Ad hoc post-employment benefit changes	None

U. Defined Other Post-Employment Benefit Plans (Continued)

[1]*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.*
[2]*Includes Inflation increases*
[3]*Initial trend rates are 107.74% and 9.00% for Medicare retirees and an initial trend rate of 6.75% for non-Medicare retirees. Initial prescription drug trend rate of 11.00% for all retirees. The first year trend increase for the Medicare Advantage (medical) premiums reflects the anticipated return of the Health Insurer Fee (HIF) in 2020.*

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

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

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

Discount Rate. A single discount rate of 3.69% was used to measure the total OPEB liability. There was an increase of .27 percent in the discount rate since the previous year. *The Discount Rate can be found in the 2018 TRS CAFR on page 71.* Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability.

Discount Rate Sensitivity Analysis. The following schedule shows the impact of the Net OPEB Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.69%) in measuring the Net OPEB Liability.

	1% Decrease in Discount Rate (2.69%)	Discount Rate (3.69%)	1% Increase in Discount Rate (4.69%)
Proportionate share of the net OPEB liability:	$127,653,597	$107,240,968	$91,093,262

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 1% less than and 1% greater than the assumed healthcare cost trend rate.

	1% Decrease in Discount Rate (7.5%)	Discount Rate (8.5%)	1% Increase in Discount Rate (9.5%)
Proportionate share of the net OPEB liability:	$89,065,370	$107,240,968	$131,178,623

U. Defined Other Post-Employment Benefit Plans (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs. At June 30, 2019, the District reported a liability of $107,240,968 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	$107,240,968
State's proportionate share that is associated with District	135,014,322
Total	$242,255,290

The District utilizes funds based on employee assignments to liquidate the OPEB liability through employer contributions in the payroll process. The majority of the liability is paid from General Fund and the remaining is from various federal/state grants.

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

At August 31, 2018 the employer's proportion of the collective net OPEB liability was 0.2147786938% which was an increase of .0035758392% 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: *These can be found in the TRS CAFR on page 71.*

- 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.
- 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.
- Demographic and economic assumptions were updated based on the experience study performed for TRS for the period ending August 31, 2017. This changed increased the Total OPEB Liability.
- The discount rate was changed from 3.42 percent as of August 31, 2017 to 3.69 percent as of August 31, 2018. This change lowered the Total OPEB Liability $2.3 billion.
- Change of Benefit Terms Since the Prior Measurement Date – Please see the 2018 TRS CAFR, page 68, section B. for a list of changes made effective September 1. 2017 by the 85th Texas Legislature.

For the ten month period ended June 30, 2019, the District recognized OPEB expense of $7,840,086 and revenue of $4,911,011 for support provided by the State. At June 30, 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:

U. Defined Other Post-Employment Benefit Plans (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experience	$5,690,879	$1,692,420
Changes in actuarial assumptions	1,789,561	32,219,758
Difference between projected and actual investment earnings	18,755	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	1,958,116	-
Total as of August 31, 2018 measurement date	9,457,311	33,912,178
Contributions paid to TRS subsequent to the measurement date	1,246,004	-
Total as of fiscal year-end	$10,703,315	$33,912,178

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

Year ended June 30:	**OPEB Expense Amount**
2020	($ 3,977,157)
2021	($ 3,977,157)
2022	($ 3,977,157)
2023	($ 3,980,704)
2024	($ 3,982,732)
Thereafter	($ 4,559,960)

V. Special Item

During FY13, Laredo ISD entered into a sale and purchase agreement with City of Laredo, where LISD purchased property with the intention of continue operating the property, which includes, land, facilities and appurtenances of what was known as City of Laredo Civic Center, the City of Laredo Auditorium, the City of Laredo Ballroom, the City of Laredo Meeting Rooms Building, the City of Laredo Chamber of Commerce Building (and all parking for the facilities), City of Laredo Pool, Veteran’s Field Ball Park (and parking facilities), and practice field.

During the ten month period ended June 30, 2019, Laredo ISD Board of Trustees decided to demolish some property and replace it with new structures. The ballroom and the meeting rooms were fully demolished. The new structures are in Construction in Progress (CIP). Demolition costs were expensed as incurred. The remaining value of the property, net of accumulated depreciation, in the amount of $4,148,657 was written off. This involved removing both the asset and the accumulated depreciation from the general ledger and recognized the loss in demolition as a special item.

APPENDIX C

FORM OF CO-BOND COUNSEL'S OPINION

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An opinion in substantially the following form will be delivered by Winstead PC and J. Cruz & Associates, LLC, as Co-Bond Counsel, upon the delivery of the Bonds, assuming no material changes in facts or law.

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July 1, 2020

LAREDO INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX REFUNDING BONDS, SERIES 2020
IN THE ORIGINAL PRINCIPAL AMOUNT OF $14,370,000

We have acted as Co-Bond Counsel to the Laredo Independent School District (the "District") in connection with the issuance of the bonds described above (the "Bonds") for the sole purpose of providing legal advice and traditional legal services to the District, including rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes. 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 District 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 District with respect to the current outstanding indebtedness of, and assessed valuation of taxable property within, the District.

In our capacity as Co-Bond Counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds that contains certified copies of certain proceedings of the Board of Trustees of the District (the "Board"); an order of the Board authorizing the Bonds adopted on May 28, 2020 providing for the final sale terms of the Bonds executed pursuant thereto and the pricing certificate dated June 17, 2020 (collectively, the "Order"); the "Purchase Contract" dated June 17, 2020 between the underwriters named therein and the District; the "Escrow Agreement" dated as of June 1, 2020 between the District and The Bank of New York Mellon Trust Company, N. A. (the "Escrow Agent"); a special report of Causey Demgen & Moore P. C., certified public accountants relating to the accuracy of certain mathematical computations and verifying the sufficiency of the deposits made with the Escrow Agent pursuant to the Escrow Agreement for the redemption of the obligations being defeased with the proceeds of the Bonds (such obligations, the "Refunded Bonds"; and such special report, the "Report"); the approving opinion of the Attorney General of the State of Texas; customary certificates of officers, agents, and representatives of the District (including a "Federal Tax Certificate"), and other public officials; and other documents 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 applicable provisions of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), court decisions, Treasury Regulations, and published rulings of the Internal Revenue Service (the "Service") as we have deemed relevant. We have examined executed Bond No. I-1.

Based on said examination and in accordance with customary legal opinion practice, it is our opinion that:

1. The District is a validly existing political subdivision and school district of the State of Texas with power to adopt the Order, perform its agreements therein, and issue the Bonds.

2. The Bonds have been authorized, sold, and delivered in accordance with law.

3. The Bonds constitute valid and legally binding obligations of the District enforceable in accordance with their terms except as the enforceability thereof may be limited by principles of sovereign immunity, bankruptcy, insolvency, reorganization, moratorium, liquidation, and other similar laws now or hereafter enacted relating to creditors' rights generally.

4. Ad valorem maintenance taxes, within the legal limitations, upon all taxable property within the District, necessary to pay the principal of and interest on the Bonds, have been pledged irrevocably for such purpose.

5. Under the authority granted by Article 7, Section 5 of the Texas Constitution and Subchapter C of Chapter 45 of the Texas Education Code, as amended, the payment of the principal of and interest on the Bonds is guaranteed by the corpus of the Permanent School Fund of Texas. This guarantee will be removed from any Bonds defeased before their maturity.

6. Interest on the Bonds will be excludable from gross income for federal income tax purposes under section 103 of the Code, and the Bonds will not be treated as "private activity bonds" within the meaning of section 141 of the Code. Interest on the Bonds will not be included as an alternative minimum tax preference item.

7. The Escrow Agreement has been duly authorized, executed, and delivered by the District and, assuming the due authorization, execution, and delivery thereof by the Escrow Agent, is a valid and legally binding agreement, enforceable in accordance with its terms (except to the extent that the enforceability thereof may be affected by sovereign immunity, bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity) and the Refunded Bonds have been defeased and are regarded as being outstanding only for the purpose of receiving payment from the funds held in trust with the Escrow Agent, pursuant to the Escrow Agreement, and in accordance with the provisions of Chapter 1207, Texas Government Code. In rendering this opinion, we have relied upon the verification in the Report of the sufficiency of cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement for the purposes of paying the principal of and interest on the Refunded Bonds.

In rendering these opinions, we have relied upon representations and certifications of the District, the District's Financial Advisor, and the underwriters of the Bonds with respect to matters solely within the knowledge of such parties, respectively, which we have not independently verified.

Except as stated above, we express no opinion as to any other federal, state, or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on or the acquisition, ownership, or disposition of the Bonds.

We call your attention to the fact that the ownership of obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a financial asset securitization investment trust, certain S corporations with Subchapter C earnings and profits, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred expenses allocable to, tax-exempt obligations.

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 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. Moreover, our opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent our legal judgment based on our review of existing law, and are made in reliance on the representations and covenants referenced above that we deem relevant to such opinions.

The Service has an ongoing audit program to determine compliance with rules relating to whether interest on state or local obligations is excludable from gross income for federal income tax purposes. No assurance can be given regarding whether or not the Service will commence an audit of the Bonds. If such an audit is commenced, under current procedures, the Service would treat the District as the taxpayer, and owners of the Bonds would have no right to participate in the audit process. We observe that the District has covenanted not to take any action, or omit to take any action within its control, that, if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

We express no opinion herein regarding the accuracy, adequacy, or completeness of the Official Statement relating to the Bonds.

This legal opinion expresses the professional judgment of these firms as to the legal issues explicitly addressed therein. 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,

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