

PRELIMINARY OFFICIAL STATEMENT
Dated: July 8, 2020

NEW ISSUE: BOOK-ENTRY-ONLY

In the opinion of Bond Counsel (defined below), assuming continuing compliance by the District (defined below) after the date of initial delivery of the 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 included in computing the alternative minimum taxable income of the owners thereof. See "TAX MATTERS" herein.

\$33,100,000*
KILGORE INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Gregg and Rusk Counties, Texas)
Unlimited Tax Refunding Bonds, Series 2020 (Forward Delivery)

Interest Accrual Date: Date of Delivery
Dated Date: August 1, 2020

Due: February 15, as shown on the inside cover page

The Kilgore Independent School District Unlimited Tax Refunding Bonds, Series 2020 (Forward Delivery) (the "Bonds") are being issued pursuant to the Constitution and general laws of the State of Texas, including Chapter 1207, Texas Government Code, as amended ("Chapter 1207") and an order (the "Order") authorizing the issuance of the Bonds adopted on June 22, 2020 by the Board of Trustees (the "Board") of the Kilgore Independent School District (the "District"). As permitted by the provisions of Chapter 1207, the Board, in the Order, delegated the authority to certain District officials to execute a pricing certificate establishing the pricing terms for the Bonds. The Bonds are payable as to principal and interest from the proceeds of an ad valorem tax levied annually, without legal limit as to rate or amount, against all taxable property located within the District. The District has received conditional approval from the Texas Education Agency for the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined), which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "THE BONDS – Permanent School Fund Guarantee" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

Interest on the Bonds will accrue from the Date of Delivery and will be payable on February 15 and August 15 of each year, commencing February 15, 2021, until stated maturity or prior redemption. The Bonds will be issued in fully registered form in principal denominations of \$5,000 or any integral multiple thereof. Principal of the Bonds will be payable by the Paying Agent/Registrar, which initially is BOKF, NA, Dallas, Texas (the "Paying Agent/Registrar") upon presentation and surrender of the Bonds for payment. Interest on the Bonds is payable by check dated as of the interest payment date and mailed by the Paying Agent/Registrar to the registered owners as shown on the records of the Paying Agent/Registrar on the close of business as of the last business day of the month next preceding each interest payment date (the "Record Date").

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

Proceeds from the sale of the Bonds will be used to (i) refund a portion of the District's outstanding bonds for debt service savings and (ii) pay the costs of issuing the Bonds. (See "PLAN OF FINANCING - Purpose", "PLAN OF FINANCING - Refunded Bonds" and "Schedule I – Schedule of Refunded Bonds").

The Bonds maturing on or after February 15, 2031 are subject to redemption at the option of the District in whole or in part on August 15, 2030 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. Any Term Bonds (defined herein) shall be subject to mandatory sinking fund redemption. (See "THE BONDS - Redemption").

MATURITY SCHEDULE
(On Inside Cover)

The Bonds are offered for delivery when, as and if issued, and received by the initial purchaser named below (the "Underwriters") subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, Dallas, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas. The Bonds are expected to be available for initial delivery through the services of DTC on or about November 18, 2020. Potential investors should carefully review the information under the caption "CERTAIN FORWARD DELIVERY CONSIDERATIONS OF THE BONDS." The hereinafter-defined Representative reserves the right to obligate investors purchasing the Bonds to execute and deliver to the Representative a Forward Delivery Contract, the form of which is attached hereto as Appendix E.

FHN FINANCIAL CAPITAL MARKETS

PIPER SANDLER & CO.

*Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

\$33,100,000*
KILGORE INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Gregg and Rusk Counties, Texas)
UNLIMITED TAX REFUNDING BONDS, SERIES 2020 (FORWARD DELIVERY)

MATURITY SCHEDULE
Base CUSIP No.: 494053⁽¹⁾

<u>Maturity Date 2/15</u>	<u>Principal Amount*</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP No. Suffix⁽¹⁾</u>
2021	\$ 1,490,000			
2022	1,375,000			
2023	1,405,000			
2024	1,430,000			
2025	1,455,000			
2026	1,480,000			
2027	1,520,000			
2028	2,035,000			
2029	2,075,000			
2030	2,125,000			
2031	2,180,000			
2032	2,245,000			
2033	2,315,000			
2034	2,385,000			
2035	2,455,000			
2036	2,525,000			
2037	2,605,000			

(Interest to accrue from the Date of Delivery)

*Preliminary, subject to change.

⁽¹⁾ CUSIP numbers are included solely for the convenience of 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. None of the District, the Financial Advisor, or the Underwriters are responsible for the selection or correctness of the CUSIP numbers set forth herein.

KILGORE INDEPENDENT SCHOOL DISTRICT

BOARD OF TRUSTEES

<u>Name</u>	<u>Date Initially Elected</u>	<u>Current Term Expires (November)</u>	<u>Occupation</u>
Reggie Henson, President	2012	2021	Self Employed
Alan Clark, Vice President	2018	2021	VP of Commercial Lending
Lloyd Vanderwater, Secretary	2019	2022	CFO Drover Energy
Dereck Borders, Member	2008	2023	Senior Plant Operator
Joe Parker, Member	2016	2022	Self Employed
Dana Sneed, Member	2019	2022	Retired
Jason Smith, Member	2020	2023	Safety Manager

APPOINTED OFFICIALS

<u>Name</u>	<u>Position</u>	<u>Length of Education Service</u>	<u>Length of Service with District</u>
Dr. Andrew Baker	Superintendent	26 Years	2 Years
Richard Nash	Assistant Superintendent	14 Years	3 Years
Revard Pfeffer	Chief Financial Officer	24 Years	24 Years

CONSULTANTS AND ADVISORS

Norton Rose Fulbright US LLP, Dallas, Texas	Bond Counsel
SAMCO Capital Markets, Inc., Plano, Texas	Financial Advisor
Brown, Bronstad, Habenicht & Rosson, P.C., Kilgore, Texas	Certified Public Accountants

For additional information, contact:

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Kilgore, Texas 75662
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SAMCO Capital Markets, Inc.
5800 Granite Parkway, Suite 210
Plano, Texas 75024
(214) 765-1469
(214) 279-8683 (Fax)

USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

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

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

The information set forth herein has been obtained from the District and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the District, 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 opinions, or that they will be realized.

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – PSF CONTINUING DISCLOSURE UNDERTAKING" and "CONTINUING DISCLOSURE OF INFORMATION" for a description of the undertakings of the Texas Education Agency and the District, respectively to provide certain information on a continuing basis.

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

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

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

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

The agreements of the District and others related to the 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 THE ENTIRE OFFICIAL STATEMENT, INCLUDING SCHEDULE I AND ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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SELECTED DATA FROM THE OFFICIAL STATEMENT

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

The District	The Kilgore Independent School District (the "District") is a political subdivision of the State of Texas located in Gregg and Rusk Counties, Texas. The District is governed by a seven-member Board of Trustees (the "Board"). Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors.
The Bonds	The Bonds are being issued in the principal amount of \$33,100,000 (preliminary, subject to change) pursuant to the Constitution and general laws of the State of Texas, Chapter 1207, Texas Government Code, as amended ("Chapter 1207") and the order (the "Order") adopted by the Board of Trustees (the "Board") on June 22, 2020. As permitted by the provisions of Chapter 1207, the Board, in the Order, delegated the authority to certain District officials to execute a pricing certificate establishing the pricing terms for the Bonds. Proceeds from the sale of the Bonds will be used to (i) refund a portion of the District's outstanding bonds for debt service savings and (ii) pay the costs of issuing the Bonds. (See "PLAN OF FINANCING - Purpose", "PLAN OF FINANCING - Refunded Bonds" and "Schedule I – Schedule of Refunded Bonds").
Paying Agent/Registrar	The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas. The District intends to use the Book-Entry-Only System of The Depository Trust Company. (See "BOOK-ENTRY-ONLY SYSTEM" herein).
Security	The Bonds will constitute direct obligations of the District, payable as to principal and interest from ad valorem taxes levied annually against all taxable property located within the District, without legal limitation as to rate or amount. Payments of principal and interest on the Bonds will be further secured by the corpus of the Permanent School Fund of Texas. (See "THE BONDS – Security", "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").
Redemption	The Bonds maturing on or after February 15, 2031 are subject to redemption at the option of the District in whole or in part on August 15, 2030 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. Any Term Bonds (defined herein) shall be subject to mandatory sinking fund redemption. (See "THE BONDS – Redemption").
Permanent School Fund Guarantee	The District has received conditional approval from the Texas Education Agency for the payment of the Bonds to be guaranteed under the Permanent School Fund Guarantee Program (defined herein), which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "THE BONDS – Permanent School Fund Guarantee" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.")
Rating	The Bonds are rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") based upon the guaranteed repayment thereof under the Permanent School Fund Guarantee Program of the TEA. The District's unenhanced, underlying rating, including the Bonds, is "Aa3" by Moody's. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "RATINGS" herein.)
Tax Matters	In the opinion of Bond Counsel for the District, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law subject to the matters described under "TAX MATTERS" herein. (See "TAX MATTERS" and Appendix C – "Form of Legal Opinion of Bond Counsel.")
Payment Record	The District has never defaulted on the payment of its bonded indebtedness.
Legal Opinion	Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by Norton Rose Fulbright US LLP, Dallas, Texas, Bond Counsel. (See Appendix C – "Form of Legal Opinion of Bond Counsel").
Delivery	When issued, anticipated to be on or about November 18, 2020. Potential investors should carefully review the information under the caption "CERTAIN FORWARD DELIVERY CONSIDERATIONS OF THE BONDS." The hereinafter-defined Representative reserves the right to obligate investors purchasing the Bonds to execute and deliver to the Representative a Forward Delivery Contract, the form of which is attached hereto as Appendix E.

INTRODUCTORY STATEMENT

This Official Statement (the "Official Statement"), which includes the cover page, Schedule I and the Appendices attached hereto, has been prepared by the Kilgore Independent School District (the "District"), a political subdivision of the State of Texas (the "State") located in Gregg and Rusk Counties, Texas, in connection with the offering by the District of its Unlimited Tax Refunding Bonds, Series 2020 (Forward Delivery) (the "Bonds") identified on page ii hereof.

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

There follows in this Official Statement descriptions of the Bonds and the order (the "Order") adopted by the Board of Trustees of the District (the "Board") on June 22, 2020 authorizing the issuance of the Bonds and certain other information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained upon request by writing the Kilgore Independent School District, 301 N. Kilgore Street, Kilgore, Texas 75662 and, during the offering period, from the Financial Advisor, SAMCO Capital Markets, Inc., 5800 Granite Parkway, Suite 210, Plano, Texas 75024 by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

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

CERTAIN FORWARD DELIVERY CONSIDERATIONS OF THE BONDS

Forward Delivery

The District anticipates the Bonds will be issued and delivered to FHN Financial Capital Markets and Piper Sandler & Co. (collectively, the "Underwriters") and purchased by the Underwriters on or about November 18, 2020 (the "Date of Delivery"). The following is a description of certain provisions of the Forward Delivery Bond Purchase Agreement, dated as of the sale date of the Bonds, between the District and FHN Financial Capital Markets, as representative of the Underwriters (the "Representative") with respect to the Bonds (the "Bond Purchase Agreement"). The obligation of the Underwriters to purchase the Bonds from the District is subject to the satisfaction of certain conditions, as outlined in the Bond Purchase Agreement, on the Date of Delivery. All the conditions and termination rights with respect to the sale, delivery and settlement of the Bonds are set forth in the Bond Purchase Agreement. The following is a description of certain provisions of the Bond Purchase Agreement and is not to be considered a full statement of the terms of the Bond Purchase Agreement and accordingly is qualified by reference thereto and is subject to the full text, a copy of which is available from the Representative.

BY PLACING AN ORDER WITH THE UNDERWRITERS FOR THE PURCHASE OF THE BONDS, EACH INVESTOR ACKNOWLEDGES AND AGREES THAT THE BONDS ARE BEING SOLD ON A "DELAYED DELIVERY" BASIS, THAT THE INVESTOR IS OBLIGATED TO ACCEPT DELIVERY AND PAY FOR THE BONDS ON THE DATE OF DELIVERY SUBJECT TO THE CONDITIONS IN THE FORWARD DELIVERY CONTRACT IN THE FORM ATTACHED AS APPENDIX E HERETO (WHICH EACH INVESTOR WILL SIGN AND DELIVER TO THE UNDERWRITERS)) AS A CONDITION TO ANY BONDS BEING ALLOCATED TO SUCH INVESTOR.

During the period between the date of this Official Statement and the Date of Delivery (the "Delayed Delivery Period"), certain information contained in this Official Statement could change in a material respect. The District agrees in the Bond Purchase Agreement to update the Official Statement, if necessary in the judgment of the Representative or the District, reasonably exercised, so that the Official Statement as amended or supplemented does not contain any untrue statement of a material fact or omit to state a material fact that is necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading.

Conditions of Settlement

The issuance and purchase of the Bonds on the Date of Delivery are subject to the satisfaction of certain conditions set forth in the Bond Purchase Agreement, including, among other things, the delivery to the Representative of certain documents and legal opinions on and as of the Date of Delivery including: (i) the opinion of Bond Counsel, substantially in the form and to the effect set forth in APPENDIX C hereto, (ii) an opinion of the Attorney General of the State of Texas approving the Bonds as required by law, and the registration certificate of the Comptroller of Public Accounts of the State, (iii) the Official Statement, as may be amended or supplemented, and (iv) written confirmation of Moody's Investors Service's rating on the Bonds as of the Date of Delivery. A Change in Law, as defined below, occurring or in effect prior to the Date of Delivery or the failure by the District to provide closing documents of the type customarily required in connection with the issuance of bonds by Texas independent school districts could prevent those conditions from being satisfied. None of the Bonds will be issued unless all of the Bonds are issued and delivered on the Date of Delivery.

A "Change in Law" means (i) any change in or addition to applicable federal or state law, whether statutory or as interjected by the courts or by federal or state agencies, including any changes in or new rules, regulations or other pronouncements or interpretations by federal or state agencies; (ii) any legislation enacted by the Congress of the United States (if such enacted legislation has an effective date which is on or before the Closing Date), (iii) any law, rule or regulation enacted by any governmental body, department or agency (if such enacted law, rule or regulation has an effective date which is on or before the Closing Date) or (iv) any judgment, ruling or order issued by any court or administrative body, which in any such case would (A) prohibit the Representative from completing the underwriting of the Purchased Obligations, selling the Purchased Obligations or beneficial ownership interests therein to the public, or (B) make the completion of the issuance, sale or delivery of the Purchased Obligations illegal or (c) prevent Bond Counsel to the Issuer from delivering its opinion in the form and effect as attached as Exhibit C of the Preliminary Official Statement.

Termination of Bond Purchase Agreement

If, on the Date of Delivery, the District is unable to satisfy the conditions to the obligations of the Underwriters to purchase, to accept delivery of and to pay for the Bonds as set forth in the Bond Purchase Agreement or if the obligations of the Underwriters to purchase, to accept delivery of and to pay for the Bonds are terminated for any reason permitted by items (a) through (l)

below, the Bond Purchase Agreement will terminate and neither the Underwriters nor the District will be under any further obligation under the Bond Purchase Agreement.

The Representative shall have the right to cancel the Underwriters' obligation to purchase the Bonds (as evidenced by a written notice to the District terminating the obligation of the Underwriters to accept delivery of and pay for the Bonds) if, during the Delayed Delivery Period, the market price or marketability of the Bonds or the legal ability of the Underwriters to enforce contracts for the sale, at the offering prices, of the Bonds shall be materially adversely affected, in the reasonable judgment of the Representative, by the occurrence of any of the following:

(a) legislation shall be enacted by or introduced in the Congress of the United States or recommended to the Congress for passage by the President of the United States (but expressly excluding any posting on any social media platform), or the Treasury Department of the United States or the Internal Revenue Service or favorably reported for passage to either Chamber of the Congress by any committee of such Chamber to which such legislation has been referred for consideration, a decision by a court of the United States or of the State or the United States Tax Court shall be rendered, or an order, ruling, regulation (final, temporary, or proposed), press release, statement or other form of notice by or on behalf of the Treasury Department of the United States, the Internal Revenue Service or other governmental agency shall be made or proposed, the effect of any or all of which would be to impose, directly or indirectly, federal income taxation upon interest received on obligations of the general character of the Bonds or the interest on the Bonds as described in the Official Statement, or other action or events shall have transpired which have the purpose or effect, directly or indirectly, of changing the federal income tax consequences of ownership of the Bonds;

(b) legislation introduced in or enacted (or resolution passed) by the Congress or an order, decree, or injunction issued by any court of competent jurisdiction, or an order, ruling, regulation (final, temporary, or proposed), press release or other form of notice issued or made by or on behalf of the United States Securities and Exchange Commission, or any other governmental agency having jurisdiction over the subject matter, to the effect that obligations of the general character of the Bonds, including any or all underlying arrangements, are not exempt from registration under or other requirements of the 1933 Act, or that the Order is not exempt from qualification under or other requirements of the Trust Indenture Act, or that the issuance, offering, or sale of obligations of the general character of the Bonds, including any or all underlying arrangements, as described herein or in the Official Statement or otherwise, is or would be in violation of the federal securities law as amended and then in effect;

(c) any state blue sky or securities commission or other governmental agency or body in any jurisdiction in which more than ten percent (10%) of the Bonds have been offered and sold shall have withheld registration, exemption or clearance of the offering of the Bonds as described herein, or issued a stop order or similar ruling relating thereto;

(d) the occurrence of and continuation for a period of 15 days or more of any of the following: (i) a general suspension of trading in securities on the New York Stock Exchange or any other United States national securities exchange, (ii) the continuation of established minimum prices on any such exchange, (iii) the establishment of material restrictions (not in force as of the date hereof) upon trading securities generally by any governmental authority or any United States national securities exchange, or (iv) the continuation of a general banking moratorium declared by federal, State of New York, or State officials authorized to do so;

(e) the New York Stock Exchange or other national securities exchange or any governmental authority shall impose, as to the Bonds or as to obligations of the general character of the Bonds, any material restrictions not now in force, or increase materially those now in force, with respect to the extension of credit by, or the charge to the net capital requirements of, the Underwriters;

(f) any amendment to the federal or State Constitution or action by any federal or State court, legislative body, regulatory body, or other authority materially adversely affecting the tax status of the District, its property, income, securities (or interest thereon), or the validity or enforceability of the assessment, levy and/or collection of the taxes pledged to pay the principal of and interest on the Bonds;

(g) any event occurring, or information becoming known which, in the reasonable judgment of the Representative, makes untrue in any material respect any statement or information contained in the Official Statement, or has the effect that the Official Statement contains any untrue statement of material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and the District has refused to amend or supplement the Official Statement to cure such statements or omissions; unless the Official Statement as so amended materially adversely affects the market price or marketability of the Bonds;

(h) there shall have occurred since the effective date of the Bond Purchase Agreement, any materially adverse change in the affairs or financial condition of the District, except for changes which the Official Statement discloses are expected to occur, if any;

(i) the United States shall have either become engaged in hostilities that did not exist prior to the date hereof or issued a declaration of war or a national emergency or there shall have occurred a new calamity or crisis, financial or otherwise (including, without limitation, an act of terrorism or a pandemic), or there shall have occurred a material outbreak, escalation, or acceleration of already existing (A) hostilities, (B) war, (C) a national or international emergency, calamity or crisis, financial or otherwise (including, without limitation, an act of terrorism or a pandemic), the effect on the operation of the governmental or financial markets of the United States, being such as would, in the reasonable judgment of the Representative, materially and adversely affect the ability of the Underwriters to market the Bonds; provided, however, that continuing trends of existing civil unrest or statistical escalation of COVID-19 infections shall not result in a termination right of the underwriters hereunder;

(j) there shall have occurred or any published notice shall have been given of any downgrade, downgrading, suspension, withdrawal or negative change in credit watch status by any national rating service to (1) any of the District's outstanding obligations secured in a like manner as the Bonds (including any rating to be accorded the Bonds) or (2) the credit rating of the Permanent School Fund Guarantee Program;

(k) the purchase of and payment for the Bonds by the Underwriters, or the resale of the Bonds by the Underwriters, on the terms and conditions in the Bond Purchase Agreement shall be prohibited by any applicable law, governmental authority, board, agency or commission; provided, however, that such prohibition occurs after the date of this Contract and is not caused by the intentional action or inaction of the Underwriters; or

(l) a material disruption in securities settlement, payment or clearance services in the United States shall have occurred and shall be continuing as of the Date of Delivery.

The Bonds will be sold only to purchasers who execute a Forward Delivery Contract in substantially the form attached hereto as Appendix E (each, a "Forward Delivery Contract"). The form of Forward Delivery Contract is attached as Appendix E at the request and for the convenience of the Underwriters. The District will not be a party to the Forward Delivery Contracts, and the District is not in any way responsible for the performance thereof or for any representations or warranties contained therein. The rights and obligations under the Bond Purchase Agreement are not conditioned or dependent upon the performance of any Forward Delivery Contract. Failure by the Underwriters to obtain any of the necessary Forward Delivery Contracts shall not give rise to the ability of the Underwriters to terminate or fail to perform under the Bond Purchase Agreement.

The Underwriters may not refuse to purchase the Bonds from the District except as expressly described herein, and the purchasers may not refuse to purchase the Bonds from the Underwriters except as expressly described in the Forward Delivery Contract.

THE UNDERWRITERS (AND, IN TURN, THE PURCHASERS OF THE BONDS FROM THE UNDERWRITERS) MAY NOT REFUSE TO PURCHASE THE BONDS BY REASON OF "GENERAL MARKET OR CREDIT CHANGES" INCLUDING, BUT NOT LIMITED TO CHANGES IN THE FINANCIAL CONDITION, OPERATIONS, PERFORMANCE, PROPERTIES OR PROSPECTS OF THE DISTRICT, PRIOR TO THE DATE OF DELIVERY, CHANGES IN INTEREST RATES OR CHANGES IN VALUE OF THE BONDS FOR ANY REASON OTHER THAN A FULL ELIMINATION OF TAX EXEMPTION OR FOR ANY REASON OTHER THAN DESCRIBED BY ITEMS (a) THROUGH (l) ABOVE.

Additional Risks Related to the Delayed Delivery Period

During the Delayed Delivery Period, certain information contained in this Official Statement could change in a material respect. Changes in such information will not permit the Underwriters to terminate the Bond Purchase Agreement unless the change reflects an event described above in items (a) through (l) under "Date of Delivery" (and the District is unable or unwilling to effectively cure such change) or release the purchasers of their obligation to purchase the Bonds except as expressly described in the Forward Delivery Contracts.

In addition to the risks set forth above, purchasers of the Bonds are subject to certain additional risks, some of which are described below.

Prospective purchasers should consult their investment advisors before making any decision as to the purchase of the Bonds. The following discussion, while not setting forth all of the factors that should be considered, contains some of the factors which should be considered, in addition to the other information in this Official Statement, prior to purchasing the Bonds. This section is not meant to be comprehensive or definitive, and there may be other risk factors which will become material in the future.

Tax Law Risk

Subject to the additional conditions of delivery described under "Date of Delivery" above, the Bond Purchase Agreement obligates the District to deliver and the Underwriters to acquire the Bonds if the District delivers an opinion of Bond Counsel with respect to the Bonds substantially in the form and to the effect as set forth in Appendix C. During the Delayed Delivery Period, a Change in Law could prevent Bond Counsel from rendering its opinion or otherwise affect the substance of such opinion. Notwithstanding that a Change in Law could diminish the value of, or otherwise affect, the exclusion of interest on the Bonds for purposes of federal income taxation payable on "state or local bonds," the District may be able to satisfy the requirements for the delivery of the Bonds. In such event, the purchasers would be required to accept delivery of the Bonds. Prospective purchasers are encouraged to consult their tax advisors regarding the likelihood of any changes in tax law and the consequences of such changes to such purchasers.

Market Value Risk

The market value of the Bonds as of the Date of Delivery may be affected by a variety of factors including, without limitation, general market conditions, the financial condition and operations of the District, and federal income tax and other laws. The market value of the Bonds as of the Date of Delivery could therefore be higher or lower than the price to be paid by the initial purchasers of the Bonds and that difference could be substantial. NEITHER THE DISTRICT NOR THE UNDERWRITERS MAKE ANY REPRESENTATION AS TO THE EXPECTED MARKET PRICE OF THE BONDS AS OF THE DATE OF DELIVERY. Further, no assurance can be given that the introduction or enactment of any future legislation will not affect the market price for the Bonds as of the Date of Delivery or thereafter or not have a materially adverse impact on any secondary market for the Bonds.

Termination of Bond Purchase Agreement

The Underwriters may terminate the Bond Purchase Agreement by notification to the District on or prior to the Date of Delivery if any of the events described above in items (a) through (l) under "Termination of Bond Purchase Agreement" occurs (subject descriptions being subject to the full text of the Bond Purchase Agreement). Although the District is not aware, as of the date of this Official Statement, of any information that would lead it to believe that it will be unable to satisfy its obligations under the Bond Purchase Agreement on the Date of Delivery, no assurances, representation or warranties are made that, as of the Date of Delivery: (i) there will have been no Change in Law; (ii) the facts and circumstances that are material to one or more of the required legal opinions will not differ from the facts and circumstances as of the Date of Delivery, or (iii) that all necessary certifications and representations can or will be delivered and made in connection with the proposed execution and delivery of the Bonds. As a consequence of any of the foregoing, one or more of the foregoing legal opinions may not be rendered or one or more of the Date of Delivery conditions in the Bond Purchase Agreement may not be met, with the possible result that the delivery of the Bonds will not occur.

Secondary Market Risk

The Underwriters are not obligated to make a secondary market in the Bonds, and no assurances can be given that a secondary market will exist for the Bonds during the Delayed Delivery Period. Purchasers of the Bonds should assume that the Bonds will be illiquid throughout the Delayed Delivery Period.

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 June 3, 2020 of Executive Order GA-26 which, among other things, provided public schools may resume operations for the summer as provided by, and under the minimum standard health protocols found in, guidance issued by the TEA. Notwithstanding anything therein to the contrary, schools may conduct graduation ceremonies consistent with the minimum standard health protocols found in guidance issued by TEA. Prior orders permitted public school districts to offer summer school programs, special education evaluations, specialized assessments, and individualized tutoring, under the minimum standard health protocols found in guidance issued by the TEA. Executive Order GA-26 remains in place until amended, rescinded or superseded by the Governor. 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.

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.

On June 23, 2020, TEA issued draft public planning health guidance to support school systems in planning for the 2020-2021 school year, addressing on campus and virtual instruction, administrative and extracurricular activities, and school visits. Within the guidance, TEA instructs schools to provide parental and public notices of the school district's plan to follow in order to mitigate COVID-19 within their facilities and confirms the attendance requirements for promotion (which may be completed by virtual education). The guidance further details screening mechanisms, identification of symptoms, and procedures for confirmed, suspected, and exposed cases. Certain actions, such as notification to health department officials and closure of high-traffic areas, will be required in the instance of confirmed cases. Schools are highly encouraged to engage in mitigation practices promoting health and hygiene consistent with CDC guidelines (including social distancing, facial coverings, frequent disinfecting of all areas, limiting visitations, etc.) to avoid unnecessary exposure to others to prevent the spread of COVID-19.

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 TAX PROCEDURES". The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District's share of operations and maintenance expenses payable from ad valorem taxes.

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

The value of the PSF guarantee could also be adversely impacted by ongoing volatility in the diversified global markets in which the PSF is invested. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – Infectious Disease Outbreak."

PLAN OF FINANCING

Purpose

Proceeds from the sale of the Bonds will be utilized to (i) refund certain of the District's currently outstanding indebtedness as disclosed in Schedule I hereto (the "Refunded Bonds") for debt service savings and (ii) pay the costs of issuance of the Bonds.

Refunded Bonds

The Order provides that from a portion of the proceeds of the sale of the Bonds to the Underwriters, and a cash contribution from lawfully available District funds, the District will deposit with BOKF, NA, Dallas, Texas, the escrow agent for the Refunded Bonds (the "Escrow Agent"), an amount, together with other lawfully available funds of the District, which will be sufficient to accomplish the discharge and final payment of the Refunded Bonds on February 15, 2021 (the "Redemption Date"). Such funds will be held by the Escrow Agent in an escrow account (the "Escrow Fund") in cash uninvested or will be invested in securities authorized by Section 1207.062 Texas Government Code and the bond order authorizing the Refunded Bonds (the "Defeasance Securities"). Samuel Klein and Company, a firm of independent certified public accountants, in conjunction with Public Finance Partners LLC, (the "Verification Agent"), will issue its report (the "Report") verifying at the time of delivery of the Bonds to the Underwriters the mathematical accuracy of the schedules that demonstrate the Defeasance Securities will mature and pay interest in such amounts which, together with any uninvested funds in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds on and to the Redemption Date. Such maturing principal of and interest on the Defeasance Securities will not be available to pay the Bonds (see "VERIFICATION OF MATHEMATICAL COMPUTATIONS").

By the deposit of cash and Defeasance Securities with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of the Refunded Bonds pursuant to the terms of Chapter 1207 and the bond order authorizing the issuance of the Refunded Bonds. It is the opinion of Bond Counsel that as a result of such deposit, and in reliance on the Report, the Refunded Bonds will be outstanding only for the purpose of receiving payments from the Defeasance Securities and cash held for such purpose by the Escrow Agent, and the Refunded Bonds will not be deemed as being outstanding obligations of the District, payable from the sources and secured in the manner provided in the order authorizing their issuance or for any other purpose.

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

THE BONDS

General Description

The Bonds will be dated August 1, 2020 but interest will accrue thereon from the date of delivery. The Bonds will mature on the dates and in the principal amounts set forth on page ii of this Official Statement. Interest on the Bonds will be computed on the basis of a 360-day year of twelve 30-day months, and is payable on February 15, 2021 and on each August 15 and February 15

thereafter until stated maturity or prior redemption.

The Bonds will be issued only as fully registered bonds. The Bonds will be issued in principal denominations of \$5,000 or any integral multiple thereof within a maturity. Interest on the Bonds is payable by check mailed on or before each interest payment date by the Paying Agent/Registrar, initially, BOKF, NA, Dallas, Texas, to the registered owner at the last known address as it appears on the Paying Agent/Registrar's registration books on the Record Date (as defined herein) or by such other customary banking arrangement acceptable to the Paying Agent/Registrar and the registered owner to whom interest is to be paid, provided, however, that such person shall bear all risk and expense of such other arrangements. Principal of the Bonds will be payable only upon presentation of such Bonds at the corporate trust office of the Paying Agent/Registrar at stated maturity or prior redemption. So long as the Bonds are registered in the name of Cede & Co. or other nominee for The Depository Trust Company ("DTC"), payments of principal of and interest on the Bonds will be made as described in "BOOK-ENTRY-ONLY SYSTEM" herein.

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

Authority for Issuance

The Bonds are issued pursuant to the Constitution and general laws of the State, Chapter 1207, Texas Government Code, as amended ("Chapter 1207") and the Order. As permitted by the provisions of Chapter 1207, the Board, in the Order, delegated the authority to certain District officials to execute a pricing certificate establishing the pricing terms for the Bonds.

Redemption

The Bonds maturing on or after February 15, 2031, are subject to redemption, at the option of the District, in whole or in part, on August 15, 2030, or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. In addition, any consecutive maturities of Bonds grouped into one or more "term" Bonds (the "Term Bonds") shall be subject to mandatory sinking fund redemption in accordance with the applicable provisions of the Order, which provisions shall be disclosed in the final Official Statement. If less than all of the Bonds are to be redeemed, the District shall determine the amounts and maturities thereof to be redeemed and shall direct the Paying Agent/Registrar to select by lot the Bonds, or portions thereof, to be redeemed.

Notice of Redemption and DTC Notices

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

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

Security

The Bonds are direct obligations of the District and are payable as to both principal and interest from an ad valorem tax annually levied, without legal limit as to rate or amount, on all taxable property within the District. The District has received conditional approval from the Texas Education Agency for the payment of the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined), which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

Permanent School Fund Guarantee

In connection with the sale of the Bonds, the District received conditional approval from the Commissioner of Education of the TEA for the guarantee of the Bonds under the Permanent School Fund Guarantee Program (Chapter 45, Subchapter C, of the Texas Education Code, as amended). Subject to meeting certain conditions discussed under the heading "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein, the Bonds will be absolutely and unconditionally guaranteed by the corpus of the Permanent School Fund of the State of Texas. In the event of a payment default by the District, registered owners will receive all payments due from the corpus of the Permanent School Fund.

In the event the District defeases any of the Bonds, the payment of such defeased Bonds will cease to be guaranteed by the Permanent School Fund Guarantee.

Legality

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

Payment Record

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

Amendments

The District may amend the Order without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding, amend, add to, or rescind any of the provisions of the Order; except that, without the consent of the registered owners of all of the Bonds then outstanding, no such amendment, addition, or rescission may (1) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount, thereof, the redemption price, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required to be held by Holders for consent to any such amendment, addition or rescission.

Defeasance

The Order provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on such Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with the Paying Agent/Registrar, or other authorized escrow agent, in trust (1) money sufficient to make such payment or (2) Government Securities to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds. The Order provides that "Government Securities" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of the District's adoption of the Order were rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (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, on the date of the District's adoption of the Order were rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (d) any other then authorized securities or obligations under applicable law that may be used to defease obligations such as the Bonds. The District has the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Securities for the Government Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance. District officials have reserved the right to restrict the universe of Governmental Securities in connection with the pricing and sale of the Bonds.

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Order does not contractually limit such investments, registered owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used as Government Securities or that for any other Government Security will be maintained at any particular rating category.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid and will cease to be outstanding obligations secured by the Order or treated as debt of the District for purposes of taxation or applying any limitation on the District's ability to issue debt or for any other purpose. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Furthermore, the Permanent School Fund Guarantee will terminate with respect to any Bonds defeased in the manner provided above.

Sources and Uses of Funds

The proceeds from the sale of the Bonds, together with a contribution from the Issuer, will be applied approximately as follows:

Sources	
Par Amount of Bonds	\$
[Net] Original Issue Reoffering Premium	
Issuer Contribution	
Total Sources of Funds	\$ _____ =====
Uses	
Deposit to Escrow Fund	\$
Costs of Issuance	
Underwriters' Discount	
Deposit to Interest and Sinking Fund	
Total Uses of Funds	\$ _____ =====

REGISTERED OWNERS' REMEDIES

If the District defaults in the payment, when due, of principal, interest, redemption price of the Bonds or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, and the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, the failure to perform which materially, adversely affects the

rights of the owners, including but not limited to, their prospective ability to be repaid in accordance with the Order, any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the District to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought 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 and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of stated 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 owners 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 has ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas Legislature has effectively waived the District's sovereign immunity from a suit for money damages, bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants in the absence of District action. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and by general principles of equity which permit the exercise of judicial discretion.

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity

of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

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

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

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

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

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

Use of Certain Terms in Other Sections of this Official Statement

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

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

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

Successor Paying Agent/Registrar

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

Initial Registration

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

Future Registration

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

owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in authorized denominations and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer.

Record Date For Interest Payment

The record date ("Record Date") for determining the person to whom the interest on the Bonds is payable on any interest payment date means the close of business on the last business day of the next preceding month. In the event of a non-payment of interest on a scheduled payment date, that continues for 30 days or more 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 or on behalf of the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "Special Payment Date" which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each registered owner of a Bond appearing on the books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

Limitation on Transfer of Bonds

Neither the District nor the Paying Agent/Registrar shall be required to issue or transfer to an assignee of a holder any Bond within 45 days prior to its redemption date; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond called for redemption in part.

Replacement Bonds

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

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

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

History and Purpose

The PSF was created with a \$2,000,000 appropriation by the Texas Legislature (the "Legislature") in 1854 expressly for the benefit of the public schools of Texas. The Constitution of 1876 stipulated that certain lands and all proceeds from the sale of these lands should also constitute the PSF. Additional acts later gave more public domain land and rights to the PSF. In 1953, the U.S. Congress passed the Submerged Lands Act that relinquished to coastal states all rights of the U.S. navigable waters within state boundaries. If the state, by law, had set a larger boundary prior to or at the time of admission to the Union, or if the boundary had been approved by Congress, then the larger boundary applied. After three years of litigation (1957-1960), the U. S. Supreme Court on May 31, 1960, affirmed Texas' historic three marine leagues (10.35 miles) seaward boundary. Texas proved its submerged lands property rights to three leagues into the Gulf of Mexico by citing historic laws and treaties dating back to 1836. All lands lying within that limit belong to the PSF. The proceeds from the sale and the mineral-related rental of these lands, including bonuses, delay rentals and royalty payments, become the corpus of the Fund. Prior to the approval by the voters of the State of an amendment to the constitutional provision under which the Fund is established and administered, which occurred on September 13, 2003 (the "Total Return Constitutional Amendment"), and which is further described below, the PSF had as its main sources of revenues capital gains from securities transactions and royalties from the sale of oil and natural gas. The Total Return Constitutional Amendment provides that interest and dividends produced by Fund investments will be additional revenue to the PSF. The State School Land Board ("SLB") maintains the land endowment of the Fund on behalf of the Fund and is generally authorized to manage the investments of the capital gains, royalties and other investment income relating to the land endowment. The SLB is a 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 \$306 per student and the total amount distributed to the ASF was \$1,535.8 million.

Audited financial information for the PSF is provided annually through the PSF Comprehensive Annual Financial Report (the "Annual Report"), which is filed with the Municipal Securities Rulemaking Board ("MSRB"). The Annual Report includes the Message of the Executive Administrator of the Fund (the "Message") and the Management's Discussion and Analysis ("MD&A"). The Annual Report for the year ended August 31, 2019, as filed with the MSRB in accordance with the PSF undertaking and agreement made in accordance with Rule 15c2-12 ("Rule 15c2-12") of the federal Securities and Exchange Commission (the "SEC"), as described below, is hereby incorporated by reference into this disclosure. Information included herein for the year ended August 31, 2019 is derived from the audited financial statements of the PSF, which are included in the Annual Report as it is filed and posted. Reference is made to the Annual Report for the complete Message and MD&A for the year ended August 31, 2019 and for a description of the financial results of the PSF for the year ended August 31, 2019, the most recent year for which audited financial information regarding the Fund is available. The 2019 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2019 Annual Report or any other Annual Report. The TEA posts each Annual Report, which includes statistical data regarding the Fund as of the close of each fiscal year, the most recent disclosure for the Guarantee Program, the Statement of Investment Objectives, Policies and Guidelines of the Texas Permanent School Fund, which is codified at 19 Texas Administrative Code, Chapter 33 (the "Investment Policy"), monthly updates with respect to the capacity of the Guarantee Program (collectively, the "Web Site Materials") on the TEA web site at http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/ and with the MSRB at www.emma.msrb.org. Such monthly updates regarding the Guarantee Program are also incorporated herein and made a part hereof for all purposes. In addition to the Web Site Materials, the Fund is required to make quarterly filings with the SEC under Section 13(f) of the Securities Exchange Act of 1934. Such filings, which consist of a list of the Fund's holdings of securities specified in Section 13(f), including exchange-traded (e.g., NYSE) or NASDAQ-quoted stocks, equity options and warrants, shares of closed-end investment companies and certain convertible debt securities, is available from the SEC at www.sec.gov/edgar.shtml. A list of the Fund's equity and fixed income holdings as of August 31 of each year is posted to the TEA web site and filed with the MSRB. Such list excludes holdings in the Fund's securities lending program. Such list, as filed, is incorporated herein and made a part hereof for all purposes.

2019 Texas Legislative Session

During the 86th Regular Session of the Texas Legislature, which concluded on May 27, 2019 (the "86th Session"), various bills were enacted that relate to the PSF. Among such enacted legislation are bills that relate to the composition of the SLB and its relationship to the SBOE with respect to the management of the PSF. Legislation was approved that will change the composition of the SLB to a five member board from a three member board. Under that bill, the Land Commissioner will continue to head the SLB, but the remaining four members will be appointed by the Governor, and of those four members, two are required to be selected from a list of nominees to be submitted to the Governor by the SBOE. That legislation also requires an annual joint meeting of the SLB and the SBOE for the purpose of discussing the allocation of the assets of the PSF and the investment of money in the PSF. Other enacted legislation requires the SLB and the SBOE to provide quarterly financial reports to each other and creates a "permanent school fund liquid account" in the PSF for the purpose of receiving funds transferred from the SLB on a quarterly basis that are not then invested by the SLB or needed within the forthcoming quarter for investment by the SBOE. Such funds shall be invested in liquid assets in the same manner that the PSF is managed until such time as the funds are required for investment by the SLB. That legislation also requires the Texas Education Agency, in consultation with the GLO, to conduct a study regarding distributions to the ASF from the PSF. In addition, a joint resolution was approved that proposed a constitutional amendment to the Texas Constitution to increase the permissible amount of distributions to the ASF from revenue derived during a year from PSF land or other properties from \$300 million to \$600 million annually by one or more entities. That constitutional change was approved by State voters at a referendum on November 5, 2019. See "2011 and 2019 Constitutional Amendments."

Other legislation enacted during the 86th Session provides for the winding up of the affairs of an open-enrollment charter school that ceases operations, including as a result of the revocation or other termination of its charter. In particular, among other provisions, the legislation addresses the disposition of real and personal property of a discontinued charter school and provides under certain circumstances for reimbursement to be made to the State, if the disposed property was acquired with State funds; authorizes the Commissioner to adopt a rule to govern related party transactions by charter schools; and creates a "charter school liquidation fund" for the management of any reclaimed State funds, including, in addition to other potential uses, for the use or 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, Inc., S&P Global Ratings and Fitch Ratings, Inc. rate bonds guaranteed by the PSF "Aaa," "AAA" and "AAA," respectively. Not all districts apply for multiple ratings on their bonds, however. See "RATING" 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⁾

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

⁽²⁾ As of August 31, 2019 (the most recent date for which such data is available), the TEA expected that the principal and interest to be paid by school districts and charter districts over the remaining life of the bonds guaranteed by the Guarantee Program was \$133,188,149,265, of which \$48,790,249,062 represents interest to be paid. As shown in the table above, at August 31, 2019, there were \$84,397,900,203 in principal amount of bonds guaranteed under the Guarantee Program, and using the IRS Limit at that date of \$117,318,653,038 (the IRS Limit is currently the lower of the two federal and State capacity limits of Program capacity), 97.22% of Program capacity was available to the School District Bond Guarantee Program and 2.78% was available to the Charter District Bond Guarantee Program.

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

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

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

⁽²⁾ At February 29, 2020 (based on unaudited data, which is subject to adjustment), there were \$87,684,853,251 of bonds guaranteed under the Guarantee Program, representing 3,361 school district issues, aggregating \$85,321,228,251 in principal amount and 54 charter district issues, aggregating \$2,363,625,000 in principal amount. At February 29, 2020, the capacity allocation of the Charter District Bond Guarantee Program was \$4,551,091,422 (based on unaudited data, which is subject to adjustment).

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

The following discussion is derived from the Annual Report for the year ended August 31, 2019, including the Message of the Executive Administrator of the Fund and the Management's Discussion and Analysis contained therein. Reference is made to the Annual Report, as filed with the MSRB, for the complete Message and MD&A. Investment assets managed by the fifteen member SBOE are referred to throughout this MD&A as the PSF(SBOE) assets. As of August 31, 2019, the Fund's land, mineral rights and certain real assets are managed by the three-member SLB and these assets are referred to throughout as the PSF(SLB) assets. The current PSF asset allocation policy includes an allocation for real estate investments, and as such investments are made, and become a part of the PSF investment portfolio, those investments will be managed by the SBOE and not the SLB.

At the end of fiscal 2019, the Fund balance was \$46.5 billion, an increase of \$2.4 billion from the prior year. This increase is primarily due to overall increases in value of all asset classes in which the Fund has invested and restatements of fund balance. During the year, the SBOE continued implementing the long-term strategic asset allocation, diversifying the PSF(SBOE) to strengthen the Fund. The asset allocation is projected to increase returns over the long run while reducing risk and portfolio return volatility. The PSF(SBOE) annual rates of return for the one-year, five-year, and ten-year periods ending August 31, 2019, net of fees, were 4.17%, 5.25% and 8.18%, respectively (total return takes into consideration the change in the market value of the Fund during the year as well as the interest and dividend income generated by the Fund's investments). In addition, the SLB continued its shift into externally managed real asset investment funds, and the one-year, five-year, and ten-year annualized total returns for the PSF(SLB) externally managed real assets, net of fees and including cash, were 5.84%, 6.13%, and 6.41%, respectively.

The market value of the Fund's assets is directly impacted by the performance of the various financial markets in which the assets are invested. The most important factors affecting investment performance are the asset allocation decisions made by the SBOE and SLB. The current SBOE long term asset allocation policy allows for diversification of the PSF(SBOE) portfolio into alternative asset classes whose returns are not as positively correlated as traditional asset classes. The implementation of the long term asset allocation will occur over several fiscal years and is expected to provide incremental total return at reduced risk. As of August 31, 2019, the PSF(SBOE) portion of the Fund had diversified into emerging market and large cap international equities, absolute return funds, real estate, private equity, risk parity, real return Treasury Inflation-Protected Securities, real return commodities, and emerging market debt.

As of August 31, 2019, the SBOE has approved and the Fund made capital commitments to externally managed real estate investment funds in a total amount of \$5.1 billion and capital commitments to private equity limited partnerships for a total of \$6.3 billion. Unfunded commitments at August 31, 2019, totaled \$1.9 billion in real estate investments and \$2.3 billion in private equity investments.

The PSF(SLB) portfolio is generally characterized by three broad categories: (1) discretionary real assets investments, (2) sovereign and other lands, and (3) mineral interests. Discretionary real assets investments consist of externally managed real estate, infrastructure, and energy/minerals investment funds; internally managed direct real estate investments, and cash. Sovereign and other lands consist primarily of the lands set aside to the PSF when it was created. Mineral interests consist of all

of the minerals that are associated with PSF lands. The investment focus of PSF(SLB) discretionary real assets investments has shifted from internally managed direct real estate investments to externally managed real assets investment funds. The PSF(SLB) makes investments in certain limited partnerships that legally commit it to possible future capital contributions. At August 31, 2019, the remaining commitments totaled approximately \$2.5 billion.

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

For fiscal year 2019, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled \$3.7 billion, a decrease of \$0.3 billion from fiscal year 2018 earnings of \$4.0 billion. This decrease reflects the performance of the securities markets in which the Fund was invested in fiscal year 2019. In fiscal year 2019, revenues earned by the Fund included lease payments, bonuses and royalty income received from oil, gas and mineral leases; lease payments from commercial real estate; surface lease and easement revenues; revenues from the resale of natural and liquid gas supplies; dividends, interest, and securities lending revenues; the net change in the fair value of the investment portfolio; and, other miscellaneous fees and income.

Expenditures are paid from the Fund before distributions are made under the total return formula. Such expenditures include the costs incurred by the SLB to manage the land endowment, as well as operational costs of the Fund, including external management fees paid from appropriated funds. Total operating expenditures, net of security lending rebates and fees, decreased 10.0% for the fiscal year ending August 31, 2019. This decrease is primarily attributable to a decrease in PSF(SLB) quantities of purchased gas for resale in the State Energy Management Program, which is administered by the SLB as part of the Fund.

The Fund supports the public school system in the State by distributing a predetermined percentage of its asset value to the ASF. For fiscal years 2018 and 2019, the distribution from the SBOE to the ASF totaled \$1.2 billion and \$1.2 billion, respectively. Distributions from the SLB to the ASF for fiscal years 2018 and 2019 totaled \$0 and \$300 million, respectively.

At the end of the 2019 fiscal year, PSF assets guaranteed \$84.4 billion in bonds issued by 863 local school districts and charter districts, the latter of which entered into the Program during the 2014 fiscal year. Since its inception in 1983, the Fund has guaranteed 7,443 school district and charter district bond issues totaling \$186.2 billion in principal amount. During the 2019 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program totaled 3,346. The dollar amount of guaranteed school and charter bond issues outstanding increased by \$5.3 billion or 6.7%. The State Capacity Limit increased by \$5.0 billion, or 4.2%, during fiscal year 2019 due to continued growth in the cost basis of the Fund used to calculate that Program capacity limit. The effective capacity of the Program did not increase during fiscal year 2019 as the IRS Limit was reached during the prior fiscal year, and it is the lower of the two State and federal capacity limits for the Program.

2011 and 2019 Constitutional Amendment

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

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

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

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

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

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

Other Events and Disclosures

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

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

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

As of August 31, 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_State_ment_-_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 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

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

A district's wealth per student must be tested for each future school year and, if it exceeds the equalized wealth value, the District must reduce its wealth per student by the exercise of one of the permitted wealth equalization options. Accordingly, if the District's wealth per student should exceed the maximum permitted value in future school years, it will be required to exercise one or more of the permitted wealth equalization options. If the District were to consolidate (or consolidate its tax base for all purposes) with a property-poor district, the outstanding debt of each district could become payable from the consolidated district's combined property tax base, and the District's 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 an annexing district.

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

AD VALOREM TAX PROCEDURES

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

Valuation of Taxable Property

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

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

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

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

State Mandated Homestead Exemptions

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

Local Option Homestead Exemptions

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

State Mandated Freeze on School District Taxes

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

Personal Property

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

Freeport and Goods-In-Transit Exemptions

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

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

A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property. See “Appendix A – Financial Information of the District – Assessed Valuation” for the reduction in taxable valuation, if any, attributable to Goods-in-Transit or Freeport Property exemptions.

Other Exempt Property

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

Temporary Exemption for Qualified Property Damaged by a Disaster

The Property Tax Code entitles the owner of certain qualified (i) tangible personal property used for the production of income, (ii) improvements to real property, and (iii) manufactured homes located in an area declared by the governor to be a disaster area following a disaster and is at least 15 percent damaged by the disaster, as determined by the chief appraiser, to an exemption from taxation of a portion of the appraised value of the property. The amount of the exemption ranges from 15 percent to 100 percent based upon the damage assessment rating assigned by the chief appraiser. Except in situations where the territory is declared a disaster on or after the date the taxing unit adopts a tax rate for the year in which the disaster declaration is issued, the governing body of the taxing unit is not required to take any action in order for the taxpayer to be eligible for the exemption. If a taxpayer qualifies for the exemption after the beginning of the tax year, the amount of the exemption is prorated based on the number of days left in the tax year following the day on which the governor declares the area to be a disaster area. For more information on the exemption, reference is made to Section 11.35 of the Tax Code. Section 11.35 of the Tax Code was enacted during the 2019 legislative session, and there is no judicial precedent for how the statute will be applied. Texas Attorney General Opinion KP-0299, issued on April 13, 2020, concluded a court would likely find the Texas Legislature intended to limit the temporary tax exemption to apply to property physically harmed as a result of a declared disaster.

Tax Increment Reinvestment Zones

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

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

Tax Limitation Agreements

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

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

District and Taxpayer Remedies

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

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

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

Levy and Collection of Taxes

The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the District. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes for certain taxpayers. Furthermore, the District may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances. The Property Tax Code permits taxpayers owning homes or certain businesses located in a disaster area and damaged as a direct result of the declared disaster to pay taxes imposed in the year following the disaster in four equal installments without penalty or interest, commencing on February 1 and ending on August 1. See "AD VALOREM TAX PROCEDURES – Temporary Exemption for Qualified Property Damaged by a Disaster" for further information related to a discussion of the applicability of this section of the Property Tax Code.

District's Rights in the Event of Tax Delinquencies

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

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

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

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

TAX RATE LIMITATIONS

M&O Tax Rate Limitations

A school district is authorized to levy maintenance and operation ("M&O") taxes subject to approval of a proposition submitted to district voters under Section 45.003(d) of the Texas Education Code, as amended. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the next succeeding paragraph. The maximum voted M&O tax rate for the District is \$1.50 per \$100 of assessed valuation as approved by the voters at an election held on May 18, 1963 pursuant to Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended.

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

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

For the 2020 and subsequent tax years, the maximum maintenance tax rate per \$100 of taxable value that may be adopted by an independent school district is the sum of \$0.17 and the school district's MCR. The District's MCR is, generally, inversely proportional to the change in taxable property values both within the District and the State, and is subject to recalculation annually. For any year, highest possible MCR for an independent school district is \$0.93.

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

I&S Tax Rate Limitations

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

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

Public Hearing and Voter-Approval Tax Rate

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

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

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

For the 2019 tax year, a school district with a Voter-Approval Tax Rate equal to or greater than \$0.97 (excluding the school district's current I&S tax rate) may not adopt tax rate for the 2019 tax year that exceeds the school district's Voter-Approval Tax Rate. At an election held on September 6, 2014, the voters in the District approved an increase in the District's M&O tax rate. For the 2019 tax year, the districts Voter-Approval Tax Rate (excluding its current I&S tax rate) is \$1.0683. For the 2019 tax year, the District is not eligible to adopt a tax rate that exceeds its Voter-Approval Tax Rate.

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

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

Beginning with the 2020 tax year, the governing body of a school district generally cannot adopt a tax rate exceeding the school district's Voter-Approval Tax Rate without approval by a majority of the voters approving the higher rate at an election to be held on the next uniform election date. Further, subject to certain exceptions for areas declared disaster areas, State law requires

the board of trustees of a school district to conduct an efficiency audit before seeking voter approval to adopt a tax rate exceeding the Voter-Approval Tax Rate and sets certain parameters for conducting and disclosing the results of such efficiency audit. An election is not required for a tax increase to address increased expenditures resulting from certain natural disasters in the year following the year in which such disaster occurs; however, the amount by which the increased tax rate exceeds the school district's Voter-Approval Tax Rate for such year may not be considered by the school district in the calculation of its subsequent Voter-Approval Tax Rate.

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

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

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

THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT

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

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

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

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

The District's taxes are collected by the Rusk County Tax Assessor and Gregg County Tax Assessor.

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

The District does not participate in a tax increment financing zone. The District does not grant tax abatements.

The District does grant the freeport exemption.

Other than the State-mandated exemptions of \$25,000 for general homestead and an additional \$10,000 for persons who are 65 years of age or older and who are disabled, the District does not grant a local option exemption to the market value of the residence homestead of persons 65 years of age or older or the disabled.

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

EMPLOYEE BENEFIT PLANS AND OTHER POST-EMPLOYMENT BENEFITS

The District's employees participate in a retirement plan (the "Plan") with the State. The Plan is administered by the Teacher Retirement System of Texas ("TRS"). State contributions are made to cover costs of the Plan up to certain statutory limits. The District is obligated for a portion of the Plan costs relating to employee salaries that exceed the statutory limit. Aside from the District's contribution to TRS, the District has no pension fund expenditures or liabilities. For fiscal year ended August 31, 2019, the District made a contribution to TRS on a portion of their employee's salaries that exceeded the statutory minimum. The District does not offer any post-employment retirement benefits and has no liabilities for "Other Post Employment Retirement Benefits" as defined in GASB Statement No. 45. For a discussion of the TRS retirement plan, see "H. Pension Plan" to the audited financial statements of the District that are attached hereto as Appendix D (the "Financial Statements").

During the year ended August 31, 2019, employees of the District were covered by a fully-insured health insurance plan (the "Health Care Plan"). The District contributed \$241 per month, per employee to the Health Care Plan. Employees, at their option, authorize payroll withholdings to pay premiums for dependents. See "J. Employee Health Care Coverage" of the Financial Statements.

The District contributes to the Texas Public School Retired Employees Group Insurance Program ("TRS-Care"), a cost-sharing, multiple-employer defined benefit postemployment health care plan administered by the TRS. Contribution requirements to TRS-Care are legally established each biennium by the State legislature. See "I. Defined Other Post-Employment Benefit Plans" in the Financial Statements.

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

Teachers Association, the Texas Classroom Teachers Association, the Association of Texas Professional Educators and the National Education Association.

In June 2012, Government Accounting Standards Board (GASB) issued Statement No. 68 (Accounting and Financial Reporting for Pensions) which was later amended by Statement No. 71 Pension Transition for Contributions Made Subsequent to the Measurement Date improve accounting and financial reporting by state and local governments regarding pensions. GASB Statement No. 68 requires reporting entities, such as the District, to recognize their proportionate share of the net pension liability and operating statement activity related to changes in collective pension liability. This means that reporting entities, such as the District, that contribute to the TRS pension plan will report a liability on the face of their government-wide financial statements. Such reporting began with the District's fiscal year ending August 31, 2015. See "APPENDIX A – Change in Net Assets". GASB Statement No. 68 applies only to pension benefits and does not apply to Other Post-Employment Benefits (OPEB) or TRS-Care related liabilities.

RATINGS

The Bonds are rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") based upon the guaranteed repayment thereof under the Permanent School Fund Guarantee Program of the TEA. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM"). The District's unenhanced, underlying rating, including the Bonds, is "Aa3" by Moody's.

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

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

LEGAL MATTERS

The District will furnish to the Underwriters a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property in the District, and the approving legal opinion of Norton Rose Fulbright US LLP, Dallas, Bond Counsel to the District ("Bond Counsel"), to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under section 103(a) of the Internal Revenue Code, subject to the matters described under "TAX MATTERS" herein. The form of Bond Counsel's opinion is attached hereto as Appendix C. The legal fee to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas. The legal fee to be paid to counsel to the Underwriters for services rendered in connection with the issuance of the Bonds is contingent upon the sale of the delivery of the Bonds. McCall, Parkhurst & Horton L.L.P. also advises the TEA in connection with disclosure obligations under federal securities laws, but such firm has not passed upon any TEA disclosures contained in this Official Statement.

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

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

TAX MATTERS

Tax Exemption

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

In rendering the foregoing opinions, Bond Counsel will rely upon 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 by the District 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

and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage "profits" from the investment of the proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

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

Tax Changes

Existing law may change to reduce or eliminate the benefit to bondholders of the exclusion of interest on the Bonds from gross income for federal income tax purposes including prior to delivery of the Bonds. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

Ancillary Tax Consequences

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt 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, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust (FASIT), individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Tax Accounting Treatment of Discount Bonds

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

However, such accrued interest may be required to be taken into account in determining the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Bonds and with respect to the state and local tax consequences of owning and disposing of Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on the Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

Tax Accounting Treatment of Premium Bonds

The purchase price of certain Bonds (the "Premium Bonds") paid by an owner may be greater than the amount payable on such Bonds at maturity. An amount equal to the excess of a purchaser's tax basis in a Premium Bond over the amount payable at maturity constitutes premium to such purchaser. The basis for federal income tax purposes of a Premium Bond in the hands of such purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium that is amortizable each year by a purchaser is determined by using such purchaser's yield to maturity (or, in some cases with respect to a callable Bond, the yield based on a call date that results in the lowest yield on the Bond).

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

INVESTMENT POLICIES

Investments

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

Legal Investments

Available District funds are invested as authorized by State law and in accordance with investment policies approved by the Board of Trustees. Both State law and the District's investment policies are subject to change. Under State law, the District is authorized to invest in: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (the "FDIC") or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the FDIC or the National Credit Union Share Insurance Fund (the "NCUSIF") or their respective successors; (8) interest-bearing banking deposits, other than those described in clause (7), that (i) are invested through a broker or institution with a main office or branch office in this state and selected by the District in compliance with the Public Funds Investment Act (Chapter 2256, Government Code) as amended (the "PFIA"), (ii) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the District's account, (iii) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States, and (iv) the District appoints as its custodian of the banking deposits, in compliance with the PFIA, the institution in clause (8)(i) above, a bank, or a broker-dealer; (9) certificates of deposit and share certificates meeting the requirements of the PFIA (i) that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the FDIC or the NCUSIF, or their respective successors, or are secured as to principal by obligations described in clauses (1) through (8), above, or secured in accordance with Chapter 2257, Texas Government Code, or in any other manner and amount provided by law for District deposits, or (ii) where (a) the funds are invested by the District through a broker or institution that has a main office or branch office in the State and selected by the District in compliance with the PFIA, (b) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the account of the District, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and (d) the District appoints, in compliance with the PFIA, the institution in clause (9)(ii)(a) above, a bank, or broker-dealer as custodian for the District with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described by clause (1) above, clause (12) below, or, if applicable, which are pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) certain bankers' acceptances with a stated maturity of 270 days or less, if the short-term obligations of the accepting bank, or of the holding company of which the bank is the largest subsidiary, are rated not less than "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 365 days or less that is rated at least "A-1" or "P-1" or an equivalent by either (i) two nationally recognized credit rating agencies, or (ii) one nationally recognized credit rating agency if the commercial paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (13) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission and complies with Securities and Exchange Commission Rule 2a-7; (14) no-load mutual funds that are registered and regulated by the Securities and Exchange Commission that have a weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations approved in this paragraph, or (ii) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset backed securities; (15) guaranteed investment contracts that have a defined termination date and are secured by obligations described in clause (1), excluding obligations which the District is explicitly prohibited from investing in, and in an amount at least equal to the amount of bond proceeds invested under such contract; and (16) securities lending programs if (i) the securities loaned under the program are 100% collateralized, including accrued income, (ii) a loan made under the program allows for termination at any time, (iii) a loan made under the program is either secured by (a) obligations described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent, or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (12) through (14) above, or an authorized investment pool, (iv) the terms of a loan made under the program require that the securities being held as collateral be pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party designated by the District, (v) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State, and (vi) the agreement to lend securities has a term of one year or less.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAAm" or an equivalent by at least one nationally recognized rating service.

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

Under State law, the District may contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term of up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance or resolution. The District has not contracted with, and has no present intention of contracting with, any such investment management firm or the State Securities Board to provide such services.

Investment Policies

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

Under State 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, the ending market value and the fully accrued interest during the reporting period of each pooled fund group, (4) the book value and market value of each separately listed asset at the end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) State law. No person may invest District funds without express written authority from the Board.

Additional Provisions

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

Current Investments

As of February 28, 2020 the District had approximately \$5,975,587 (unaudited) invested in a government investment pool that generally has the characteristics of a money-market fund. The market value of such investments (as determined by the District by reference to published quotations, dealer bids, and comparable information) is approximately 100% of the book value. No funds of the District are invested in derivative securities; i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

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

FINANCIAL ADVISOR

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

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

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

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

CONTINUING DISCLOSURE OF INFORMATION

In the Order, the District has made the following agreement for the benefit of the holders and Beneficial Owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board ("MSRB"). For a description of the continuing disclosure Bonds of the TEA, see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM." The information provided to the MSRB will be available to the public free of charge via the MSRB's Electronic Municipal Market Access System at www.emma.msrb.org.

Annual Reports

The District will provide certain updated financial information and operating data annually to the MSRB. The information to be updated includes financial information and operating data with respect to the District of the general type included in this Official Statement in Appendix A (such information being the "Annual Operating Report"). The District will additionally provide financial statements of the District (the "Financial Statements"), that will be (i) prepared in accordance with the accounting principles described in Appendix D or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation and shall be in substantially the form included in Appendix D and (ii) audited, if the District commissions an audit of such Financial Statements and the audit is completed within the period during which they must be provided. The District will update and provide the Annual Operating Report within six months after the end of each fiscal year and the Financial Statements within 6 months of the end of each fiscal year, in each case beginning with the fiscal year ending in and after 2020. The District may provide the Financial Statements earlier, including at the time it provides its Annual Operating Report, but if the audit of such Financial Statements is not complete within 6 months after any such fiscal year end, then the District shall file unaudited Financial Statements within such 6-month period and audited Financial Statements for the applicable fiscal year, when and if the audit report on such Financial Statements becomes available.

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

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

Notice of Certain Events

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

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

by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District. For the purposes of the above described event notices (15) and (16), the term "financial obligation" means a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) a guarantee of (i) or (ii); provided however, that a "financial obligation" shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

Availability of Information

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.

Limitations and Amendments

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

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

Compliance with Prior Undertakings

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

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Samuel Klein and Company, a firm of independent certified public accountants, in conjunction with Public Finance Partners LLC will deliver to the District, on or before the settlement date of the Bonds, its verification report indicating that it has verified the mathematical accuracy of the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Escrow Securities, to pay, when due or upon early redemption, the principal of, interest on and related call premium requirements, if any, of the Refunded Bonds. Public Finance Partners LLC relied on the accuracy, completeness and reliability of all information provided to it by, and on all decisions and approvals of, the District. In addition, Public Finance Partners LLC has relied on any information provided to it by the District retained advisors, consultants or legal counsel.

LITIGATION

The District is a defendant to a lawsuit filed originally in 2016 by three local property tax payers, in which Ken Paxton intervened on behalf of the State of Texas. This lawsuit alleges that the District illegally removed its local optional homestead following action taken by the Texas Legislature with the passage of SB1. In February 2020 the plaintiffs filed an amended class-action petition on behalf of one of the original suitors, nine new individuals, and others similarly situated. The District is aggressively defending itself in this matter. The District has estimated potential plaintiff recoveries of approximately \$5.7 million in M&O tax collections and \$1.5 million in I&S tax collections, being the amounts it believes to be equal to the additional tax paid by all property owners due to the removal of the optional homestead. In preparation for the possibility that it may be unsuccessful in defending these claims, the District has set aside these amounts in its General Fund and its Interest and Sinking Fund, respectively. The latest action as of June 2020 has the District filing for an Accelerated Appeal in Texas 12th Court of Appeals.

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

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

FORWARD-LOOKING STATEMENTS

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

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which

are beyond the control of the District. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

UNDERWRITING

The Underwriters have agreed, subject to certain customary conditions, to purchase the Bonds at a price equal to the initial offering prices to the public, as shown on the inside cover page hereof, less an Underwriters' discount of \$_____. The obligations of the Underwriters to accept delivery of the Bonds are subject to the terms and conditions contained in the Forward Delivery Contract. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

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

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities.

The Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the District for which they received or will receive customary fees and expenses. In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the District.

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

On November 4, 2019, First Horizon and IberiaBank announced its intention to enter into a merger, creating a leading regional financial services company. This transaction is now complete effective July 1, 2020. The new company retains the name First Horizon and will have its headquarters in Memphis, TN, expanding its presence to eleven states in the combined organization's existing footprint.

Piper Sandler & Co., one of the underwriters of the Bonds, has entered into a distribution agreement ("Distribution Agreement") with Charles Schwab & Co., Inc. ("CS&Co") for the retail distribution of certain securities offerings including the Bonds, at the original issue prices. Pursuant to the Distribution Agreement, CS&Co. will purchase Bonds from Piper Sandler & Co. at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that CS&Co. sells.

CONCLUDING STATEMENT

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

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

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

The Order also approved the form and content of this Official Statement and any addenda, supplement or amendment thereto and authorized its further use in the re-offering of the Bonds by the Underwriters.

Pricing Officer

KILGORE INDEPENDENT SCHOOL DISTRICT

Schedule I - Schedule of Refunded Bonds*

Unlimited Tax School Building Bonds, Series 2011

Maturities Being Redeemed	Original CUSIP	Principal Amount Outstanding	Interest Rate	Principal Amount Being Refunded	Call Date	Principal Amount Unrefunded
2/15/2022	494053HX2	\$ 1,150,000.00	5.000%	\$ 1,150,000.00	February 15, 2021 @ Par	-
2/15/2023	494053HY0	1,215,000.00	5.000%	1,215,000.00	February 15, 2021 @ Par	-
2/15/2024	494053HZ7	1,270,000.00	5.000%	1,270,000.00	February 15, 2021 @ Par	-
2/15/2025	494053JA0	1,325,000.00	4.000%	1,325,000.00	February 15, 2021 @ Par	-
2/15/2026	494053JB8	1,385,000.00	5.000%	1,385,000.00	February 15, 2021 @ Par	-
2/15/2027	494053JC6	1,465,000.00	5.000%	1,465,000.00	February 15, 2021 @ Par	-
2/15/2028	494053JD4	2,030,000.00	5.000%	2,030,000.00	February 15, 2021 @ Par	-
2/15/2029		2,125,000.00	4.000%	2,125,000.00	February 15, 2021 @ Par	-
2/15/2030		2,215,000.00	4.000%	2,215,000.00	February 15, 2021 @ Par	-
2/15/2031	494053JE2	2,305,000.00	4.000%	2,305,000.00	February 15, 2021 @ Par	-
2/15/2032	494053JF9	2,400,000.00	4.125%	2,400,000.00	February 15, 2021 @ Par	-
2/15/2033	494053JG7	2,500,000.00	4.125%	2,500,000.00	February 15, 2021 @ Par	-
2/15/2034		2,610,000.00	4.250%	2,610,000.00	February 15, 2021 @ Par	-
2/15/2035		2,720,000.00	4.250%	2,720,000.00	February 15, 2021 @ Par	-
2/15/2036	494053JH5	2,835,000.00	4.250%	2,835,000.00	February 15, 2021 @ Par	-
2/15/2037		2,960,000.00	4.375%	2,960,000.00	February 15, 2021 @ Par	-
2/15/2038	494053JJ1	1,090,000.00	4.375%	1,090,000.00	February 15, 2021 @ Par	-
		<u>\$ 33,600,000.00</u>		<u>\$ 33,600,000.00</u>		<u>\$ -</u>

*Preliminary, subject to change.

(1) Represents a mandatory sinking fund redemption of the term bond outstanding in the principal amount of \$6,645,000 that matures February 15, 2031.

(2) Represents a mandatory sinking fund redemption of the term bond outstanding in the principal amount of \$8,165,000 that matures February 15, 2036.

(3) Represents a mandatory sinking fund redemption of the term bond outstanding in the principal amount of \$4,050,000 that matures February 15, 2038.

APPENDIX A
FINANCIAL INFORMATION OF THE DISTRICT

KILGORE INDEPENDENT SCHOOL DISTRICT

Financial Information

ASSESSED VALUATION ⁽¹⁾

2019/20 Total Valuation.....		\$ 2,112,562,514
Less Exemptions & Deductions ⁽²⁾ :		
State Homestead Exemption	\$ 110,023,864	
State Over-65 Exemption	18,638,194	
Disabled Homestead Exemption Loss	6,922,561	
Veterans Exemption Loss	1,056,016	
Surviving Spouse of Veteran Exemption Loss	273,730	
Freeport Exemption	74,440,242	
Pollution Control Exemption Loss	526,730	
Disaster Reappraisal Loss	16,010	
Productivity Loss	77,554,170	
Homestead Cap Loss	5,564,828	
	\$ 295,016,345	
2019/20 Net Taxable Valuation		\$ 1,817,546,169
2020/21 Preliminary Net Taxable Valuation ⁽³⁾		\$ 1,740,238,043

- (1) Source: Comptroller of Public Accounts - Property Tax Division. The passage of a Texas constitutional amendment on November 3, 2015 increased the homestead exemption from \$15,000 to \$25,000.
 (2) Excludes the values on which property taxes are frozen for persons 65 years of age or older and disabled taxpayers which totaled \$75,242,737 in 2019/20.
 (3) Preliminary Certified Values from the Rusk County and Gregg County Appraisal Districts as of April 2020.

VOTED GENERAL OBLIGATION DEBT

Unlimited Tax Bonds Outstanding		\$ 41,940,000
Less: The Refunded Bonds ⁽¹⁾		(33,600,000)
Plus: The Bonds ⁽¹⁾		33,100,000
Total Unlimited Tax Bonds ⁽¹⁾		\$ 41,440,000
Less: Interest & Sinking Fund Balance (As of August 31, 2019) ⁽²⁾		(2,566,148)
Net General Obligation Debt		\$ 38,873,852
Ratio of Net G.O. Debt to Net Taxable Valuation ⁽³⁾		2.23%
2019 Population Estimate ⁽⁴⁾		23,159
Per Capita Net Taxable Valuation		\$75,143
Per Capita Net G.O. Debt		\$1,679

- (1) Preliminary, subject to change.
 (2) Source: Kilgore ISD Audited Financial Statement.
 (3) See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the body of the Official Statement and "DEBT SERVICE REQUIREMENTS" in this appendix and see the "Audited Financial Report Fiscal Year Ended August 31, 2019" in Appendix D for more information relative to the District's outstanding obligations.
 (4) Source: Municipal Advisory Council of Texas.

PROPERTY TAX RATES AND COLLECTIONS

Fiscal Year	Net Taxable Valuation ⁽¹⁾		% Collections ⁽⁴⁾	
	Valuation ⁽¹⁾	Tax Rate	Current ⁽⁵⁾	Total ⁽⁵⁾
2006/07	\$ 1,108,172,258 ⁽¹⁾	\$ 1.4667 ⁽⁶⁾	97.23%	100.05%
2007/08	1,274,229,885 ⁽¹⁾	1.1331 ⁽⁶⁾	96.11%	99.42%
2008/09	1,634,347,655 ⁽¹⁾	1.1210	97.56%	100.68%
2009/10	1,728,112,241 ⁽¹⁾	1.1092	97.31%	99.65%
2010/11	1,679,219,711 ⁽¹⁾	1.1092	97.79%	100.10%
2011/12	1,707,509,634 ⁽¹⁾	1.3092	98.03%	100.09%
2012/13	1,707,858,175 ⁽¹⁾	1.3092	96.56%	98.44%
2013/14	1,692,822,576 ⁽¹⁾	1.3092	96.86%	98.68%
2014/15	1,672,340,180 ⁽¹⁾	1.3092	96.69%	98.76%
2015/16	1,703,954,196 ⁽¹⁾⁽²⁾	1.3092	96.73%	98.50%
2016/17	1,615,676,018 ⁽¹⁾	1.3092	97.31%	99.29%
2017/18	1,596,657,845 ⁽¹⁾	1.3092	97.39%	99.72%
2018/19	1,669,911,635 ⁽¹⁾	1.3092	97.66%	105.34%
2019/20	1,817,546,169 ⁽¹⁾	1.2392 ⁽⁷⁾	(In Process of Collection)	
2020/21	1,740,238,043 ⁽³⁾			

- (1) Source: Comptroller of Public Accounts - Property Tax Division.
 (2) The passage of a Texas constitutional amendment on November 3, 2015 election increased the homestead exemption from \$15,000 to \$25,000.
 (3) Preliminary Certified Values from the Rusk County and Gregg County Appraisal Districts as of April 2020.
 (4) Source: Kilgore ISD Audited Financial Statements.
 (5) Excludes penalties and interest.
 (6) The declines in the District's Maintenance & Operation Tax for the 2006/07 and 2007/08 fiscal years are a function of House Bill 1 adopted by the Texas Legislature in May 2006. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the body of the Official Statement.
 (7) The decline in the District's Maintenance & Operation Tax from the 2018/19 fiscal year to the 2019/20 fiscal year is a function of House Bill 3 adopted by the Texas Legislature in June 2019. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in Official Statement.

TAX RATE DISTRIBUTION

	2015/16	2016/17	2017/18	2018/19	2019/20 ⁽¹⁾
Maintenance & Operations	\$1.0400	\$1.0400	\$1.0400	\$1.0400	\$0.9700
Debt Service	\$0.2692	\$0.2692	\$0.2692	\$0.2692	\$0.2692
Total Tax Rate	\$1.3092	\$1.3092	\$1.3092	\$1.3092	\$1.2392

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

VALUATION AND FUNDED DEBT HISTORY

Fiscal Year	Net Taxable Valuation	Bond Debt Outstanding ⁽¹⁾	Ratio Debt to A.V. ⁽²⁾
2006/07	\$ 1,108,172,258	\$ 11,720,000	1.06%
2007/08	1,274,229,885	10,860,000	0.85%
2008/09	1,634,347,655	9,975,000	0.61%
2009/10	1,728,112,241	9,055,000	0.52%
2010/11	1,679,219,711	8,105,000	0.48%
2011/12	1,707,509,634	50,650,000	2.97%
2012/13	1,707,858,175	49,480,000	2.90%
2013/14	1,692,822,576	48,275,000	2.85%
2014/15	1,672,340,180	47,025,000	2.81%
2015/16	1,703,954,196	45,735,000	2.68%
2016/17	1,615,676,018	44,385,000	2.75%
2017/18	1,596,657,845	42,975,000	2.69%
2018/19	1,669,911,635	41,985,000	2.51%
2019/20	1,817,546,169	41,440,000 ⁽³⁾	2.28%
2020/21	1,740,238,043 ⁽⁴⁾	37,710,000	2.17%

(1) At Fiscal Year End.

(2) See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the body of the Official Statement, "DEBT SERVICE REQUIREMENTS" in this Appendix and see the "Audited Financial Report Fiscal Year Ended August 31, 2019" in Appendix D for more information.

(3) Includes the Bonds and excludes the Refunded Bonds. Preliminary, subject to change.

(4) Preliminary Certified Values from the Rusk County and Gregg County Appraisal Districts as of April 2020.

ESTIMATED OVERLAPPING DEBT STATEMENT

Taxing Body	Amount	Percent Overlapping	Amount Overlapping
Gregg Co	\$ -	13.13%	\$ -
Kilgore, City of	3,050,000	92.80%	
Rusk Co	3,775,000	13.87%	523,593
Total Overlapping Debt ⁽¹⁾			\$ 523,593
Kilgore Independent School District ⁽²⁾			38,873,852
Total Direct & Overlapping Debt ⁽²⁾			\$ 39,397,445
Ratio of Net Direct & Overlapping Debt to Net Taxable Valuation		2.26%	
Per Capita Direct & Overlapping Debt		\$1,701	

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

(2) Includes the Bonds and excludes the Refunded Bonds. Preliminary, subject to change.

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

PRINCIPAL TAXPAYERS ⁽¹⁾

2019/20 Top Ten Taxpayers

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Legend Energy Services LLC	Oil & Gas	\$ 64,622,890	3.56%
Halliburton Energy Services ⁽²⁾	Oil & Gas	63,369,200	3.49%
Cudd Pressure Control (CPS)	Oil & Gas	52,412,090	2.88%
Southern Plastics Inc.	Industrial Manufacturing	32,928,900	1.81%
McClung Energy Services LLC	Industrial Manufacturing	24,094,620	1.33%
OG Dallas TX Landlord LLC/Orgill Inc.	Wholesale Supplier	23,943,427	1.32%
Longview Truck Center	Commercial Trucking Center	19,221,730	1.06%
Hammer Time Owner (TX) LP	Real Estate	17,955,000	0.99%
Premier Pressure Pumping	Oil & Gas	13,378,420	0.74%
Baker Petrolite	Petrochemicals	11,911,750	0.66%
		<u>\$ 323,838,027</u>	<u>17.82% ⁽³⁾</u>

2018/19 Top Ten Taxpayers

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Halliburton Energy Services ⁽²⁾	Oil & Gas	\$ 61,980,070	3.71%
Legend Energy Services LLC	Oil & Gas	47,566,780	2.85%
Cudd Pressure Control (CPS)	Oil & Gas	42,844,010	2.57%
OG Dallas TX Landlord LLC/Orgill Inc.	Wholesale Supplier	40,821,981	2.44%
Southern Plastics Inc.	Industrial Manufacturing	35,475,150	2.12%
AEP Southwestern Elec Power Co.	Utilities	14,466,970	0.87%
Redback Coil Tubing	Oil & Gas	12,979,420	0.78%
Baker Petrolite	Petrochemicals	11,370,530	0.68%
Premier Pressure Pumping	Oil & Gas	9,849,390	0.59%
Cherokee Water Co.	Utilities	9,661,290	0.58%
		<u>\$ 287,015,591</u>	<u>17.19%</u>

2017/18 Top Ten Taxpayers

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Halliburton Energy Services ⁽²⁾	Oil & Gas	\$ 52,205,866	3.27%
Cudd Pressure Control (CPS)	Oil & Gas	41,813,370	2.62%
OG Dallas TX Landlord LLC/Orgill Inc.	Wholesale Supplier	41,327,878	2.59%
Southern Plastics Inc.	Industrial Manufacturing	32,680,433	2.05%
AEP Southwestern Elec Power Co.	Utilities	12,619,680	0.79%
Key Energy Fishing & Rental	Equipment	11,122,550	0.70%
Cherokee Water Co.	Utilities	10,971,270	0.69%
Triumph Structures - East TX Inc.	Industrial Manufacturing	9,685,420	0.61%
General Dynamics C4 Systems	Manufacturing	8,423,152	0.53%
National Oilwell DHT LP	Oil & Gas	8,112,075	0.51%
		<u>\$ 228,961,694</u>	<u>14.34%</u>

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

(2) A top taxpayer of the District, Halliburton Energy Services, previously shuttered its facilities within the District's boundaries, and District officials are planning that such event will impact the District's prospective tax receipts, beginning in 2021, at an estimated annual amount of \$1,000,000.

(3) As shown in the tables above, the top ten taxpayers in the District currently account for approximately 17% of the District's tax base, with the majority of such property comprised of minerals and related business activities, such as oil field service companies, which are subject to fluctuation in terms of market valuation and availability (and recent events such as COVID-19 significantly increased the volatility in this market sector). Adverse developments in economic conditions, especially in the oil and gas industry, could adversely impact the businesses that own related properties in the District and the tax values in the District, resulting in less local tax revenue.

CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY ⁽¹⁾

<u>Category</u>	<u>2019/20</u>	<u>% of Total</u>	<u>2018/19</u>	<u>% of Total</u>	<u>2017/18</u>	<u>% of Total</u>
Real, Residential, Single-Family	\$ 701,380,692	33.20%	\$ 676,226,672	34.52%	\$ 670,108,251	35.55%
Real, Residential, Multi-Family	25,312,860	1.20%	24,177,490	1.23%	25,225,150	1.34%
Real, Vacant Lots/Tracts	23,578,560	1.12%	22,632,992	1.16%	23,209,211	1.23%
Real, Acreage	89,758,577	4.25%	88,776,400	4.53%	90,908,252	4.82%
Real, Farm & Ranch Improvements	105,226,178	4.98%	102,512,266	5.23%	100,361,869	5.32%
Real, Commercial & Industrial	255,787,057	12.11%	250,334,447	12.78%	252,928,200	13.42%
Oil & Gas	60,907,910	2.88%	50,283,081	2.57%	36,000,088	1.91%
Utilities	53,670,400	2.54%	57,044,060	2.91%	55,893,270	2.97%
Tangible Personal, Commercial	306,420,249	14.50%	247,398,882	12.63%	242,023,316	12.84%
Tangible Personal, Industrial	472,100,080	22.35%	421,059,570	21.50%	370,517,710	19.66%
Tangible Personal, Mobile Homes & Other	9,836,241	0.47%	9,264,461	0.47%	9,428,651	0.50%
Tangible Personal, Residential Inventory	585,480	0.03%	493,940	0.03%	604,740	0.03%
Special Inventory	<u>7,998,230</u>	<u>0.38%</u>	<u>8,630,620</u>	<u>0.44%</u>	<u>7,585,380</u>	<u>0.40%</u>
Total Appraised Value	\$ 2,112,562,514	100.00%	\$ 1,958,834,881	100.00%	\$ 1,884,794,088	100.00%
Less:						
Homestead Cap Adjustment	\$ 5,564,828		\$ 2,413,723		\$ 3,063,523	
Productivity Loss	77,554,170		78,335,375		80,806,998	
Exemptions	<u>211,897,347</u>		<u>208,174,148</u>		<u>204,265,722</u>	
Total Exemptions/Deductions ⁽²⁾	<u>\$ 295,016,345</u>		<u>\$ 288,923,246</u>		<u>\$ 288,136,243</u>	
Net Taxable Assessed Valuation	\$ 1,817,546,169		\$ 1,669,911,635		\$ 1,596,657,845	

<u>Category</u>	<u>2016/17</u>	<u>% of Total</u>	<u>2015/16</u>	<u>% of Total</u>	<u>2014/15</u>	<u>% of Total</u>
Real, Residential, Single-Family	\$ 659,494,682	34.69%	\$ 648,336,478	32.49%	\$ 623,485,602	30.69%
Real, Residential, Multi-Family	24,222,440	1.27%	23,656,860	1.19%	22,996,100	1.13%
Real, Vacant Lots/Tracts	22,815,957	1.20%	23,659,548	1.19%	24,282,048	1.20%
Real, Acreage	91,032,206	4.79%	91,991,772	4.61%	93,008,622	4.58%
Real, Farm & Ranch Improvements	97,112,584	5.11%	92,301,234	4.63%	84,294,876	4.15%
Real, Commercial & Industrial	250,393,680	13.17%	247,547,893	12.41%	247,328,337	12.18%
Oil & Gas	32,945,790	1.73%	66,576,710	3.34%	104,722,880	5.16%
Utilities	62,910,250	3.31%	66,274,500	3.32%	65,834,110	3.24%
Tangible Personal, Commercial	250,239,285	13.16%	278,989,234	13.98%	299,949,641	14.77%
Tangible Personal, Industrial	391,626,970	20.60%	437,616,510	21.93%	447,243,000	22.02%
Tangible Personal, Mobile Homes & Other	9,391,241	0.49%	9,005,520	0.45%	9,328,030	0.46%
Tangible Personal, Residential Inventory	618,570	0.03%	1,163,030	0.06%	1,385,470	0.07%
Special Inventory	<u>8,544,200</u>	<u>0.45%</u>	<u>8,383,520</u>	<u>0.42%</u>	<u>7,486,390</u>	<u>0.37%</u>
Total Appraised Value	\$ 1,901,347,855	100.00%	\$ 1,995,502,809	100.00%	\$ 2,031,345,106	100.00%
Less:						
Homestead Cap Adjustment	\$ 3,860,721		\$ 5,043,459		\$ 4,597,166	
Productivity Loss	81,621,043		84,063,485		85,290,456	
Exemptions	<u>200,190,073</u>		<u>202,441,669</u> ⁽³⁾		<u>269,117,304</u>	
Total Exemptions/Deductions ⁽²⁾	<u>\$ 285,671,837</u>		<u>\$ 291,548,613</u>		<u>\$ 359,004,926</u>	
Net Taxable Assessed Valuation	\$ 1,615,676,018		\$ 1,703,954,196		\$ 1,672,340,180	

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

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

(3) The passage of a Texas constitutional amendment on November 3, 2015 increased the homestead exemption from \$15,000 to \$25,000. See "Litigation" in the body of the Official Statement.

PRINCIPAL REPAYMENT SCHEDULE

Fiscal Year	Outstanding	Less:	Plus:		Bonds	Percent of
Ending 8/31	Bonds ⁽¹⁾	Refunded	The	Total ⁽²⁾	Unpaid	Principal
		Bonds ⁽²⁾	Bonds ⁽²⁾		At Year End	Retired
2020	\$ 2,175,000.00	\$ -	\$ -	\$ 2,175,000.00	\$ 41,440,000.00	4.99%
2021	2,240,000.00	-	1,490,000.00	3,730,000.00	37,710,000.00	13.54%
2022	2,305,000.00	1,150,000.00	1,375,000.00	2,530,000.00	35,180,000.00	19.34%
2023	2,375,000.00	1,215,000.00	1,405,000.00	2,565,000.00	32,615,000.00	25.22%
2024	2,445,000.00	1,270,000.00	1,430,000.00	2,605,000.00	30,010,000.00	31.19%
2025	2,515,000.00	1,325,000.00	1,455,000.00	2,645,000.00	27,365,000.00	37.26%
2026	2,330,000.00	1,385,000.00	1,480,000.00	2,425,000.00	24,940,000.00	42.82%
2027	1,940,000.00	1,465,000.00	1,520,000.00	1,995,000.00	22,945,000.00	47.39%
2028	2,030,000.00	2,030,000.00	2,035,000.00	2,035,000.00	20,910,000.00	52.06%
2029	2,125,000.00	2,125,000.00	2,075,000.00	2,075,000.00	18,835,000.00	56.82%
2030	2,215,000.00	2,215,000.00	2,125,000.00	2,125,000.00	16,710,000.00	61.69%
2031	2,305,000.00	2,305,000.00	2,180,000.00	2,180,000.00	14,530,000.00	66.69%
2032	2,400,000.00	2,400,000.00	2,245,000.00	2,245,000.00	12,285,000.00	71.83%
2033	2,500,000.00	2,500,000.00	2,315,000.00	2,315,000.00	9,970,000.00	77.14%
2034	2,610,000.00	2,610,000.00	2,385,000.00	2,385,000.00	7,585,000.00	82.61%
2035	2,720,000.00	2,720,000.00	2,455,000.00	2,455,000.00	5,130,000.00	88.24%
2036	2,835,000.00	2,835,000.00	2,525,000.00	2,525,000.00	2,605,000.00	94.03%
2037	2,960,000.00	2,960,000.00	2,605,000.00	2,605,000.00	-	100.00%
2038	<u>1,090,000.00</u>	<u>1,090,000.00</u>	<u>-</u>	<u>-</u>	-	100.00%
Total	<u>\$ 44,115,000.00</u>	<u>\$ 33,600,000.00</u>	<u>\$ 33,100,000.00</u>	<u>\$ 43,615,000.00</u>		

(1) Includes annual mandatory principal and sinking fund payments on the outstanding Series 2012 Qualified School Construction Bonds.

(2) Preliminary, subject to change.

DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 8/31	Outstanding Debt Service ⁽¹⁾	Less:	Less:	Plus:			Combined Total ^{(1) (2) (3)}
		Series 2012 QSCB Federal Subsidy ⁽¹⁾	Refunded Bonds ⁽²⁾	Principal	The Bonds ⁽²⁾ Interest	Total	
2020	\$ 3,941,042.50	\$ 139,973.75	\$ -	\$ -	\$ -	\$ -	\$ 3,801,068.75
2021	3,942,617.50	139,973.75	1,470,875.00	1,490,000.00	603,167.92	2,093,167.92	4,424,936.67
2022	3,941,292.50	139,973.75	2,592,125.00	1,375,000.00	789,800.00	2,164,800.00	3,373,993.75
2023	3,941,855.00	139,973.75	2,598,000.00	1,405,000.00	762,000.00	2,167,000.00	3,370,881.25
2024	3,939,305.00	139,973.75	2,590,875.00	1,430,000.00	733,650.00	2,163,650.00	3,372,106.25
2025	3,940,085.00	139,973.75	2,587,625.00	1,455,000.00	704,800.00	2,159,800.00	3,372,286.25
2026	3,684,245.00	139,973.75	2,586,500.00	1,480,000.00	675,450.00	2,155,450.00	3,113,221.25
2027	3,144,625.00	69,986.88	2,595,250.00	1,520,000.00	645,450.00	2,165,450.00	2,644,838.13
2028	3,072,875.00		3,072,875.00	2,035,000.00	609,900.00	2,644,900.00	2,644,900.00
2029	3,074,625.00		3,074,625.00	2,075,000.00	568,800.00	2,643,800.00	2,643,800.00
2030	3,077,825.00		3,077,825.00	2,125,000.00	524,675.00	2,649,675.00	2,649,675.00
2031	3,077,425.00		3,077,425.00	2,180,000.00	468,600.00	2,648,600.00	2,648,600.00
2032	3,076,825.00		3,076,825.00	2,245,000.00	402,225.00	2,647,225.00	2,647,225.00
2033	3,075,762.50		3,075,762.50	2,315,000.00	333,825.00	2,648,825.00	2,648,825.00
2034	3,078,737.50		3,078,737.50	2,385,000.00	263,325.00	2,648,325.00	2,648,325.00
2035	3,075,475.00		3,075,475.00	2,455,000.00	190,725.00	2,645,725.00	2,645,725.00
2036	3,072,431.25		3,072,431.25	2,525,000.00	116,025.00	2,641,025.00	2,641,025.00
2037	3,072,437.50		3,072,437.50	2,605,000.00	39,075.00	2,644,075.00	2,644,075.00
2038	1,113,843.75		1,113,843.75	-	-	-	-
	<u>\$ 62,343,330.00</u>	<u>\$ 1,049,803.13</u>	<u>\$ 48,889,512.50</u>	<u>\$ 33,100,000.00</u>	<u>\$ 8,431,492.92</u>	<u>\$ 41,531,492.92</u>	<u>\$ 53,935,507.30</u>

(1) The Direct Pay Subsidy represents 94.1% of the interest cost on the Unlimited Tax Qualified School Construction Bonds, Taxable Series 2012. The sequester reduction percentage for fiscal year 2020 was lowered from 6.2% in 2019 to 5.9% and is assumed for illustration purposes to carry forward through maturity of the outstanding Qualified School Construction Bonds.

(2) Preliminary, subject to change.

(3) Based on its wealth per student, the District does not expect to receive state financial assistance for the payment of debt service for the fiscal year 2019/20. The amount of state financial assistance for debt service, if any, may differ substantially each year depending on a variety of factors, including the amount, if any, appropriated for that purpose by the state legislature and a school district's wealth per student. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement.

TAX ADEQUACY WITH RESPECT TO THE DISTRICT'S BONDS

Projected Maximum Debt Service Requirement ⁽¹⁾	\$ 4,424,936.67
Projected State Financial Assistance for Hold Harmless of Increased Homestead Exemption ⁽²⁾	<u>47,900.00</u>
Projected Net Debt Service Requirement ^{(1) (2)}	\$ 4,377,036.67
 \$0.25152 Tax Rate @ 100% Collections Produces	\$ 4,377,036.81
 2020/21 Preliminary Certified Net Taxable Assessed Valuation	\$ 1,740,238,043

(1) Includes the Bonds and excludes the Refunded Bonds. Preliminary, subject to change.

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

AUTHORIZED BUT UNISSUED BONDS

The District does not have any authorized but unissued unlimited ad valorem tax bonds. The District may incur other financial obligations payable from its collection of taxes and other sources of revenue, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes.

COMPARATIVE STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES ⁽¹⁾

	Fiscal Year Ended August 31				
	2015	2016	2017	2018	2019
Beginning Fund Balance	\$ 10,755,036	\$ 11,381,268	\$ 12,477,828	\$ 14,384,929	\$ 15,397,246
Revenues:					
Local and Intermediate Sources	\$ 16,995,452	\$ 17,131,359	\$ 16,503,952	\$ 16,805,482	\$ 17,637,390
State Program Revenues	11,946,295	12,786,272	13,887,652	15,476,975	16,010,680
Federal Sources & Other	292,118	759,060	843,948	492,804	304,150
Total Revenues	\$ 29,233,865	\$ 30,676,691	\$ 31,235,552	\$ 32,775,261	\$ 33,952,220
Expenditures:					
Instruction	\$ 16,467,272	\$ 16,453,347	\$ 16,519,016	\$ 17,138,428	\$ 16,945,711
Instructional Resources & Media Services	464,072	460,457	451,948	436,858	469,114
Curriculum & Instructional Staff Development	929,995	723,545	746,963	770,902	691,403
Instructional Leadership	309,704	353,970	307,352	343,634	366,372
School Leadership	1,900,867	1,957,744	1,998,230	1,899,955	2,004,142
Guidance, Counseling & Evaluation Services	791,787	992,860	1,029,392	1,113,180	1,206,759
Social Work Services	-	-	-	6,325	-
Health Services	291,039	284,726	271,126	269,040	273,133
Student (Pupil) Transportation	1,127,043	1,177,175	1,152,509	1,106,395	1,238,375
Food Services	22,605	47,150	66,573	31,487	4,250
Cocurricular/Extracurricular Activities	1,312,984	1,277,986	1,281,889	1,320,411	1,479,752
General Administration	1,147,097	1,218,199	1,217,668	1,238,227	1,234,544
Plant Maintenance and Operations	3,026,148	3,038,986	3,374,232	4,482,049	4,774,100
Security and Monitoring Services	199,432	176,946	267,613	304,567	434,873
Data Processing Services	306,039	337,358	328,065	336,824	445,653
Community Services	4,325	3,781	3,738	3,781	5,754
Capital Outlay	-	212,034	-	-	34,164
Other Intergovernmental Charges	308,139	313,954	312,137	309,773	334,438
Total Expenditures	\$ 28,608,548	\$ 29,030,218	\$ 29,328,451	\$ 31,111,836	\$ 31,942,537
Excess (Deficiency) of Revenues over Expenditures	\$ 625,317	\$ 1,646,473	\$ 1,907,101	\$ 1,663,425	\$ 2,009,683
Other Resources and (Uses):					
Sale of Real and Personal Property	\$ 915	\$ 560,087	\$ -	\$ 7,783	\$ 6,139
Transfers Out	-	(1,110,000)	-	-	-
Other Resources	-	-	-	9,155	-
Other Uses	-	-	-	(668,046)	-
Total Other Resources (Uses)	\$ 915	\$ (549,913)	\$ -	\$ (651,108)	\$ 6,139
Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	\$ 626,232	\$ 1,096,560	\$ 1,907,101	\$ 1,012,317	\$ 2,015,822
Ending Fund Balance	\$ 11,381,268	\$ 12,477,828	\$ 14,384,929	\$ 15,397,246	\$ 17,413,068

(1) See "MANAGEMENT'S DISCUSSION AND ANALYSIS" in Appendix D and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the body of the Official Statement.

CHANGE IN NET ASSETS ⁽¹⁾

	Fiscal Year Ended August 31				
	2015	2016	2017	2018	2019
Revenues:					
Program Revenues:					
Charges for Services	\$ 1,010,426	\$ 923,643	\$ 812,216	\$ 795,186	\$ 611,499
Operating Grants and Contributions	3,077,055	3,129,250	5,337,586	(351,076)	4,724,784
General Revenues:					
Property Taxes Levied for General Purposes	16,689,104	16,809,961	15,916,720	15,078,557	15,946,138
Property Taxes Levied for Debt Service	4,346,267	4,388,408	4,172,437	4,234,513	4,240,608
Grants and Contributions Not Restricted	12,238,413	14,526,253	13,862,674	14,676,549	17,505,150
Investment Earnings	28,448	87,341	169,695	423,262	631,603
Miscellaneous	491,137	456,388	518,220	583,703	562,450
Special Item - Loss on Sale of Capital Assets	-	(1,986,530)	-	-	-
	<u>\$ 37,880,850</u>	<u>\$ 38,334,714</u>	<u>\$ 40,789,548</u>	<u>\$ 35,440,694</u>	<u>\$ 44,222,232</u>
Expenses:					
Instruction	\$ 18,913,258	\$ 19,945,134	\$ 20,149,242	\$ 13,652,407	\$ 21,992,323
Instruction Resources & Media Services	508,260	524,353	508,126	363,748	535,698
Curriculum & Staff Development	1,072,795	932,668	906,665	681,240	965,123
Instructional Leadership	351,637	389,758	338,172	252,581	409,404
School Leadership	2,060,807	2,241,593	2,215,080	1,514,737	2,290,017
Guidance, Counseling & Evaluation Services	892,296	1,137,418	1,238,785	873,714	1,526,728
Social Work Services	-	-	20,198	76,903	-
Health Services	316,937	328,474	301,538	207,027	312,828
Student Transportation	1,235,801	1,276,255	1,294,445	1,105,171	1,491,028
Food Service	2,073,422	2,165,656	2,364,153	2,116,330	2,333,555
Cocurricular/Extracurricular Activities	1,659,711	1,659,480	1,633,726	1,207,870	1,818,122
General Administration	1,183,238	1,304,411	1,289,518	936,360	1,360,466
Plant Maintenance & Operations	3,220,710	3,238,044	3,227,675	3,973,122	4,180,737
Security and Monitoring Services	211,209	187,836	287,050	310,691	288,611
Data Processing Services	364,999	403,743	391,842	277,208	485,083
Community Services	6,490	6,245	5,409	3,781	6,541
Debt Service - Interest on Long-Term Debt	2,161,177	2,083,802	2,006,318	1,923,340	1,833,363
Debt Service - Bond Issuance Cost and Fees	7,625	6,748	3,375	3,129	5,100
Capital Outlay	-	935	-	-	-
Other Intergovernmental Charges	308,139	313,954	312,137	309,773	334,438
Total Expenditures	<u>\$ 36,548,511</u>	<u>\$ 38,146,507</u>	<u>\$ 38,493,454</u>	<u>\$ 29,789,132</u>	<u>\$ 42,169,165</u>
Change in Net Assets	\$ 1,332,339	\$ 188,207	\$ 2,296,094	\$ 5,651,562	\$ 2,053,067
Beginning Net Assets	\$ 36,042,797	\$ 34,468,783	\$ 34,656,990	\$ 36,953,085	\$ 22,612,910
Prior Period Adjustment	\$ (2,906,353) ⁽²⁾	\$ -	\$ -	\$ (19,991,735) ⁽³⁾	\$ -
Ending Net Assets	<u>\$ 34,468,783</u>	<u>\$ 34,656,990</u>	<u>\$ 36,953,084</u>	<u>\$ 22,612,912</u>	<u>\$ 24,665,977</u>

(1) The foregoing information represents government-wide financial information provided in accordance with GASB 34, which the District adopted in the 2002 fiscal year.

(2) The prior period adjustment for FYE 2015 was due to the GASB #68 for Accounting and Reporting for Pensions as amended by GASB #71.

(3) In fiscal year 2018, the District implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pension. As a result, the beginning net position has been restated to reflect the net OPEB liability and deferred outflow of resources relating to TRS-Care contributions made after the prior measurement date.

APPENDIX B

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

KILGORE INDEPENDENT SCHOOL DISTRICT

General and Economic Information

The following information is qualified by the impact from the effects of the COVID-19 pandemic. Within the body of the Official Statement, under caption "INTRODUCTION – COVID-19", the District described this event, as well as its initial impact and possible effects. The District has not attempted to update the descriptions included in this section of APPENDIX B to account for the effects of COVID-19, as the specific results of this event are evolving and their extent unknown; rather, the District makes reference to the aforementioned section of the body of the Official Statement and directs the reader thereto for a general discussion of the COVID-19 event as of the date of the Official Statement.

Kilgore Independent School District (the "District") is a petroleum producing and agricultural area, located primarily in Gregg County with a portion extending into Rusk County. The District includes the City of Kilgore, a commercial and oilfield supply center.

Gregg County is a northeast Texas county traversed by Interstate Highway 20, U.S. Highways 80 and 259 and State Highways 31, 42, 135, 300 and 322. The County seat is Longview.

Source: *Texas Municipal Report for Kilgore ISD and Gregg County.*

Enrollment Statistics

<u>Year Ending 8/31</u>	<u>Enrollment</u>
2009	3,782
2010	3,792
2011	3,836
2012	3,898
2013	3,933
2014	4,030
2015	4,032
2016	4,060
2017	4,067
2018	4,051
2019	4,085
2020	4,048

District Staff

Teachers	283
Teachers' Aides & Secretaries	118
Auxiliary Personnel	89
Administrators	26
Other	42
	<hr/>
	558

Facilities

<u>Campus</u>	<u>Grades</u>	<u>Current Enrollment</u>	<u>Capacity</u>	<u>Year Built</u>	<u>Year of Addition/ Renovation</u>
Kilgore Primary School	PK-1	760	950	2013	
Chandler Elementary	2-3	609	900	1960	Addition 1990, Café Renovation 2008, Partial Renovation 2013
Kilgore Intermediate	4-5	603	750	1995	Addition 2013
Kilgore Middle School	6-8	994	1,000	2013	
Kilgore High School	9-12	1,082	1,500	1932	Major Renovation 1996, Café 2014

Principal Employers within the District

<u>Name of Company</u>	<u>Type of Business</u>	<u>Number of Employees</u>
Haliburton Service	Oilfield Services	705
Kilgore Independent School District	Public Education	558
General Dynamics SATCOM	Satellite Communication	550
Kilgore College	Higher Education	320
Region VII Education Service Center	Regional Service Center	290
Martin Midstream Partners	Transporting Petroleum	241
Closure Systems International, Inc.	Plastic Containers	227
Cudd Pressure Control	Oilfield Services	225

Unemployment Rates

	<u>May</u> <u>2018</u>	<u>May</u> <u>2019</u>	<u>May</u> <u>2020</u>
Gregg County	3.9%	3.3%	13.2%
State of Texas	3.7%	3.0%	13.0%

Source: Texas Workforce Commission.

APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

Norton Rose Fulbright US LLP
2200 Ross Avenue, Suite 3600
Dallas, Texas 75201-7932
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_____, 2020

IN REGARD to the authorization and issuance of the “Kilgore Independent School District Unlimited Tax Refunding Bonds, Series 2020 (Forward Delivery)” dated August 1, 2020, in the principal amount of \$ _____ (the “Bonds”), we have examined into their issuance by the Kilgore Independent School District (the “District”), solely to express legal opinions as to the validity of the Bonds, the defeasance and discharge of the District’s outstanding obligations being refunded by the Bonds, and the exclusion of the interest on the Bonds from gross income for federal income tax purposes, and for no other purpose. We have not been requested to investigate or verify, and we neither expressly nor by implication render herein any opinion concerning, the financial condition or capabilities of the District, the disclosure of any financial or statistical information or data pertaining to the District and used in the sale of the Bonds, or the sufficiency of the security for or the value or marketability of the Bonds.

THE BONDS are issued in fully registered form only and in denominations of \$5,000 or any integral multiple thereof (within a maturity). The Bonds mature on August 15 in each of the years specified in the pricing certificate (the “Pricing Certificate”) executed pursuant to an order adopted by the Board of Trustees of the District authorizing the issuance of the Bonds (the “Bond Order”, and, jointly, with the Pricing Certificate, the “Order”), unless redeemed prior to maturity in accordance with the terms stated on the Bonds. The Bonds accrue interest from the dates, at the rates, and in the manner and interest is payable on the dates, all as provided in the Order.

IN RENDERING THE OPINIONS herein we have examined and rely upon (i) original or certified copies of the proceedings relating to the issuance of the Bonds, including the Order, the Special Escrow Agreement (the “Escrow Agreement”) between the District and BOKF, NA, Dallas, Texas (the “Escrow Agent”), a special report of Samuel Klein and Company, a firm of independent certified public accountants in conjunction with Public Finance Partners LLC (the “Verification Agent”), and an examination of the initial Bond executed and delivered by the District (which we found to be in due form and properly executed); (ii) certifications of officers of the District relating to the expected use and investment of proceeds of the sale of the Bonds and certain other funds of the District, and (iii) other documentation and such matters of law as we deem relevant. In the examination of the proceedings relating to the issuance of the Bonds, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements contained in such documents and certifications.

BASED ON OUR EXAMINATIONS, IT IS OUR OPINION that, under the applicable laws of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Bonds have been duly authorized by the District and, when issued in compliance with the provisions of the Order, are valid, legally binding, and enforceable obligations of the District, payable from the proceeds of an ad valorem tax levied, without legal limit as to rate

or amount, upon all taxable property within the District, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity.

2. The Escrow Agreement has been duly authorized, executed and delivered and is a binding and enforceable agreement in accordance with its terms and the outstanding obligations refunded, discharged, paid and retired with the proceeds of the Bonds have been defeased and are regarded as being outstanding only for the purpose of receiving payment from the funds held in a fund with the Escrow Agent, pursuant to the Escrow Agreement and in accordance with the provisions of Texas Government Code, Chapter 1207, as amended. In rendering this opinion, we have relied upon the special report of the Accountants as to the sufficiency of cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement for the purposes of paying the outstanding obligations refunded and to be retired with the proceeds of the Bonds and the interest thereon.

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

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

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

APPENDIX D

**AUDITED FINANCIAL REPORT
FISCAL YEAR ENDED AUGUST 31, 2019**

**KILGORE
INDEPENDENT SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2019

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Kilgore Independent School District
Annual Financial Report
For The Year Ended August 31, 2019

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Introductory Section

CERTIFICATE OF BOARD

Kilgore Independent School District
Name of School District

Gregg
County

092-902
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) approved disapproved for the year ended August 31, 2019, at a meeting of the board of trustees of such school district on the 18th day of November, 2019.



Signature of Board Secretary



Signature of Board President

If the board of trustees disapproved of the auditors' report, the reason(s) for disapproving it is (are):
(attach list as necessary)

Financial Section

BROWN, BRONSTAD, HABENICHT & ROSSON, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

PO BOX 1790

KILGORE, TEXAS 75663-1790

SHAREHOLDER:

Lynda R. Newsome, CPA

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MEMBER

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1116 N. Kilgore St.

Kilgore, Texas 75662

Independent Auditors' Report

To the Board of Trustees
Kilgore Independent School District
301 N Kilgore St
Kilgore, Texas 75662

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 the Kilgore Independent School District ("the District") as of and for the year ended August 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Kilgore Independent School District as of August 31, 2019, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, and budgetary comparison information and schedule of the District's proportionate share of the net pension liability and schedule of District pension contributions, and schedule of the District's proportionate share of the net OPEB liability and schedule of District OPEB contributions identified as Required Supplementary Information 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 Kilgore Independent School District's basic financial statements. The introductory section and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not required parts of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The accompanying other supplementary information is presented for purposes of additional analysis and is also not a required part of the basic financial statements.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2019 on our consideration of Kilgore Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kilgore Independent School District's internal control over financial reporting and compliance.


BROWN, BRONSTAD, HABENICHT & ROSSON, PC

Kilgore, TX
November 4, 2019

Kilgore Independent School District

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Kilgore Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2019. Please read it in conjunction with the independent auditors' report on page 3, and the District's Basic Financial Statements which begin on page 15.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 15 and 16). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 17) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short-term, as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers, and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the district.

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

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 15. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all of the District's assets and liabilities at the end of the year while the Statement of Activities includes all of the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting, which is the basis used by private sector companies.

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

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 17 and provide detailed information about the most significant funds—not the District as a whole. Laws and contracts require the District to establish some funds, such as federal grants from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District's two kinds of funds – governmental and fiduciary – use different accounting approaches:

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

- Fiduciary funds—Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Kilgore Independent School District's own programs. The District includes the Student Activity Funds on the Fiduciary financial statements.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position on page 21. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental type activities.

Net position of the District's governmental activities increased from \$22,612,910 to \$24,665,977. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was (\$2,059,726) at August 31, 2019.

Table I
Kilgore Independent School District
Net Position

	Governmental Activities 08-31-2019	Governmental Activities 08-31-2018
Current and other assets	24,303,904	23,372,407
Capital assets	68,542,183	69,761,192
Total assets	92,846,087	93,133,599
Deferred outflow related to Pensions & OPEB	6,199,414	1,996,948
Current Liabilities	3,779,393	4,745,780
Long-term liabilities	65,804,542	62,234,701
Total liabilities	69,583,935	66,980,481
Deferred inflow related to Pensions & OPEB	4,795,589	5,537,156
Net Assets:		
Invested in capital assets, net of related debt	23,112,058	21,936,442
Restricted	3,613,645	3,144,768
Unrestricted	(2,059,726)	(2,468,300)
Total net position	24,665,977	22,612,910

Table II
 Kilgore Independent School District
 Changes in Net Position

	Governmental Activities 8-31-2019	Governmental Activities 8-31-2018
Revenues:		
Program Revenues:		
Charges for Services	611,499	795,186
Operating grants and contributions	4,724,784	(351,076)
General Revenues:		
Maintenance and debt service taxes	20,186,746	19,313,070
State aid – formula grants	17,505,150	14,676,549
Investment Earnings	631,603	423,262
Miscellaneous	562,450	583,703
Total Revenue	44,222,232	35,440,694
Expenses:		
Instruction, curriculum and media services	22,458,021	14,697,395
Instructional and school leadership	3,664,544	1,767,318
Student support services	3,330,584	2,262,815
Child nutrition	2,333,555	2,116,330
Co-curricular activities	1,818,122	1,207,870
General administration	1,360,466	936,360
Plant maintenance, security & data processing	4,954,431	4,561,021
Community Services	6,541	3,781
Debt services	1,838,463	1,926,469
Other intergovernmental charges	334,438	309,773
Total Expenses	42,169,165	29,789,132
Increase in net position before transfers and special items	2,053,067	5,651,562
Net position, beginning	22,612,910	36,953,083
Prior Period Adjustment – GASB 75	-0-	(19,991,735)
Net position, ending	24,665,977	22,612,910

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 17) reported a combined fund balance of \$20,915,389, which is an increase of \$2,612,044. Included in this year's total change in fund balance is an increase of \$2,015,822 in the District's General Fund.

Over the course of the year, the Board of Trustees revised the District's budget several times. These budget amendments were not significant.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2019, the District had \$68,542,183, net of depreciation, invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance.

Debt

At year-end, the District had \$44,585,000 in general obligation bonds payable. More detailed information about the District's long-term liabilities is presented in Note F to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Kilgore Independent School District Board of Trustees and district administrators considered the following factors when setting the budget and tax rates for 2019-2020.

- The District's taxable value for 2019 increased \$145,249,613, or 9.091% from 2018 values.
- The District's Board of Trustees, at a special called meeting on June 29, 2015, rescinded the Kilgore ISD local optional homestead exemption (LOHE).
 - History:
 - In June of 1963, in an effort to help reduce local taxes for local Kilgore homeowners, Kilgore ISD implemented its first LOHE at 40% per \$100 property valuation.
 - Over time, the state of Texas mandated a reduction in the amount school districts could award their local communities, thereby lowering Kilgore ISD's optional homeowner exemption down to 30% in 1985 and eventually 20% in 1988.
 - In 2014, Kilgore ISD reported awarding \$64,164,540.00 in LOHE exemptions. Senate Bill 1, 84th Texas State Legislature, proposed to take effect in September, 2015 outlined that the approximate 80 school districts in Texas that were still awarding their local homeowners a LOHE would lose their ability to repeal their local optional homeowner exemptions.
 - Reasons given for removing the LOHE included:
 - Kilgore ISD's local economy had shown a 2% - 4% drop in each of the three (3) years preceding 2015,
 - The inability for Kilgore to repeal their long standing 20% LOHE after September, 2015 would legally bind the district into awarding their 20% LOHE through December, 2019, and
 - In an effort to aide Kilgore ISD in its effort to maintain local control and all "options for funding" available to the school district.
- The District is currently the defendant in an ongoing lawsuit filed by three (3) local Kilgore taxpayers along with Texas Attorney General Intervention in relation to the removal of the LOHE, Axberg v. Kilgore ISD. The plaintiff's plea was originally filed on September 29, 2016 in the State of Texas, District Court of Gregg County. The latest action on this matter was a denial for rehearing from the Supreme Court of Texas in Cause No. 19-0274. At the time of this report the District is awaiting further responses from the court. Legal representation states that the maximum liability faced by the district at the current time is the difference between what the

three (3) plaintiffs paid in taxes and what they would have paid if the LOHE remained in place, a de minimis amount.

- Even in light of the previous statement concerning potential liability for the Axberg v. Kilgore ISD lawsuit, the District continues to set aside estimated revenues generated as a result of the exemption removal in fund balance as a conservative, precautionary measure. As of August 31, 2019, the estimated total of this set-aside was \$5,762,689 (\$4,592,741 General Fund and \$1,169,948 Debt Service) with an additional \$1,401,711 (\$1,097,208 General Fund and \$304,503 Debt Service) estimated to be added to this total in the 2019-2020 fiscal year.
- Federal, state and local revenue combined for general fund are expected to increase from the 2018-2019 final amended budget, \$4,213,576 or 12.44%. This increase is a result of a material change to the State Funding Formula, and the current year increase in property values. Copying from the Texas Education Agency website, *“House Bill 3(HB 3), a sweeping and historic school finance bill was passed by the 86th Texas Legislature in 2019 and signed by Gov. Greg Abbott. The bill provides more money for Texas classrooms, increases teacher compensation, reduces recapture and cuts local property taxes for Texas taxpayers. HB 3 is one of the most transformative Texas education bills in recent history.”* For further details see the Texas Education Agency website at www.texas.texas.gov.
- The 2019 general operating expenditure budget increased from 2018 levels, an increase of \$5,241,531 or 16.51%. This largest portion of this increase was committed to salary increases, exceeding requirements of House Bill 3. Additionally, the district has within this expenditure budget \$3,084,799 for needed upgrades and repairs to district property and equipment. The general fund budget does reflect a projected net profit of \$1,097,208 which is a result of setting aside certain raised revenue for LOHE issues mentioned prior.
- The Board of Trustees and administrators continue their review of current and long-term capital needs. As was mentioned earlier, the District has set aside funds in the current year budget for such matters and could consider budget amendments to resolve some of these stated needs, using fund balance determined to be expendable.
- The 2019-2020 budget adopted for debt service reflects an excess of \$610,491. This excess is for two purposes. First, \$470,000 of this excess will be set aside as part of Kilgore ISD’s long term debt strategy to pay the principal on Series 2012 Qualified School Construction Bonds on their call date in 2027. Secondly, the remaining portion of this excess is part of the District’s long-term plan to keep the debt service rate constant and using accumulated fund balance to pay down callable debt, saving as much interest cost as possible for the taxpayers of Kilgore ISD.
- The 2019-2020 general fund budget was based on anticipated average daily attendance mimicking that from 2018-2019.
- Unemployment rates for both Gregg and Rusk Counties have improved for the third consecutive year, with rates again lower than they were just twelve months ago. That stated, each continues to hover above the state and are relatively equal to national averages. Gregg and Rusk County rates for August 2019, at 3.9% and 3.8% respectively, compare to the state and national averages of 3.4% and 3.8 respectively.
- Sales tax numbers for the City of Kilgore show materially consistent numbers for the past two years, remaining above levels from 2015 through 2017, although still below many of the years from 2008 through 2014. These numbers point to the overall Kilgore economy being flat. The Kilgore and East Texas economy once very reliant on the oil and gas industry continues to make strides attempting to diversify into other industries.

The district’s overall tax rate for 2019-2020 was lowered by \$0.07 from 2018-2019 to \$1.2392, \$0.97 maintenance and operations plus \$0.2692 debt service. The rate is the first change since 2007-2008. The District’s debt service portion of rate has remained unchanged at \$0.2692 since 2011-2012, nine years.

As was noted previously, the decrease in the maintenance and operations rate is a direct result of HB3 passage.

Kilgore ISD will be very conservative in budgeting in the near future as we wait to see if these new resources are sustainable. Avenues for increases to the Districts overall revenue stream with the passage of HB3 will be even more limited than they have been in the past. HB3 added a 2.5% increase cap to what was already a short list of potential revenue generating possibilities.

All of these items considered, Kilgore ISD continued to use an overall conservative approach to setting the budget for 2019-2020. The district seeks a balance in the budget between committing resources to salary increases and other continuing expenditures and one-time commitments that can be removed easily if sustainability of these resources is not possible. We optimistically watch indicators in an attempt to maintain the best balance in the budget possible for our students, staff and community.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office at Kilgore Independent School District, 301 N. Kilgore Street, Kilgore, Texas 75662.

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Basic Financial Statements

KILGORE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2019

1

Data Control Codes	Governmental Activities
ASSETS:	
1110 <i>Cash and Cash Equivalents</i>	\$ 13,143,535
1120 <i>Current Investments</i>	5,886,315
1225 <i>Property Taxes Receivable (Net)</i>	1,393,549
1240 <i>Due from Other Governments</i>	3,229,574
1290 <i>Other Receivables (Net)</i>	51,179
1300 <i>Inventories</i>	93,142
Capital Assets:	
1510 <i>Land</i>	3,132,484
1520 <i>Buildings and Improvements, Net</i>	62,155,478
1530 <i>Furniture and Equipment, Net</i>	3,254,221
1800 <i>Restricted Assets</i>	506,610
1000 Total Assets	<u>92,846,087</u>
DEFERRED OUTFLOWS OF RESOURCES:	
	4,468,859
	1,730,555
1700 Total Deferred Outflows of Resources	<u>6,199,414</u>
LIABILITIES:	
2110 <i>Accounts Payable</i>	144,452
2140 <i>Interest Payable</i>	79,427
2165 <i>Accrued Liabilities</i>	1,762,213
2180 <i>Due to Other Governments</i>	578
2300 <i>Unearned Revenue</i>	87,723
Noncurrent Liabilities:	
2501 <i>Due Within One Year</i>	1,705,000
2502 <i>Due in More Than One Year</i>	43,725,125
2540 <i>Net Pension Liability</i>	8,457,612
2545 <i>Net OPEB Liability</i>	13,621,805
2000 Total Liabilities	<u>69,583,935</u>
DEFERRED INFLOWS OF RESOURCES:	
	488,046
	4,307,543
2600 Total Deferred Inflows of Resources	<u>4,795,589</u>
NET POSITION:	
3200 Net Investment in Capital Assets	23,112,058
Restricted For:	
3820 <i>State and Federal Programs</i>	801,161
3850 <i>Debt Service</i>	2,812,484
3900 <i>Unrestricted</i>	(2,059,726)
3000 Total Net Position	<u>\$ 24,665,977</u>

The accompanying notes are an integral part of this statement.

KILGORE INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2019

Data Control Codes	Functions/Programs	1	3	4	Net (Expense) Revenue and Changes in Net Position
		Expenses	Program Revenues		Governmental Activities
			Charges for Services	Operating Grants and Contributions	
	Governmental Activities:				
11	Instruction	\$ 21,992,323	\$ 183,700	\$ 2,152,923	\$ (19,655,700)
12	Instructional Resources and Media Services	535,698	89	26,873	(508,736)
13	Curriculum and Staff Development	965,123	131	207,023	(757,969)
21	Instructional Leadership	409,404	69	24,914	(384,421)
23	School Leadership	2,290,017	375	116,646	(2,172,996)
31	Guidance, Counseling, & Evaluation Services	1,526,728	227	164,634	(1,361,867)
33	Health Services	312,828	52	16,544	(296,232)
34	Student Transportation	1,491,028	221	54,806	(1,436,001)
35	Food Service	2,333,555	358,340	1,781,146	(194,069)
36	Cocurricular/Extracurricular Activities	1,818,122	67,181	40,189	(1,710,752)
41	General Administration	1,360,466	233	64,638	(1,295,595)
51	Facilities Maintenance and Operations	4,180,737	744	55,499	(4,124,494)
52	Security and Monitoring Services	288,611	52	1,011	(287,548)
53	Data Processing Services	485,083	84	17,167	(467,832)
61	Community Services	6,541	1	771	(5,769)
72	Interest on Long-term Debt	1,833,363	--	--	(1,833,363)
73	Bond Issuance Costs and Fees	5,100	--	--	(5,100)
99	Other Intergovernmental Charges	334,438	--	--	(334,438)
TG	Total Governmental Activities	<u>42,169,165</u>	<u>611,499</u>	<u>4,724,784</u>	<u>(36,832,882)</u>
TP	Total Primary Government	<u>\$ 42,169,165</u>	<u>\$ 611,499</u>	<u>\$ 4,724,784</u>	<u>(36,832,882)</u>
	General Revenues:				
MT	Property Taxes, Levied for General Purposes				15,946,138
DT	Property Taxes, Levied for Debt Service				4,240,608
IE	Investment Earnings				631,603
GC	Grants and Contributions Not Restricted to Specific Programs				17,505,150
MI	Miscellaneous				562,450
TR	Total General Revenues				<u>38,885,949</u>
CN	Change in Net Position				2,053,067
NB	Net Position - Beginning				22,612,910
NE	Net Position - Ending				<u>\$ 24,665,977</u>

The accompanying notes are an integral part of this statement.

KILGORE INDEPENDENT SCHOOL DISTRICT**BALANCE SHEET - GOVERNMENTAL FUNDS**

AUGUST 31, 2019

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds	
ASSETS:					
1110	Cash and Cash Equivalents	\$ 10,273,658	\$ 2,067,079	\$ 802,798	\$ 13,143,535
1120	Current Investments	5,886,125	190	--	5,886,315
1225	Taxes Receivable, Net	1,147,213	246,336	--	1,393,549
1240	Due from Other Governments	2,803,507	--	426,067	3,229,574
1260	Due from Other Funds	156,704	18,938	36,421	212,063
1290	Other Receivables	45,258	5,891	30	51,179
1300	Inventories	--	--	93,142	93,142
1800	Restricted Assets	--	474,628	31,982	506,610
1000	Total Assets	<u>20,312,465</u>	<u>2,813,062</u>	<u>1,390,440</u>	<u>24,515,967</u>
LIABILITIES:					
Current Liabilities:					
2110	Accounts Payable	\$ 144,113	\$ --	\$ 339	\$ 144,452
2150	Payroll Deductions & Withholdings	2,736	--	--	2,736
2160	Accrued Wages Payable	1,549,976	--	209,501	1,759,477
2170	Due to Other Funds	55,359	--	156,704	212,063
2180	Due to Other Governments	--	578	--	578
2300	Unearned Revenue	1,147,213	246,336	87,723	1,481,272
2000	Total Liabilities	<u>2,899,397</u>	<u>246,914</u>	<u>454,267</u>	<u>3,600,578</u>
FUND BALANCES:					
Nonspendable Fund Balances:					
3410	Inventories	--	--	93,141	93,141
3425	Endowment Principal	--	--	30,000	30,000
Restricted Fund Balances:					
3450	Federal/State Funds Grant Restrictions	--	--	708,020	708,020
3480	Retirement of Long-Term Debt	--	2,566,148	--	2,566,148
Committed Fund Balances:					
3510	Construction	3,000,000	--	--	3,000,000
3530	Capital Expenditures for Equipment	2,000,000	--	--	2,000,000
3545	Other Committed Fund Balance	--	--	105,012	105,012
Assigned Fund Balances:					
3560	Claims and Judgments	4,592,741	--	--	4,592,741
3600	Unassigned	7,820,327	--	--	7,820,327
3000	Total Fund Balances	<u>17,413,068</u>	<u>2,566,148</u>	<u>936,173</u>	<u>20,915,389</u>
4000	Total Liabilities and Fund Balances	<u>\$ 20,312,465</u>	<u>\$ 2,813,062</u>	<u>\$ 1,390,440</u>	<u>\$ 24,515,967</u>

The accompanying notes are an integral part of this statement.

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

Total fund balances - governmental funds balance sheet	\$ 20,915,389
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not reported in the funds.	68,542,183
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	1,393,549
Payables for bond principal which are not due in the current period are not reported in the funds.	(45,430,125)
Payables for bond interest which are not due in the current period are not reported in the funds.	(79,427)
The SOA includes the District's proportionate share of the TRS net pension liability, as well as certain pension related transactions accounted for as Deferred Inflows and Outflows of Resources.	(4,476,799)
The SOA included the District's proportionate share of the TRS OPEB liability, as well as certain OPEB related transactions accounted for as Deferred Inflows and Outflows of Resources.	(16,198,793)
Net position of governmental activities - Statement of Net Position	<u>\$ 24,665,977</u>

The accompanying notes are an integral part of this statement.

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

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
REVENUES:				
5700 <i>Local and Intermediate Sources</i>	\$ 17,637,390	\$ 4,473,111	\$ 630,402	\$ 22,740,903
5800 <i>State Program Revenues</i>	16,010,680	92,740	754,624	16,858,044
5900 <i>Federal Program Revenues</i>	304,150	139,528	3,850,567	4,294,245
5020 Total Revenues	<u>33,952,220</u>	<u>4,705,379</u>	<u>5,235,593</u>	<u>43,893,192</u>
EXPENDITURES:				
Current:				
0011 <i>Instruction</i>	16,945,711	--	2,523,196	19,468,907
0012 <i>Instructional Resources and Media Services</i>	469,114	--	9,984	479,098
0013 <i>Curriculum and Staff Development</i>	691,403	--	192,903	884,306
0021 <i>Instructional Leadership</i>	366,372	--	6,619	372,991
0023 <i>School Leadership</i>	2,004,142	--	64,151	2,068,293
0031 <i>Guidance, Counseling, & Evaluation Services</i>	1,206,759	--	145,587	1,352,346
0033 <i>Health Services</i>	273,133	--	--	273,133
0034 <i>Student Transportation</i>	1,238,375	--	--	1,238,375
0035 <i>Food Service</i>	4,250	--	2,071,226	2,075,476
0036 <i>Cocurricular/Extracurricular Activities</i>	1,479,752	--	145,981	1,625,733
0041 <i>General Administration</i>	1,234,544	--	--	1,234,544
0051 <i>Facilities Maintenance and Operations</i>	4,774,100	--	11,896	4,785,996
0052 <i>Security and Monitoring Services</i>	434,873	--	3,750	438,623
0053 <i>Data Processing Services</i>	445,653	--	--	445,653
0061 <i>Community Services</i>	5,754	--	787	6,541
0071 <i>Principal on Long-term Debt</i>	--	2,340,000	--	2,340,000
0072 <i>Interest on Long-term Debt</i>	--	1,836,942	--	1,836,942
0073 <i>Bond Issuance Costs and Fees</i>	--	5,100	--	5,100
0081 <i>Capital Outlay</i>	34,164	--	--	34,164
0099 <i>Other Intergovernmental Charges</i>	334,438	--	--	334,438
6030 Total Expenditures	<u>31,942,537</u>	<u>4,182,042</u>	<u>5,176,080</u>	<u>41,300,659</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>2,009,683</u>	<u>523,337</u>	<u>59,513</u>	<u>2,592,533</u>
Other Financing Sources and (Uses):				
7912 <i>Sale of Real or Personal Property</i>	6,139	--	--	6,139
7949 <i>Other Resources</i>	--	--	13,372	13,372
7080 Total Other Financing Sources and (Uses)	<u>6,139</u>	<u>--</u>	<u>13,372</u>	<u>19,511</u>
1200 Net Change in Fund Balances	<u>2,015,822</u>	<u>523,337</u>	<u>72,885</u>	<u>2,612,044</u>
0100 Fund Balances - Beginning	<u>15,397,246</u>	<u>2,042,811</u>	<u>863,288</u>	<u>18,303,345</u>
3000 Fund Balances - Ending	<u>\$ 17,413,068</u>	<u>\$ 2,566,148</u>	<u>\$ 936,173</u>	<u>\$ 20,915,389</u>

The accompanying notes are an integral part of this statement.

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

Net change in fund balances - total governmental funds	\$ 2,612,044
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	1,191,069
The depreciation of capital assets used in governmental activities is not reported in the funds.	(2,410,078)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(822,739)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	2,340,000
(Increase) decrease in accrued interest from beginning of period to end of period.	3,579
Bond premiums and discounts are reported in the funds but not in the SOA.	54,623
GASB 68 requires certain pension plan expenditures to be de-expended and recorded as Deferred Resource Outflows or expensed and recorded as Deferred Resource Inflows. This is the net result.	(696,574)
GASB 75 requires certain OPEB plan expenditures to be de-expended and recorded as Deferred Resource Outflows or expensed and recorded as Deferred Resource Inflows. This is the net result.	(218,857)
Change in net position of governmental activities - Statement of Activities	<u>\$ 2,053,067</u>

The accompanying notes are an integral part of this statement.

KILGORE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2019

<u>Data Control Codes</u>	<u>Agency Fund</u>
	<u>Student Activity</u>
ASSETS:	
1110 <i>Cash and Cash Equivalents</i>	\$ 113,758
1000 Total Assets	<u>113,758</u>
LIABILITIES:	
Current Liabilities:	
2190 <i>Due to Student Groups</i>	<u>113,758</u>
2000 Total Liabilities	<u>113,758</u>
NET POSITION:	
3000 Total Net Position	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2019

A. Summary of Significant Accounting Policies

The basic financial statements of Kilgore 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 elected by the public 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 for 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 and there are no component units included within the District's reporting entity.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Financial Statements: The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange 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 and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. 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, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's 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.

The District reports the following major governmental funds:

General Fund: This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

Debt Service Fund: This fund accounts for the use of ad valorem taxes and other revenues collected for the purpose of retiring bond principal and paying interest when due. The main source of revenue for debt service is the apportionment of local property taxes.

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2019

The District reports the following non-major governmental funds:

Special Revenue Fund: These funds are used to account for Food Services activities, federal and state financed programs and other local programs.

In addition, the District reports the following fund types:

Agency Funds: These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements.

b. Measurement Focus, Basis of Accounting

Government-wide and Fiduciary Fund 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 when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. 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 does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. 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.

3. Financial Statement Amounts

a. 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 when they become due or past due and receivable within the current period.

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2019

Allowances for uncollectible tax receivables within the General and Debt Service Funds are 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.

b. Inventories and Prepaid Items

Inventories of supplies on the balance sheet are stated at weighted average cost, while inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Inventory items are recorded as expenditures when 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 Texas Department of Human Services and recorded as inventory and deferred revenue when received. When requisitioned, inventory and deferred revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount. Inventories also include plant maintenance and operation supplies as well as instructional supplies.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

c. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are 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:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30
Buildings	50
Building Improvements	20
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

d. Deferred Outflows and Inflows of Resources

In addition to assets, the statements of financial position (the government-wide Statement of Net Position and governmental funds balance sheet) 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 and/or fund balance that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements 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 one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time.

e. Receivable and Payable Balances

The District believes that 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.

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2019

There are no significant receivables which are not scheduled for collection within one year of year end.

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 interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

g. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

h. Data Control Codes

Data Control Codes appear in the rows and above the columns of certain financial statements. The 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. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the District's Board of Trustees. Committed amounts cannot be used for any other purpose unless the Board of Trustees removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the Board of Trustees. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance - represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the Board of Trustees or by an official or body to which the Board of Trustees delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund convey that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2019

j. Net Position Flow Assumption

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

k. Fund Balance Flow Assumptions

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

4. 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.

5. 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.

6. Implementation of New Standards

In the current fiscal year, the District implemented the following new standards. The applicable provisions of the new standards are summarized below. Implementation is reflected in the financial statements and the notes to the financial statements.

GASB 88 - Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements

The primary objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

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This statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

GASB Statement No. 83, Certain Asset Retirement Obligations

This statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement.

The District does not currently have any AROs and does not expect that implementation of the pronouncement will have an impact on the financial statements.

GASB Statement No. 90, Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61

The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. This Statement also establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

GASB Statement No. 84, Fiduciary Activities

This statement establishes standards of accounting and financial reporting by establishing specific criteria for identifying activities that should be reported as fiduciary activities and clarifying whether and how business-type activities should report their fiduciary activities. The focus of the criteria generally is on whether a government is controlling the assets of the fiduciary activity and the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

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2. Deficit Fund Balance or Fund Net Position of Individual Funds

Following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

C. Deposits and Investments

The District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the District's agent bank approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

1. Cash Deposits:

At August 31, 2019, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$13,253,206 and the bank balance was \$13,808,936. The District's cash deposits at August 31, 2019 and during the year ended August 31, 2019, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

The District's cash deposits can be tied to the exhibits as follows:

Exhibit C-1 - Cash and Cash Equivalents	\$ 13,143,535
Exhibit E-1 - Cash and Cash Equivalents	113,758
	<u>13,257,293</u>
Less Petty Cash	(4,087)
Total Cash and Cash Equivalents	<u>\$ 13,253,206</u>

2. Investments:

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 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 basic 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, U.S. agencies, and the State of Texas, 2) certificates of deposit, 3) certain municipal securities, 4) securities lending program, 5) repurchase agreements, 6) bankers acceptances, 7) mutual funds, 8) investment pools, 9) guaranteed investment contracts, and 10) commercial paper.

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The District's investments at August 31, 2019 are shown below:

	Assets at Fair Value as of August 31, 2019			
	Level 1	Level 2	Level 3	Total
Lone Star Investment Pool	\$ --	\$ 2,218,072	\$ --	\$ 2,218,072
Texas CLASS	--	3,180,189	--	3,180,189
TexPool	--	519,846	--	519,846
BOK Financial	--	474,818	--	474,818
Total Investments	<u>\$ --</u>	<u>\$ 6,392,925</u>	<u>\$ --</u>	<u>\$ 6,392,925</u>

The District's investments can be tied to the exhibits as follows:

Exhibit C-1 - Current Investments	\$ 5,886,315
Exhibit C-1 - Restricted Assets	506,610
Total Investments	<u>\$ 6,392,925</u>

3. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 required a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District was not significantly exposed to credit risk.

b. Custodial Credit Risk

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

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

At year end, the District was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

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Investment Accounting Policy

The District's general policy is to report money market investments and short-term participating interest-earning investment contracts 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

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment 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 AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The District's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

Lone Star

The Lone Star Investment Pool (Lone Star) is a public funds investment pool created pursuant to the Interlocal Cooperation Act, Texas Government Code, Chapter 791, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. Lone Star is administered by First Public, a subsidiary of the Texas Association of School Boards (TASB), with Standish and American Beacon Advisors managing the investment and reinvestment of Lone Star's assets. State Street Bank provides custody and valuation services to Lone Star. All of the board of trustees' eleven members are Lone Star participants by either being employees or elected officials of a participant. Lone Star has established an advisory board composed of both pool members and non-members. Lone Star is rated AAA by Standard and Poor's and operated in a manner consistent with the the SEC's Rule 2a7 of the Investment Company Act of 1940. The District is invested in the Government Overnight Fund of Lone Star which seeks to maintain a net asset value of one dollar. Lone Star has 3 different funds: Government Overnight, Corporate Overnight, and Corporate Overnight Plus. Government Overnight, Corporate Overnight, and Corporate Overnight Plus maintain a net asset value of one dollar.

TexPool

The District invests in the Texas Local Government Investment Pool (TexPool), which is a local government investment pool that was established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and operates under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The State Comptroller of Public Accounts oversees TexPool. Federated Investors, Inc. is the administrator and investment manager of TexPool under a contract with the State Comptroller. In accordance with the Public Funds Investment Act, the State Comptroller has appointed the TexPool Investment Advisory Board to advise with respect to TexPool. The board is composed equally of participants in TexPool Portfolios and other persons who do not have a business relationship with TexPool Portfolios and are qualified to advise in respect to TexPool Portfolios. The Advisory Board members review the investment policy and management fee structure. TexPool is rated AAAM by Standard & Poor's and operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. All investments are stated at amortized cost, which usually approximates the market value of the securities. The stated objective of TexPool is to maintain a stable average \$1.00 per unit net asset value; however, the \$1.00 net asset value is not guaranteed or insured. The financial statements can be obtained from the Texas Trust Safekeeping Trust Company website at www.ttstc.org.

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Texas CLASS

The District invests in Texas CLASS, which is a local government investment pool organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and operates under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The pool is governed by a board of trustees, elected annually by its participants. The parties to the Trust Agreement are Texas local government entities that choose to participate in the Trust (the "Participants"), Public Trust Advisors LLC (PTA) as Program Administrator and Wells Fargo Bank Texas, N.A. as Custodian. Texas CLASS is rated at a AAAM or equivalent rating from at least one nationally recognized rating agency and operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Texas CLASS seeks to maintain a net asset value of \$1.00 per unit and is designed to be used for investment of funds which may be needed at any time.

D. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 3,132,484	\$ --	\$ --	\$ 3,132,484
Total capital assets not being depreciated	<u>3,132,484</u>	<u>--</u>	<u>--</u>	<u>3,132,484</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	85,512,797	796,232	--	86,309,029
Equipment	10,119,206	208,806	--	10,328,012
Vehicles	4,149,678	186,031	53,611	4,282,098
Total capital assets being depreciated	<u>99,781,681</u>	<u>1,191,069</u>	<u>53,611</u>	<u>100,919,139</u>
Less accumulated depreciation for:				
Buildings and improvements	(22,378,279)	(1,775,272)	--	(24,153,551)
Equipment	(7,183,474)	(440,060)	--	(7,623,534)
Vehicles	(3,591,220)	(194,746)	(53,611)	(3,732,355)
Total accumulated depreciation	<u>(33,152,973)</u>	<u>(2,410,078)</u>	<u>(53,611)</u>	<u>(35,509,440)</u>
Total capital assets being depreciated, net	<u>66,628,708</u>	<u>(1,219,009)</u>	<u>--</u>	<u>65,409,699</u>
Governmental activities capital assets, net	<u>\$ 69,761,192</u>	<u>\$ (1,219,009)</u>	<u>\$ --</u>	<u>\$ 68,542,183</u>

Depreciation was charged to functions as follows:

Instruction	\$ 1,242,185
Instructional Resources and Media Services	28,991
Curriculum and Staff Development	37,777
Instructional Leadership	11,860
School Leadership	103,510
Guidance, Counseling, & Evaluation Services	86,118
Health Services	22,402
Student Transportation	268,301
Food Services	181,436
Extracurricular Activities	177,884
General Administration	48,758
Plant Maintenance and Operations	170,719
Security and Monitoring Services	8,092
Data Processing Services	22,045
	<u>\$ 2,410,078</u>

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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E. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at August 31, 2019, consisted of the following:

<u>Due To Fund</u>	<u>Due From Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Special Revenue Funds	\$ 156,704	Short-term loans
Special Revenue Funds	General Fund	36,421	For transfer of federal receipts
Debt Service Fund	General Fund	18,938	Short-term loans
	Total	<u>\$ 212,063</u>	

All amounts due are scheduled to be repaid within one year.

F. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended August 31, 2019, are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<u>Governmental activities:</u>					
General obligation bonds	\$ 46,925,000	\$ --	\$ 2,340,000	\$ 44,585,000	\$ 1,705,000
Bond Issue Premium	901,675	--	54,851	846,824	--
Bond Issue Discount	(1,927)	--	(228)	(1,699)	--
Net Pension Liability *	4,819,036	4,156,205	517,629	8,457,612	--
Net OPEB Liability *	11,400,917	2,409,090	188,202	13,621,805	--
Total governmental activities	<u>\$ 64,044,701</u>	<u>\$ 6,565,295</u>	<u>\$ 3,100,454</u>	<u>\$ 67,509,542</u>	<u>\$ 1,705,000</u>

Interest rates on bonds range from 1.5% to 5.5%.

* Other long-term liabilities

The funds typically used to liquidate other long-term liabilities in the past are as follows:

<u>Liability</u>	<u>Activity Type</u>	<u>Fund</u>
Net Pension Liability *	Governmental	General
Net OPEB Liability *	Governmental	General

2. Debt Service Requirements

Debt service requirements on long-term debt at August 31, 2019, are as follows:

<u>Year Ending August 31,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 1,705,000	1,766,043	3,471,043
2021	1,770,000	1,702,618	3,472,618
2022	1,835,000	1,636,292	3,471,292
2023	1,905,000	1,566,855	3,471,855
2024	1,970,000	1,494,305	3,464,305
2025-2029	13,765,000	5,976,455	19,741,455
2030-2034	12,030,000	3,356,575	15,386,575
2035-2039	9,605,000	729,188	10,334,188
Totals	<u>\$ 44,585,000</u>	<u>\$ 18,228,331</u>	<u>\$ 62,813,331</u>

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2019

3. Bond Redemption

On October 22, 2018, the District passed an order to redeem a portion of the Kilgore Independent School District Unlimited Tax School Building Bonds, Series 2011, scheduled to mature on February 15, 2038 and aggregating in principal amount of \$1,000,000. These bonds were redeemed on February 15, 2019 at the price of par plus accrued interest to the date of redemption. The District saved a total of \$831,250 in interest by redeeming the bonds. After redeeming the bonds, there is remaining outstanding principal of \$1,090,000 of the original bonds scheduled to mature on February 15, 2038.

G. Risk Management

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2019, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

H. Pension Plan

1. 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) and is established and administered in accordance with the Texas Constitution, Article XVI, Section 67, and Texas Government Code, Title 8, Subtitle C. The pension trust fund is 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.

2. 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 by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; on the internet at <https://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; or by calling (512) 542-6592.

3. 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% (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description in (1.) above.

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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4. 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 through 2017. The 85th Texas Legislature, General Appropriations Act (GAA) affirmed that the employer contribution rates for fiscal years 2018 and 2019 would remain the same.

	<u>Contribution Rates</u>	
	2018	2019
Member	7.7%	7.7%
Non-Employer Contributing Entity (NECE - State)	6.8%	6.8%
Employers	6.8%	6.8%
District's 2019 Employer Contributions	\$ 533,152	
District's 2019 Member Contributions	\$ 1,627,457	
2018 NECE On-Behalf Contributions (state)	\$ 1,124,610	

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

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

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

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

5. 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:

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%
Salary Increases including inflation	3.05% to 9.05%
Payroll Growth Rate	3.00%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

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

6. Discount Rate

The single discount rate used to measure the total pension liability was 6.907%. The single discount rate was based on the expected rate of return on the pension plan investments of 7.25% and a municipal bond rate of 3.69%. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was 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 projected benefit payments through the year 2069, and the municipal 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:

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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Teacher Retirement System of Texas			
Asset Allocation and Long-Term Expected Rate of Return			
As of August 31, 2018			
Asset Class	Target Allocation	Long-term Expected Geometric Real Rate of Return	Expected Contribution to Long-term Portfolio Returns *
Global Equity			
U.S.	18.0%	5.7%	1.0%
Non-U.S. Developed	13.0%	6.9%	0.9%
Emerging Markets	9.0%	8.9%	0.8%
Directional Hedge Funds	4.0%	3.5%	0.1%
Private Equity	13.0%	10.2%	1.3%
Stable Value			
U.S. Treasuries	11.0%	1.1%	0.1%
Absolute Return	0.0%	0.0%	0.0%
Stable Value Hedge Funds	4.0%	3.1%	0.1%
Cash	1.0%	-0.3%	0.0%
Real Return			
Global Inflation Linked Bonds	3.0%	0.7%	0.0%
Real Assets	14.0%	5.2%	0.7%
Energy & Natural Resources	5.0%	7.5%	0.4%
Commodities	0.0%	0.0%	0.0%
Risk Parity			
Risk Parity	5.0%	3.7%	0.2%
Inflation Expectation			2.3%
Alpha			-0.8%
Total	<u><u>100.0%</u></u>		<u><u>7.2%</u></u>
* Target allocation are based on the FY 2016 policy model.			
** The expected contribution to Returns incorporates the volatility drag resulting from the conversion between Arithmetic and Geometric mean returns.			

7. 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.

	1% Decrease in Discount Rate 5.907%	Discount Rate 6.907%	1% Increase in Discount Rate 7.907%
District's proportionate share of the net pension liability	\$ 12,764,565	\$ 8,457,612	\$ 4,970,879

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2019

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

At August 31, 2019, the District reported a liability of \$8,457,612 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	\$ 8,457,612
State's proportionate share that is associated with District	<u>18,386,603</u>
Total	<u>\$ 26,844,215</u>

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 August 31, 2017 rolled forward to August 31, 2018. The District's proportion of the net pension liability was based on the District's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2017 through August 31, 2018.

At August 31, 2018 the employer's proportion of the collective net pension liability was 0.0153656%. which was an increase (decrease) of 0.0002941794% 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 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% as of August 31, 2017 to 6.907% as of August 31, 2018.
- The long-term assumed rate of return changed from 8.0% to 7.25%.
- The change in the long-term assumed rate of return combined with the change in the single discount rate was the primary reason for the increase in the Net Pension Liability.

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

For the year ended August 31, 2019, the District recognized pension expense of \$3,049,510 and revenue of \$1,819,784 for support provided by the State.

At August 31, 2019, the District reported its proportionate share of the TRS' deferred outflows of resources and deferred inflows of resources related to pensions from the following sources: (The amounts below will be the cumulative layers from the current and prior years combined)

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2019

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 52,718	\$ 207,516
Changes in actuarial assumptions	3,049,377	95,293
Difference between projected and actual investment earnings	--	160,477
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	833,612	24,760
Contributions paid to TRS subsequent to the measurement date	533,152	--
 Total	 \$ 4,468,859	 \$ 488,046

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

Year Ended August 31	Pension Expense Amount
2020	\$ 934,254
2021	\$ 596,541
2022	\$ 498,856
2023	\$ 544,186
2024	\$ 529,476
Thereafter	\$ 344,348

I. Defined Other Post-Employment Benefit Plans

1. 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.

2. 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.

3. 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.

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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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 a retiree with and without Medicare coverage.

TRS-Care Monthly for Retirees January 1, 2018 thru December 31, 2018		
	Medicare	Non-Medicare
Retiree*	\$ 135	\$ 200
Retiree and Spouse	529	689
Retiree* and Children	468	408
Retiree and Family * or surviving spouse	1,020	999

4. Contributions

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

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 0.75% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25% 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%
District's 2019 Employer Contributions		\$ 194,825
District's 2019 Member Contributions		\$ 137,278
2018 NECE On-Behalf Contributions (state)		\$ 239,817

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2019

In addition to the employer contributions listed above, there is an additional surcharge all TRS employers are subject to (regardless of whether they participate in the TRS Care OPEB program). When hiring a TRS retiree, employers 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 in 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.

5. Actuarial Assumptions

The total OPEB liability in the August 31, 2017 actuarial valuation was rolled forward to August 31, 2018. The actuarial valuation was determined using the following actuarial assumptions:

The actuarial valuation of TRS-Care is similar to the actuarial valuations performed on the pension plan, except that the OPEB valuation is more complex. All of the demographic assumptions, including rates of retirement, termination, and disability, and most of the economic assumptions, including general inflation, salary increases, and general payroll growth, used in the OPEB valuation were identical to those used in the respective TRS pension valuation. Since the assumptions were based upon a recent actuarial experience study performed and they were reasonable for this OPEB valuation, they were employed in the 2018 CAFR for the Teacher Retirement System of Texas.

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

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

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2017 rolled forward to August 31, 2018
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Single Discount Rate *	3.69% *
Aging Factors	Based on plan specific experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Payroll Growth Rate	3.00%
Projected Salary Increases	3.05% to 9.05%, including inflation ***
Healthcare Trend Rates **	8.50% **
Election Rates	Normal Retirement: 70% participation prior to age 65 and 75% after age 65.
Ad Hoc Post-Employment Benefit Changes	None

*Sourced from 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.

**8.50% for FY2019, decreasing 0.5% per year to 4.50% for FY2027 and later years.

*** Includes inflation at 2.5%.

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2019

6. Discount Rate

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

7. Discount Rate Sensitivity Analysis

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

	1% Decrease in Discount Rate (2.69%)	Current Single Discount Rate (3.69%)	1% Increase in Discount Rate (4.69%)
District's proportionate share of net OPEB liability	\$ 16,214,628	\$ 13,621,805	\$ 11,570,714

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

At August 31, 2019, the District reported a liability of \$13,621,805 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	\$ 13,621,805
State's proportionate share that is associated with the District	<u>17,382,427</u>
Total	<u>\$ 31,004,232</u>

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 District's proportion of the Net OPEB liability was based on the District's contributions to OPEB relative to the contributions of all employers to the plan for the period September 1, 2017 thru August 31, 2018.

At August 31, 2019 the District's proportion of the collective net OPEB liability was 0.0272813%, which was an increase of .0010640102% from its proportion measured as of August 31, 2017.

The following schedule shows the impact of the net OPEB liability if a healthcare trend rate that is 1% less than and 1% greater than the assumed 8.5% rate is used.

	1% Decrease	Current Single Healthcare Trend Rate (8.5%)	1% Increase
District's proportionate share of net OPEB liability	\$ 11,313,131	\$ 13,621,805	\$ 16,662,378

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2019

9. 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:

- 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 change increased the Total OPEB Liability.
- The discount rate was changed from 3.42% as of August 31, 2017 to 3.69% 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.

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%.
- Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.
- There were no special adjustments to the dollar limit other than those permissible for non-Medicare retirees over 55.

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

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

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

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

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

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2019

For the year ended August 31, 2019, the District recognized OPEB expense of \$1,045,950 and revenue of \$632,268 for support provided by the State.

At August 31, 2019, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between expected and actual economic experience	\$ 722,859	\$ 214,972
Changes in actuarial assumptions	227,311	4,092,571
Differences between projected and actual investment earnings	2,382	--
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	583,178	--
Contributions paid to TRS subsequent to the measurement date	<u>194,825</u>	<u>--</u>
Total	<u>\$ 1,730,555</u>	<u>\$ 4,307,543</u>

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

<u>Year Ended August 31</u>	<u>Amount</u>
2020	\$ (463,573)
2021	\$ (463,573)
2022	\$ (463,573)
2023	\$ (464,024)
2024	\$ (464,282)
Thereafter	\$ (452,787)

10. Medicare Part D Subsidies

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. For the current fiscal year ended August 31, 2019 the subsidy payment received by TRS-Care on behalf of the District was \$81,714.

J. Employee Health Care Coverage

During the year ended August 31, 2019, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of \$241 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the District and the licensed insurer is renewable September 1, and terms of coverage and premium costs are included in the contractual provisions.

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2019

Latest financial statements for the Plan have been filed with the Texas State Board of Insurance and are available as public record.

K. 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 collectibility 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.

2. Litigation

The District is involved in a lawsuit whereby taxpayers are seeking to recover the additional local option homestead exemption which the District's Board of Trustees rescinded in 2015. The District intends to vigorously defend the litigation. Although the District believes it was correct in its decision to rescind the local homestead option, they have decided to assign \$4,592,741 of fund balance in the general fund, taking a conservative approach in planning for the District's future.

L. Worker's Compensation Fund

The District participates in the Deep East Texas Self Insurance Fund for workers' compensation. The Fund was created to formulate, develop and administer a program of modified self-funding for the Fund's membership, obtain competitive costs for workers' compensation coverage and develop a comprehensive loss control program. The District pays an annual premium to the Fund for its worker's compensation coverage and transfers the risk of loss to the Fund. The District's agreement with the Fund provides that the Fund will be self-sustaining through member premiums and will provide, through commercial companies, reinsurance contracts. The Fund maintains stop loss coverage for any claim in excess of the Fund's self-insured retention of \$2,000,000 per accident. In the event that the Fund was to discontinue operations, the member districts would be responsible for any eligible claims not funded by the Fund. In addition, 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.

M. Unemployment Compensation

During the year ended August 31, 2019, the District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund).

The Fund was created and is operated under the provision of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

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

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2019

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2018, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

N. Auto, Liability and Property Insurance

During the year ended August 31, 2019, the District participated in the following TASB Risk Management Fund (the Fund) programs:

Auto Liability	Legal Liability	Property
Auto Physical Damage	Privacy and Information Security	

The Fund was created and is operated under the provision of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for its Auto, Liability and Property programs. The terms and limits of the stop-loss program vary by line of coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended August 31, 2019, the Fund anticipates that the District has no additional liability beyond the contractual obligations for payment of contributions.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2018, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

O. Due from Other Governments

The District participated in a variety of federal and state programs from which it received grants to partially or fully finance certain activities. The District also receives entitlements from the State through the School Foundation and Per Capita Programs. In addition, the District receives a refund of taxes paid on gasoline or diesel fuel.

Amounts due from federal and state governments as of August 31, 2019 are summarized by fund type below:

	General	Special Revenue	Total
Federal Revenue	\$ --	\$ 426,067	\$ 426,067
State Revenue	2,384,314	--	2,384,314
Other	419,193	--	419,193
Totals	<u>\$ 2,803,507</u>	<u>\$ 426,067</u>	<u>\$ 3,229,574</u>

Amounts due to federal and state governments as of August 31, 2019 are summarized below:

	<u>Debt Service</u>
State Revenue	<u>\$ 578</u>

P. Taxes Receivable

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

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2019

At August 31, 2019, the components of delinquent taxes receivable are as follows:

	General Fund	Debt Service	Total
Delinquent Taxes	\$ 1,780,075	\$ 314,738	\$ 2,094,813
Allowance	(632,862)	(68,402)	(701,264)
Net Taxes Receivable	<u>\$ 1,147,213</u>	<u>\$ 246,336</u>	<u>\$ 1,393,549</u>

Q. Other Receivables

Other receivables as of August 31, 2019, consisted primarily of taxes collected by the tax office, but not yet deposited to the District's bank, a grant from a local foundation and miscellaneous other receivables:

	General Fund	Special Revenue Fund	Debt Service Fund	Total
Ad Valorem Taxes	\$ 21,611	\$ --	\$ 5,891	\$ 27,502
Other	23,647	30	--	23,677
Total Other Receivables	<u>\$ 45,258</u>	<u>\$ 30</u>	<u>\$ 5,891</u>	<u>\$ 51,179</u>

R. Other Committed or Assigned Fund Balance

Other committed fund balance includes the following commitments of funds:

Campus Activity Funds	\$ 103,030
Gene and Nora Elder Scholarship	1,982
Total Other Committed Fund Balance	<u>\$ 105,012</u>

S. Local and State Revenue

During the year ending August 31, 2019, revenues from local and intermediate sources consisted of the following:

	General Fund	Debt Service Fund	Other	Total
Property Taxes	\$ 16,626,644	\$ 4,382,843	\$ --	\$ 21,009,487
Investment Earnings	513,887	89,618	28,098	631,603
Co-curricular Activities	66,910	--	74,695	141,605
Food Service	--	--	358,343	358,343
Gifts and Bequests	56,352	--	17,436	73,788
Other Revenue	379,736	650	165,202	545,588
Totals	<u>\$ 17,643,529</u>	<u>\$ 4,473,111</u>	<u>\$ 643,774</u>	<u>\$ 22,760,414</u>

T. Restricted Assets

Restricted assets at August 31, 2019 consist of the following:

Gene and Nora Elder Scholarship Funds	\$ 31,982
Sinking Fund Investment Account for the Unlimited Tax Qualified School Construction Bonds, Series 2012	474,628
	<u>\$ 506,610</u>

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Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

KILGORE INDEPENDENT SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2019

EXHIBIT G-1

Page 1 of 2

Data Control Codes	Budgeted Amounts			Variance with Final Budget Positive (Negative)	
	1	2	3		
	Original	Final	Actual		
REVENUES:					
5700	Local and Intermediate Sources	\$ 17,475,603	\$ 17,542,043	\$ 17,637,390	\$ 95,347
5800	State Program Revenues	15,739,087	15,739,087	16,010,680	271,593
5900	Federal Program Revenues	620,000	620,000	304,150	(315,850)
5020	Total Revenues	<u>33,834,690</u>	<u>33,901,130</u>	<u>33,952,220</u>	<u>51,090</u>
EXPENDITURES:					
Current:					
Instruction & Instructional Related Services:					
0011	Instruction	17,405,611	17,324,018	16,945,711	378,307
0012	Instructional Resources and Media Services	438,258	485,287	469,114	16,173
0013	Curriculum and Staff Development	797,633	775,634	691,403	84,231
	Total Instruction & Instr. Related Services	<u>18,641,502</u>	<u>18,584,939</u>	<u>18,106,228</u>	<u>478,711</u>
Instructional and School Leadership:					
0021	Instructional Leadership	374,858	382,284	366,372	15,912
0023	School Leadership	1,955,851	2,026,404	2,004,142	22,262
	Total Instructional & School Leadership	<u>2,330,709</u>	<u>2,408,688</u>	<u>2,370,514</u>	<u>38,174</u>
Support Services - Student (Pupil):					
0031	Guidance, Counseling and Evaluation Services	1,300,087	1,226,645	1,206,759	19,886
0033	Health Services	279,133	289,133	273,133	16,000
0034	Student (Pupil) Transportation	1,378,830	1,404,452	1,238,375	166,077
0035	Food Services	1,600	21,864	4,250	17,614
0036	Cocurricular/Extracurricular Activities	1,380,449	1,505,995	1,479,752	26,243
	Total Support Services - Student (Pupil)	<u>4,340,099</u>	<u>4,448,089</u>	<u>4,202,269</u>	<u>245,820</u>
Administrative Support Services:					
0041	General Administration	1,308,128	1,317,778	1,234,544	83,234
	Total Administrative Support Services	<u>1,308,128</u>	<u>1,317,778</u>	<u>1,234,544</u>	<u>83,234</u>
Support Services - Nonstudent Based:					
0051	Plant Maintenance and Operations	4,918,904	4,943,020	4,774,100	168,920
0052	Security and Monitoring Services	300,770	467,588	434,873	32,715
0053	Data Processing Services	514,073	542,576	445,653	96,923
	Total Support Services - Nonstudent Based	<u>5,733,747</u>	<u>5,953,184</u>	<u>5,654,626</u>	<u>298,558</u>
Ancillary Services:					
0061	Community Services	6,325	12,191	5,754	6,437
	Total Ancillary Services	<u>6,325</u>	<u>12,191</u>	<u>5,754</u>	<u>6,437</u>
Capital Outlay:					
0081	Capital Outlay	--	45,000	34,164	10,836
	Total Capital Outlay	<u>--</u>	<u>45,000</u>	<u>34,164</u>	<u>10,836</u>
0099	Other Intergovernmental Charges	332,090	350,090	334,438	15,652
	Total Intergovernmental Charges	<u>332,090</u>	<u>350,090</u>	<u>334,438</u>	<u>15,652</u>
6030	Total Expenditures	<u>32,692,600</u>	<u>33,119,959</u>	<u>31,942,537</u>	<u>1,177,422</u>
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	<u>1,142,090</u>	<u>781,171</u>	<u>2,009,683</u>	<u>1,228,512</u>

KILGORE INDEPENDENT SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2019

EXHIBIT G-1

Page 2 of 2

Data Control Codes	1		2	3	Variance with Final Budget Positive (Negative)
	Budgeted Amounts			Actual	
	Original	Final			
	Other Financing Sources (Uses):				
7912	<i>Sale of Real or Personal Property</i>	\$ --	\$ --	\$ 6,139	\$ 6,139
7080	Total Other Financing Sources and (Uses)	--	--	6,139	6,139
1200	Net Change in Fund Balance	<u>1,142,090</u>	<u>781,171</u>	<u>2,015,822</u>	<u>1,234,651</u>
0100	Fund Balance - Beginning	<u>15,397,246</u>	<u>15,397,246</u>	<u>15,397,246</u>	--
3000	Fund Balance - Ending	<u>\$ 16,539,336</u>	<u>\$ 16,178,417</u>	<u>\$ 17,413,068</u>	<u>\$ 1,234,651</u>

KILGORE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM
FOR THE YEAR ENDED AUGUST 31, 2019

	Fiscal Year			
	2018	2017	2016	2015
District's proportion of the net pension liability (asset)	0.015%	0.015%	0.015%	0.016%
District's proportionate share of the net pension liability (asset)	\$ 8,457,612	\$ 4,819,036	\$ 5,608,679	\$ 5,578,550
State's proportionate share of the net pension liability (asset) associated with the District	18,386,603	10,929,124	13,494,212	12,956,186
Total	\$ 26,844,215	\$ 15,748,160	\$ 19,102,891	\$ 18,534,736
District's covered-employee payroll	\$ 21,106,735	\$ 20,477,271	\$ 19,102,891	\$ 18,534,736
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	40.07%	23.53%	29.36%	30.10%
Plan fiduciary net position as a percentage of the total pension liability	73.74%	82.17%	78.00%	78.43%

Note: Only five years of data is presented in accordance with GASB #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

KILGORE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF DISTRICT CONTRIBUTIONS
 TEACHER RETIREMENT SYSTEM OF TEXAS
 FOR THE YEAR ENDED AUGUST 31, 2019

	Fiscal Year Ended August 31,				
	2019	2018	2017	2016	2015
Contractually required contribution	\$ 532,767	\$ 517,705	\$ 489,665	\$ 467,467	\$ 476,561
Contributions in relation to the contractually required contribution	(533,152)	(517,705)	(489,665)	(467,467)	(476,561)
Contribution deficiency (excess)	<u>\$ (385)</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
District's covered-employee payroll	\$ 21,134,970	\$ 21,106,735	\$ 20,477,271	\$ 20,243,405	\$ 19,695,497
Contributions as a percentage of covered-employee payroll	2.52%	2.45%	2.39%	2.31%	2.42%

Note: Only five years of data is presented in accordance with GASB #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

KILGORE INDEPENDENT SCHOOL DISTRICT

*SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET OPEB LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2019*

	<u>Measurement Year Ended August 31,</u>	
	<u>2018</u>	<u>2017</u>
District's proportion of the collective net OPEB liability	0.027%	0.026%
District's proportionate share of the collective net OPEB liability	\$ 13,621,805	\$ 11,400,917
State proportionate share of the collective net OPEB liability associated with the District	17,382,427	15,603,594
Total	<u>\$ 31,004,232</u>	<u>\$ 27,004,511</u>
District's covered-employee payroll	\$ 21,106,735	\$ 20,477,271
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	64.54%	55.68%
Plan fiduciary net position as a percentage of the total OPEB liability	1.57%	0.91%

Note: Only two years of data is presented in accordance with GASB #75, paragraph 245. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

KILGORE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S OPEB CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2019

	<u>Fiscal Year Ended August 31,</u>	
	<u>2019</u>	<u>2018</u>
Statutorily or contractually required District contribution	\$ 194,290	\$ 188,224
Contributions recognized by OPEB in relation to statutorily or contractually required contribution	194,825	188,224
Contribution deficiency (excess)	<u>\$ (535)</u>	<u>\$ --</u>
District's covered-employee payroll	\$ 21,134,970	\$ 21,106,735
Contributions as a percentage of covered-employee payroll	0.92%	0.89%

Note: Only two years of data is presented in accordance with GASB #75, paragraph 245. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

KILGORE INDEPENDENT SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED AUGUST 31, 2019

Budget

The official budget was prepared for adoption for all Governmental Fund Types. The budget was prepared in accordance with accounting practices generally accepted in the United States of America. The following procedures are followed in establishing the budgetary data.:

- a. Prior to August 21 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
- c. Prior to the beginning of the fiscal year, the budget is legally enacted through passage of a resolution by the Board.

Once a budget is approved, it can be amended at function and fund level only by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings.

Each amendment must have Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board and are not made after fiscal year end as required by law.

Each amendment is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either cancelled or appropriately provided for in the subsequent year's budget. There were no end-of-year outstanding encumbrances that were provided for in the subsequent year's budget.

Defined Benefit Pension Plan

Changes of benefit terms

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

Changes of assumptions

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

Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

KILGORE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FOR THE YEAR ENDED AUGUST 31, 2019

Year Ended August 31	Tax Rates		3 Assessed/Appraised Value For School Tax Purposes
	1 Maintenance	2 Debt Service	
2010 and Prior Years	\$ Various	\$ Various	\$ Various
2011	1.0400	.0692	1,637,686,080
2012	1.0400	.2692	1,655,149,175
2013	1.0400	.2692	1,660,756,722
2014	1.0400	.2692	1,642,326,612
2015	1.0400	.2692	1,625,663,916
2016	1.0400	.2692	1,621,378,017
2017	1.0400	.2692	1,525,689,929
2018	1.0400	.2692	1,522,560,412
2019 (School Year Under Audit)	1.0400	.2692	1,596,699,358

1000 Totals

9000 - Portion of Row 1000 for Taxes Paid into Tax Increment Zone Under Chapter 311, Tax Code

10 Beginning Balance 9/1/18	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/19
\$ 552,201	\$ --	\$ 7,532	\$ 561	\$ (86,388)	\$ 457,220
77,190	--	1,475	132	(3,945)	71,638
84,674	--	3,443	268	(3,596)	77,367
401,400	--	(27,971)	(1,861)	(317,283)	113,949
382,443	--	13,281	884	(243,133)	125,145
373,634	--	18,332	4,745	(213,805)	136,752
412,570	--	30,656	7,935	(218,867)	155,112
342,560	--	59,416	15,379	(87,117)	180,648
518,453	--	152,931	39,586	(38,455)	287,481
--	20,903,988	16,186,745	4,189,877	(38,365)	489,001
<u>\$ 3,145,125</u>	<u>\$ 20,903,988</u>	<u>\$ 16,445,840</u>	<u>\$ 4,257,506</u>	<u>\$ (1,250,954)</u>	<u>\$ 2,094,813</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

KILGORE INDEPENDENT SCHOOL DISTRICT
NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2019

EXHIBIT J-2

Data Control Codes	Budgeted Amounts			Variance with Final Budget Positive (Negative)	
	1	2	3		
	Original	Final	Actual		
REVENUES:					
5700	Local and Intermediate Sources	\$ 435,000	\$ 435,000	\$ 377,856	\$ (57,144)
5800	State Program Revenues	11,000	11,000	11,008	8
5900	Federal Program Revenues	1,828,000	1,828,000	1,770,138	(57,862)
5020	Total Revenues	<u>2,274,000</u>	<u>2,274,000</u>	<u>2,159,002</u>	<u>(114,998)</u>
EXPENDITURES:					
Current:					
Support Services - Student (Pupil):					
0035	Food Services	2,434,328	2,457,078	2,071,226	385,852
	Total Support Services - Student (Pupil)	<u>2,434,328</u>	<u>2,457,078</u>	<u>2,071,226</u>	<u>385,852</u>
6030	Total Expenditures	<u>2,434,328</u>	<u>2,457,078</u>	<u>2,071,226</u>	<u>385,852</u>
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	(160,328)	(183,078)	87,776	270,854
1200	Net Change in Fund Balance	<u>(160,328)</u>	<u>(183,078)</u>	<u>87,776</u>	<u>270,854</u>
0100	Fund Balance - Beginning	713,385	713,385	713,385	--
3000	Fund Balance - Ending	<u>\$ 553,057</u>	<u>\$ 530,307</u>	<u>\$ 801,161</u>	<u>\$ 270,854</u>

KILGORE INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-3

*DEBT SERVICE
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2019*

Data Control Codes	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	1	2	3	
	Original	Final	Actual	
REVENUES:				
5700	\$ 4,094,659	\$ 4,234,187	\$ 4,473,111	\$ 238,924
5800	102,917	102,917	92,740	(10,177)
5900	138,932	138,932	139,528	596
5020	<u>4,336,508</u>	<u>4,476,036</u>	<u>4,705,379</u>	<u>229,343</u>
EXPENDITURES:				
Debt Service:				
0071	2,340,000	2,810,000	2,340,000	470,000
0072	2,190,460	1,859,888	1,836,942	22,946
0073	5,000	5,100	5,100	--
	<u>4,535,460</u>	<u>4,674,988</u>	<u>4,182,042</u>	<u>492,946</u>
6030	<u>4,535,460</u>	<u>4,674,988</u>	<u>4,182,042</u>	<u>492,946</u>
1100				
1100	(198,952)	(198,952)	523,337	722,289
1200	<u>(198,952)</u>	<u>(198,952)</u>	<u>523,337</u>	<u>722,289</u>
0100	2,042,811	2,042,811	2,042,811	--
3000	<u>\$ 1,843,859</u>	<u>\$ 1,843,859</u>	<u>\$ 2,566,148</u>	<u>\$ 722,289</u>

BROWN, BRONSTAD, HABENICHT & ROSSON, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

PO BOX 1790

KILGORE, TEXAS 75663-1790

SHAREHOLDER:

Lynda R. Newsome, CPA

PROFESSIONAL STAFF:

Cindy Alford, CPA

Terri Boring

Kim Martin

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1116 N. Kilgore St.

Kilgore, Texas 75662

Independent Auditors' Report on Internal Control over Financial Reporting and
On Compliance and Other Matters Based on an Audit of Financial Statements
Performed In Accordance With Government Auditing Standards

Board of Trustees
Kilgore Independent School District
301 N Kilgore St
Kilgore, Texas 75662

Members of the Board of Trustees:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kilgore Independent School District, as of and for the year ended August 31, 2019, and the related notes to the financial statements, which collectively comprise Kilgore Independent School District's basic financial statements, and have issued our report thereon dated November 4, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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


BROWN, BRONSTAD, HABENICHT & ROSSON, PC

Kilgore, TX
November 4, 2019

BROWN, BRONSTAD, HABENICHT & ROSSON, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

PO BOX 1790

KILGORE, TEXAS 75663-1790

SHAREHOLDER:

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1116 N. Kilgore St.

Kilgore, Texas 75662

Independent Auditors' Report on Compliance for Each Major Federal Program and
Report on Internal Control Over Compliance Required by the Uniform Guidance

Board of Trustees
Kilgore Independent School District
301 N Kilgore St
Kilgore, Texas 75662

Members of the Board of Trustees:

Report on Compliance for Each Major Federal Program

We have audited the Kilgore Independent School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Kilgore Independent School District's major federal program for the year ended August 31, 2019. Kilgore Independent School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Kilgore Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended August 31, 2019.

Report on Internal Control Over Compliance

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

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

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

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


BROWN, BRONSTAD, HABENICHT & ROSSON, PC

Kilgore, TX
November 4, 2019

KILGORE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2019

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Version of compliance supplement used in audit: August 2019

Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200? Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010a	ESEA Title I, Part A

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? X Yes No

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

KILGORE INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2019

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
No prior audit findings		

KILGORE INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2019

None needed

KILGORE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2019

EXHIBIT K-1

(1)	(2)	(2A)	(3)
Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Passed Through to Subrecipients
			Federal Expenditures
CHILD NUTRITION CLUSTER:			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
School Breakfast Program	10.553	092-902	\$ -- \$ 440,845
National School Lunch Program	10.555	092-902	-- 1,210,950
National School Lunch Program (Non-cash)	10.555	092-902	-- 118,343
Total CFDA Number 10.555			<u>-- 1,329,293</u>
Total Passed Through State Department of Education			<u>-- 1,770,138</u>
Total U. S. Department of Agriculture			<u>-- 1,770,138</u>
Total Child Nutrition Cluster			<u>-- 1,770,138</u>
SPECIAL EDUCATION (IDEA) CLUSTER:			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
<i>IDEA-B Formula</i>	84.027	186600010929026600	-- 477,747
<i>IDEA-B Formula</i>	84.027	196600010929026600	-- 101,601
<i>IDEA-B Formula</i>	84.027	196600010929026600	-- 323,618
Total CFDA Number 84.027			<u>-- 902,966</u>
<i>IDEA-B Preschool</i>	84.173	186610010929026610	-- 4,796
<i>IDEA-B Preschool</i>	84.173	196610010929026610	-- --
Total CFDA Number 84.173			<u>-- 4,796</u>
Total Passed Through State Department of Education			<u>-- 907,762</u>
Total U. S. Department of Education			<u>-- 907,762</u>
Total Special Education (IDEA) Cluster			<u>-- 907,762</u>
OTHER PROGRAMS:			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
<i>ESEA Title I Part A - Improving Basic Programs</i>	84.010a	17610101092902	-- 78,787
<i>ESEA Title I Part A - Improving Basic Programs</i>	84.010a	19610101092902	-- 770,707
Total CFDA Number 84.010a			<u>-- 849,494</u>
<i>Career and Technical - Basic Grant</i>	84.048	19420006092902	-- 49,797
<i>Title III Part A English Language Acq. and Language Enh.</i>	84.365	19671001092902	-- 4,497
<i>Title III Part A English Language Acq. and Language Enh.</i>	84.365	19671001092902	-- 60,004
Total CFDA Number 84.365			<u>-- 64,501</u>
<i>ESEA Title II Part A - Teacher & Principal Training & Rec.</i>	84.367a	19694501092902	-- 5,125
<i>ESEA Title II Part A - Teacher & Principal Training & Rec.</i>	84.367a	19694501092902	-- 171,658
Total CFDA Number 84.367a			<u>-- 176,783</u>
<i>Title IV, Part A, Subpart 1</i>	84.424a	19680101092902	-- 32,092
Total U. S. Department of Education			<u>-- 1,172,667</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ -- \$ 3,850,567</u>

The accompanying notes are an integral part of this schedule.

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2019

Basis of Presentation

The accompanying schedule of expenditures of federal awards ("the Schedule") includes the federal grant activity of Kilgore Independent School District. The information in the Schedule is presented in accordance with the 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"). Therefore, some amounts may differ from amounts presented in, or used in the preparation of, the basic financial statements. Presented below is a reconciliation of federal revenues:

Total Expenditures of Federal Awards per Exhibit K-1	\$	3,850,567
School Health and Related Services (SHARS) reported in the general fund		304,150
Interest Subsidy on Qualified School Construction Bonds		139,528
Total Federal Revenues	\$	<u>4,294,245</u>

Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. These expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Kilgore Independent School District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

KILGORE INDEPENDENT SCHOOL DISTRICT**SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF AUGUST 31, 2019**

<u>Data Control Codes</u>		<u>Responses</u>
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts and laws related to local, state or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other governmental agencies?	Yes
SF8	Did the school district <u>not</u> receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	What was the total accumulated accretion on capital appreciation bonds (CABs) included in government-wide financial statements at fiscal year-end?	\$ --
SF11	Net Pension Assets (object 1920) at fiscal year-end.	\$ --
SF12	Net Pension Liabilities (object 2540) at fiscal year-end.	\$ 8,457,612
SF13	Pension Expense (object 6147) at fiscal year-end.	\$

In correspondence to all school administrators dated November 1, 2017, the TEA's Director of Financial Compliance stated "For 2017, and until further notice, no data should be entered in the field for data feed Schedule L-1 question SF13. If the AFR and data feed has been submitted no additional steps need to be taken."

APPENDIX E
FORWARD DELIVERY CONTRACT

APPENDIX E –FORM OF FORWARD DELIVERY CONTRACT

_____, 2020

FHN Financial Capital Markets,
as Representative of the Underwriters
920 Memorial City Way, 11th Floor
Houston, TX 77024

Re: Kilgore Independent School District, Texas
Unlimited Tax Refunding Bonds, Series 2020 (Forward Delivery)

Ladies and Gentlemen:

The undersigned (the “Purchaser”) hereby agrees to purchase from FHN Financial Capital Markets, a division of First Horizon Bank (the “Representative”) the Kilgore Independent School District Unlimited Tax Refunding Bonds, Series 2020 Bonds (Forward Delivery) listed below (the “Purchased Obligations”), when, as and if issued and delivered to the Representative by the Kilgore Independent School District, Texas (the “Issuer”).

<u>Par Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>CUSIP Number</u>	<u>Yield</u>	<u>Price</u>

The Purchased Obligations are being offered by the Issuer pursuant to the Preliminary Official Statement, dated July __, 2020, (the “Preliminary Official Statement”), and the Official Statement, dated July ____, 2020, (the “Official Statement”) (receipt and review of copies of which is hereby acknowledged), at a purchase price (plus accrued interest, if any, to the date of initial delivery of the Purchased Obligations), with the interest rates and maturity dates, and in the principal amounts as shown on the inside cover of the Official Statement and on the further terms and conditions provided in the Bond Purchase Agreement (the “Purchase Agreement”) between the Issuer and the Representative. The Purchased Obligations are subject to the further terms and conditions provided in this Forward Delivery Contract.

The Purchaser hereby confirms that it has reviewed the Preliminary Official Statement (including, without limitation, the section entitled “CERTAIN FORWARD DELIVERY CONSIDERATIONS OF THE BONDS”), has considered the risks associated with purchasing the Purchased Obligations and is duly authorized to purchase the Purchased Obligations. The Purchaser acknowledges and agrees that the Purchased Obligations are being sold on a “forward” basis, and the Purchaser hereby purchases and agrees to accept delivery of the Purchased Obligations from the Representative on or about November 18, 2020 (the “Closing Date”), as they may be issued and delivered in accordance with the Purchase Agreement.

Payment for the Purchased Obligations which the Purchaser has agreed to purchase on the Closing Date shall be made to the Representative or upon its order by wire transfer to a bank account specified by the Representative on the Closing Date upon delivery to the Purchaser of the Purchased Obligations then to be purchased by the Purchaser through the book-entry system of The Depository Trust Company.

Upon issuance by the Issuer of the Purchased Obligations and purchase thereof by the Representative, the obligation of the Purchaser to take delivery of the Purchased Obligations hereunder shall be unconditional unless

- The Issuer fails to deliver the Purchased Obligations as set forth in the Bond Purchase Agreement or fails or is unable to comply with all of the conditions to settlement set forth in the Bond Purchase Agreement by 10:00 a.m. Central Time on the Closing Date, or at such other time as the Representative and the Issuer may mutually agree upon as the time of the Closing, or
- the Representative terminates its agreement to purchase the Purchased Obligations on the Closing Date for resale to the Purchaser upon the occurrence of an event described in the Official Statement under “CERTAIN FORWARD DELIVERY CONSIDERATIONS OF THE BONDS – Termination of Bond Purchase Agreement”.

The Purchaser acknowledges that the market value of the Purchased Obligations as of the Closing Date may be affected by a variety of factors between the date of this Forward Delivery Contract and the Closing Date, including, without limitation, changes in general market conditions or the financial condition of the Issuer or modifications to laws that may diminish the value of, as

opposed to eliminating the exclusion from gross income for federal income tax purposes, interest payable on bonds issued by Texas independent school districts that will not prevent the District from satisfying all material conditions precedent for the delivery of the Purchased Obligations. The Purchaser acknowledges and agrees that it will not be able to withdraw its order as described and, except as described in the fourth paragraph of this Forward Delivery Contract, will not otherwise be excused from performance of its obligations to take up and pay for the Purchased Obligations on the Closing Date. The Purchaser is not a third-party beneficiary under the Purchase Agreement and has no rights to enforce, or cause the Representative to enforce, any of the terms thereof. The Purchaser acknowledges and agrees that it will remain obligated to purchase the Purchased Obligations in accordance with the terms hereof, even if the Purchaser decides to sell the Purchased Obligations following the date hereof, unless the Purchaser sells the Purchased Obligations to another institution with the prior written consent of the Representative and such institution provides a written acknowledgement of confirmation of purchase order and a delayed delivery contract in the same respective forms as those executed by the Purchaser.

The Purchaser represents and warrants that, as of the date of this Forward Delivery Contract, the Purchaser is not prohibited from purchasing the Purchased Obligations hereby agreed to be purchased by it under the laws of the jurisdiction to which the Purchaser is subject. Each of the undersigned parties represents and warrants that it has the power and authority to enter into this Forward Delivery Contract and to perform its obligations hereunder.

This Forward Delivery Contract will inure to the benefit of and be binding upon the parties hereto and their respective successors, but will not be assignable by either party without the written consent of the other.

The Purchaser acknowledges that the Representative is entering into the Purchase Agreement with the Issuer to purchase the Purchased Obligations in reliance in part on the performance by the Purchaser of its obligations hereunder.

The Purchaser agrees that it will at all times satisfy the minimum initial and maintenance margin requirements of Regulation T of the Board of Governors of the Federal Reserve System, Rule 431 of the New York Governors of the Federal Reserve System, Rule 431 of the New York Stock Exchange, Inc., and any other margin regulations applicable to the Representative.

This Forward Delivery Contract may be executed by either of the parties hereto in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument.

It is understood that the acceptance by the Representative of any Forward Delivery Contract (including this one) is in the Representative's sole discretion and that, without limiting the foregoing, acceptances of such contracts need not be on a first-come, first-served basis. If this Forward Delivery Contract is acceptable to the Representative it is requested that the Representative sign the form of acceptance below and mail, email or otherwise deliver one of the counterparts hereto to the Purchaser at its address provided below. This will become a binding contract between the Representative and the Purchaser when such counterpart is so mailed, e-mailed or otherwise delivered by the Representative. This Forward Delivery Contract does not constitute a customer confirmation pursuant to Rule G-15 of the Municipal Securities Rulemaking Board.

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This Forward Delivery Contract shall be construed and administered under the laws of the State of Texas.

[PURCHASER]

By : _____

Name: _____

Title: _____

Notice Address:

Attention:

Telephone:

Facsimile:

E-mail:

Accepted:

FHN Financial Capital Markets, a division of First Horizon Bank

By: _____ Name:

Title:

Financial Advisory Services
Provided By:

