

OFFICIAL STATEMENT

Dated August 26, 2020

Ratings:
S&P: "A+"/"AAA"
PSF Guarantee: Approval Received
(See "OTHER INFORMATION –
Rating" and "THE PERMANENT
SCHOOL FUND GUARANTEE
PROGRAM" herein)

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, the Bonds are not obligations described in Section 103(a) of the Internal Revenue Code of 1986. Interest on the Bonds is not excludable from gross income for federal income tax purposes under existing law. See "TAX MATTERS" in this document.



\$30,459,971.50
LEVELLAND INDEPENDENT SCHOOL DISTRICT
(Hockley County, Texas)
UNLIMITED TAX REFUNDING BONDS, TAXABLE SERIES 2020

Dated: August 15, 2020

Due: February 15, as shown on page 2

Interest Accrues and Accretes from Date of Initial Delivery

PAYMENT TERMS . . . The \$30,459,971.50 Levelland Independent School District Unlimited Tax Refunding Bonds, Taxable Series 2020 (the "Bonds") will be issued in part as Current Interest Bonds ("CIBs") and in part as Premium Capital Appreciation Bonds ("CABs") (as shown on page 2 hereof). Interest on the CIBs will accrue from the date of initial delivery to the Underwriters identified below (the "Delivery Date") and will be due on February 15, 2021, and each August 15 and February 15 thereafter until maturity or prior redemption. Interest on the CABs will accrete from the Delivery Date, compounded semiannually on February 15 and August 15 of each year (each an "Accretion Date"), commencing February 15, 2021 and be payable upon maturity. The Bonds will be issued only in fully registered form with the CIBs in principal denominations of \$5,000 or any integral multiple thereof within a stated maturity, and the CABs in denominations of \$5,000 representing the total principal, plus the initial premium, if any, paid therefore and accreted interest payable upon stated maturity (the "Maturity Value"), or any integral multiple thereof for a Maturity Value. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Payments on the Bonds will be payable by the Paying Agent/Registrar (defined herein) to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS - Book-Entry-Only System" herein). The initial Paying Agent/Registrar is U.S. Bank, National Association, Dallas, Texas (see "THE BONDS - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including Chapter 1207, Texas Government Code ("Chapter 1207"), as amended, and are direct obligations of the Levelland Independent School District (the "District"), payable from the proceeds of a continuing ad valorem tax levied, without legal limit as to rate or amount, against all taxable property located within the District as provided in the order adopted by the Board of Trustees of the District authorizing the Bonds (the "Order") and a Pricing Certificate executed on the date of sale of the Bonds by the District's authorized Pricing Officer (the "Pricing Certificate" and together with the Bond Order, the "Order") (see "THE BONDS – Authority for Issuance"). **An application has been filed and approval received for the Bonds to be guaranteed by the Permanent School Fund (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").**

PURPOSE . . . Proceeds from the sale of the Bonds will be used to (i) refund a portion of the District's outstanding obligations (the "Refunded Bonds") in order to lower the overall debt service requirements of the District and (ii) pay the costs associated with the issuance of the Bonds (see "SCHEDULE I – SCHEDULE OF REFUNDED BONDS," and "PLAN OF FINANCING – Purpose," and "– Refunded Bonds").

MATURITY SCHEDULE

CUSIP PREFIX: 527318

See Schedules on Page 2

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the Underwriters and subject to the approving opinion of the Attorney General of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, Dallas, Texas, (see "APPENDIX C - Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon from the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas.

DELIVERY . . . It is expected that the Bonds will be available for delivery through DTC on September 29, 2020 (the "Delivery Date").

SAMCO CAPITAL MARKETS, INC.

FROST BANK

RBC CAPITAL MARKETS

MATURITY SCHEDULE**\$30,415,000 Current Interest Bonds**

<u>Maturity (February 15)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix ⁽¹⁾</u>
2021	\$ 500,000	0.212%	0.212%	KQ1
2022	440,000	0.282%	0.282%	KR9
2023	445,000	0.418%	0.418%	KS7
2024	445,000	0.628%	0.628%	KT5
2025	450,000	0.758%	0.758%	KU2
2026	450,000	0.985%	0.985%	KV0
2027	1,995,000	1.065%	1.065%	KW8
2028	2,020,000	1.268%	1.268%	KX6
***	***	***	***	***
2030	750,000	1.488%	1.488%	LJ6
2031	3,175,000	1.588%	1.588%	LA5
2032	3,225,000	1.638%	1.638%	LB3
2033	3,280,000	1.738%	1.738%	LC1
2034	3,345,000	1.808%	1.808%	LD9
2035	3,400,000	1.908%	1.908%	LE7
2036	2,120,000	2.018%	2.018%	LF4
2037	2,165,000	2.088%	2.088%	LG2
2038	2,210,000	2.138%	2.138%	LH0

(Interest Accrues from Date of Initial Delivery)**\$44,971.50 Capital Appreciation Bonds**

<u>Original Principal Amount</u>	<u>Maturity (February 15)</u>	<u>Offering Price Per \$5,000 Maturity Amount</u>	<u>Initial Yield</u>	<u>Maturity Amount</u>	<u>CUSIP Suffix ⁽¹⁾</u>
\$ 32,054.75	2029	\$ 4,343.20	1.688%	\$ 2,275,000	KY4
12,916.75	2030	4,231.25	1.788%	1,525,000	KZ1

(Interest Accretes from Delivery Date)

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC 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 takes any responsibility for the accuracy of CUSIP numbers.

REDEMPTION PROVISIONS . . . The District reserves the right, at its option, to redeem the CIBs having stated maturities on and after February 15, 2031, in whole or from time to time in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2030, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption (see "THE BONDS – Optional Redemption"). The CABs are not subject to redemption prior to their stated maturity.

No dealer, broker, salesman or other person has been authorized by the District or the Underwriters 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 or the Underwriters. This Official Statement does not constitute an offer to sell Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

Certain information set forth herein has been obtained from the District and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Financial Advisor or the Underwriters. Any information and expressions of opinion herein contained 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 since the date hereof. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM - PSF Continuing Disclosure Undertaking" and "CONTINUING DISCLOSURE INFORMATION" for a description of the undertakings of the Texas Education Agency (the "TEA") and the District, respectively, to provide certain information on a continuing basis.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE 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 JURISDICTION IN WHICH THE BONDS HAVE BEEN REGISTERED, QUALIFIED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

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.

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 ("DTC") OR ITS BOOK-ENTRY-ONLY SYSTEM OR THE AFFAIRS OF THE TEA DESCRIBED UNDER "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM," AS SUCH INFORMATION HAS BEEN PROVIDED BY THE DTC AND THE TEA, RESPECTIVELY.

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

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

OFFICIAL STATEMENT SUMMARY

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

THE DISTRICT	The District is a political subdivision located in Hockley County, Texas. The District is approximately 316.19 square miles in area (see “INTRODUCTION - Description of the District”).
THE BONDS	The \$30,459,971.50 Levelland Independent School District Unlimited Tax Refunding Bonds, Taxable Series 2020 (the “Bonds”) will be dated August 15, 2020 (the “Dated Date”) and will be issued in part as Current Interest Bonds (“CIBs”) and in part as Premium Capital Appreciation Bonds (“CABs”) maturing on the dates and in the amounts set forth on page 2 of this Official Statement. The Bonds will be issued only in fully registered form with the CIBs in principal denominations of \$5,000 or any integral multiple thereof within a stated maturity, and the CABs in denominations of \$5,000 representing the total principal, plus the initial premium, if any, paid therefore and accreted interest payable upon stated maturity (the “Maturity Value”), or any integral multiple thereof for a Maturity Value (see “THE BONDS - Description of the Bonds”).
PAYMENT OF INTEREST	Interest on the CIBs will accrue from the Delivery Date and will be due on February 15, 2021, and each August 15 and February 15 thereafter until maturity or prior redemption. Interest on the CABs will accrete from the Delivery Date, compounded semiannually on February 15 and August 15 of each year (each an “Accretion Date”), commencing February 21, 2021 and be payable upon maturity (see “THE BONDS - Description of the Bonds” and “THE BONDS - Optional Redemption”).
AUTHORITY FOR ISSUANCE	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, an order adopted by the Board of Trustees of the District and a Pricing Certificate executed on the date of sale of the Bonds by the District’s authorized Pricing Officer (such order and pricing certificate are referred to herein, collectively, as the “Order”) (see “THE BONDS – Authority for Issuance”).
SECURITY FOR THE BONDS	The Bonds constitute direct and voted obligations of the District, payable from a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, on all taxable property within the District, as provided in the Order. Additionally, the payment of the Bonds is expected to be guaranteed by the corpus of the Permanent School Fund of Texas (see “THE BONDS - Security and Source of Payment” and “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).
PERMANENT SCHOOL FUND	
GUARANTEE	The District has applied for and received approval from the Texas Education Agency for the payment of the Bonds to be guaranteed by the Permanent School Fund Guarantee Program of the State of Texas (see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).
REDEMPTION PROVISIONS	The District reserves the right, at its option, to redeem the CIBs having stated maturities on and after February 15, 2031, in whole or from time to time in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2030, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption (see “THE BONDS – Optional Redemption”). The CABs are not subject to redemption prior to their stated maturity.
TAX MATTERS	In the opinion of Bond Counsel, the interest on the Bonds shall be included in the gross income of the holders of the Bonds. See “TAX MATTERS” for a discussion of the opinion of Bond Counsel.
USE OF PROCEEDS	Proceeds from the sale of the Bonds will be used to (i) refund a portion of the District’s outstanding obligations (the “Refunded Bonds”) in order to lower the overall debt service requirements of the District and (ii) pay the costs associated with the issuance of the Bonds (see “SCHEDULE I – SCHEDULE OF REFUNDED BONDS,” and “PLAN OF FINANCING – Purpose,” and PLAN OF FINANCING – Refunded Bonds”).

RATING The Bonds are rated “A+” by S&P Global Ratings (“S&P”) without regard to credit enhancement. The Bonds are expected to be guaranteed by the Permanent School Fund of the State of Texas, and S&P generally rates all bond issues guaranteed by the Permanent School Fund of the State of Texas “AAA”. In addition, the District has issues outstanding which are rated “AAA” by S&P by virtue of the guarantee of the Permanent School Fund of the State of Texas (see “OTHER INFORMATION - Ratings”).

BOOK-ENTRY-ONLY

SYSTEM The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or principal or Maturity Amount or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see “THE BONDS - Book-Entry-Only System”).

PAYMENT RECORD The District has never defaulted in payment of its tax supported debt.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 8/31	Estimated District Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Per Capita Taxable Assessed Valuation	Total Tax Supported Debt Outstanding at End of Year	Ratio of Tax Supported Debt to Taxable Assessed Valuation	Tax Supported Debt Per Capita	% of Total Tax Collections
2017	17,290	\$ 1,081,815,622	\$ 62,569	\$ 52,353,470	4.84%	\$ 3,028	98.23%
2018	17,108	1,042,088,382	60,912	50,770,000	4.87%	2,968	99.01%
2019	17,470	1,138,067,747	65,144	48,935,000	4.30%	2,801	99.55%
2020	17,470	1,203,081,709	68,866	46,330,000	3.85%	2,652	97.90% ⁽⁴⁾
2021	17,470	1,205,340,342	68,995	43,919,972 ⁽³⁾	3.64%	2,514	N/A

(1) Source: District Officials.

(2) As reported by the Hockley County Appraisal District on the District’s annual State Property Tax Board Reports; subject to change during the ensuing year.

(3) Projected, includes the Bonds, Excludes the Refunded Bonds.

(4) Collections as of July 31, 2020.

For additional information regarding the District, please contact:

Teresa Montemayor	Vince Viaille
Chief Financial Officer	Managing Director
Levelland Independent School District	Specialized Public Finance Inc.
704 11th Street	or 4925 Greenville Avenue, Suite 1350
Levelland, Texas 79336	Dallas, Texas 75206
Phone: (806) 894-9628	Phone: (214) 373-3911

DISTRICT OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>Board of Trustees</u>	<u>Term Expires</u>	<u>Occupation</u>
Tania Moody President	May 2021	Business Owner
Rusty Gibson Vice President	May 2022	Manager Grain Coop
DeEtte Edens Secretary	May 2023	Registered Nurse
Treva Potter Member	May 2021	Retired Teacher
Ronnie Watkins Member	May 2023	Higher Education Administrator
Carrie Ellis Member	May 2023	Entrepreneur
Vacant Member		

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Service to District</u>
Jeff Northern	Superintendent	5 Years
Teresa Montemayor	Chief Financial Officer	6 Months

CONSULTANTS AND ADVISORS

AuditorsMyatt, Blume, and Osburn, LTD., L.L.P.
Levelland, Texas

Bond Counsel McCall, Parkhurst & Horton L.L.P.
Dallas, Texas

Financial Advisor.....Specialized Public Finance Inc.
Dallas, Texas

OFFICIAL STATEMENT
RELATING TO
\$30,459,971.50
LEVELLAND INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX REFUNDING BONDS, TAXABLE SERIES 2020

INTRODUCTION

This Official Statement, which includes the Schedules and Appendices hereto, provides certain information regarding the issuance of \$30,459,971.50 Levelland Independent School District Unlimited Tax Refunding Bonds, Taxable Series 2020 (the “Bonds”). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the order authorizing the issuance and sale of the Bonds (the “Order”), except as otherwise indicated herein.

There follows in this Official Statement, descriptions of the Bonds and certain information regarding the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District's Financial Advisor, Specialized Public Finance Inc., Dallas, Texas.

DESCRIPTION OF THE DISTRICT . . . The Levelland Independent School District (the “District”) is a political subdivision located in Hockley County, Texas. The District is governed by a seven-member Board of Trustees (the “Board”), the members of which serve staggered three-year terms with elections being held in May of each year. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors. The District covers approximately 316.19 square miles in Hockley County, encompassing the City of Levelland. For additional information regarding the District, see “APPENDIX A – General Information Regarding the District”.

PLAN OF FINANCING

PURPOSE . . . Proceeds from the sale of the Bonds will be used to (i) refund a portion of the District’s outstanding obligations (the “Refunded Bonds”) (see “SCHEDULE I – SCHEDULE OF REFUNDED BONDS” herein) in order to lower the overall debt service requirements of the District and (ii) pay the costs associated with the issuance of the Bonds.

REFUNDED BONDS . . . The Refunded Bonds, and interest due thereon, are to be paid on the scheduled redemption date therefor from funds to be deposited with U.S. Bank, National Association, Dallas, Texas (the “Escrow Agent”) pursuant to an Escrow Agreement (the “Escrow Agreement”) between the District and the Escrow Agent. The Order provides that from the proceeds of the sale of the Bonds to the Underwriters, the District will deposit with the Escrow Agent an amount which, when added to the investment earnings thereon, will be sufficient to accomplish the discharge and final payment of the Refunded Bonds on their redemption date. Such funds will be held by the Escrow Agent in an escrow account (the “Escrow Fund”) and used to purchase direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by the United States (the “Federal Securities”). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds, and such funds will not be available to pay the Bonds. Public Finance Partners LLC, (the “Verification Agent”) will verify at the time of delivery of the Bonds to the Underwriters that the Federal Securities deposited under the Escrow Agreement will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund established under the Escrow Agreement, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds addressed by such Escrow Agreement on their scheduled redemption date. Such maturing principal of and interest on the Federal Securities will not be available to pay the debt service on the Bonds. See “OTHER INFORMATION – Verification of Mathematical Computations.” Simultaneously with the issuance of the Bonds, the District will give irrevocable instructions to the paying agent for the Refunded Bonds to provide notice to the owners of the Refunded Bonds that the Refunded Bonds will be redeemed prior to stated maturity on which date money will be made available to redeem the Refunded Bonds from funds held under the Escrow Agreement.

By the deposit of the cash and Federal Securities described above 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 the orders authorizing the issuance of the Refunded Bonds, and the District will have no further responsibility with respect to amounts available in the Escrow Fund for the payment of the Refunded Bonds. It is the opinion of Bond Counsel that, as a result of such deposit and in reliance upon the report of the Verification Agent, firm banking and financial arrangements for the discharge and final payment of the Refunded Bonds will have been made and, therefore, the Refunded Bonds will be deemed to be fully paid and no longer outstanding except for the purpose of receiving payments from the funds provided therefor in the Escrow Agreement.

Upon defeasance of the Refunded Bonds, the Permanent School Fund guarantee with respect thereto will terminate.

SOURCES AND USES OF PROCEEDS . . . The proceeds from the sale of the Bonds will be applied approximately as follows:

SOURCES OF FUNDS:

Par Amount of Bonds	\$ 30,459,971.50
Reoffering Premium	3,221,715.75
Total Sources of Funds	<u>\$ 33,681,687.25</u>

USES OF FUNDS:

Deposit to Escrow Fund	\$ 33,251,967.88
Underwriters' Discount	202,091.13
Costs of Issuance/Rounding Amount	227,628.24
Total Uses of Funds	<u>\$ 33,681,687.25</u>

THE BONDS

DESCRIPTION OF THE BONDS . . . The Bonds are dated August 15, 2020 (the “Dated Date”) and mature on February 15 in each of the years and in the amounts shown on page 2. Interest on the CIBs will accrue from the Delivery Date, will be due on February 15, 2021 and each August 15 and February 15 thereafter until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Interest on the CABs will accrete from the Delivery Date and compound semiannually on each February 15 and August 15, commencing February 15, 2021, until maturity. The sum of the principal of, interest accreted on and the initial premium, if any, on the CABs per \$5,000 Maturity Value as of each February 15 and August 15 (each, a “Compounding Date”) is computed on the basis of the initial offering prices to the public as adjusted by semiannual compounding at the initial offering yields set forth on page 2 of this Official Statement (such sum is the Accreted Value”). A table of Accreted Values for each Compounding Date based on such initial offering price is set forth in Schedule II hereto. Such Accreted Value table is provided for informational purposes only and may not reflect prices for the CABs in the secondary market. The CIBs will be issued only in fully registered form in any integral multiple of \$5,000 in principal amount for any one maturity. The CABs will be issued only in fully registered form in denominations of \$5,000 of Maturity Value or any integral multiple thereof for any one maturity. The CIBs will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”), pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Debt service on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “THE BONDS – Book-Entry-Only System” herein.

YIELD ON CAPITAL APPRECIATION BONDS . . . The approximate yields of the CABs, as set forth on page 2 of this Official Statement, are based upon the initial offering prices set forth thereon. Such offering prices include the principal amounts of the CABs plus premiums, if any, equal to the amounts by which such offering prices exceed the respective principal amounts of such CABs. The respective yields on the CABs to a particular purchaser may differ depending upon the price paid by that purchaser. For various reasons, securities that do not pay interest periodically, such as the CABs, have traditionally experienced greater price fluctuation in the secondary market than securities that pay interest on a periodic basis.

AUTHORITY FOR ISSUANCE . . . The Bonds are issued and the tax levied for their payment pursuant to authority conferred by the Constitution and the laws of the State of Texas, including Chapter 1207, Texas Government Code, as amended, the order authorizing the Bonds (the “Bond Order”) and the Pricing Certificate to be executed on the date of sale of the Bonds by the District’s authorized Pricing Officer (the “Pricing Certificate” and together with the Bond Order, the “Order”).

SECURITY AND SOURCE OF PAYMENT . . . All taxable property within the District is subject to a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, sufficient to provide for the payment of principal of and interest on all Bonds. See “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS” and “CURRENT PUBLIC SCHOOL FINANCE SYSTEM.” Additionally, the payment of the Bonds is expected to be guaranteed by the corpus of the Permanent School Fund of Texas.

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

OPTIONAL REDEMPTION . . . The District reserves the right, at its option, to redeem the CIBs having stated maturities on and after February 15, 2031, in whole or from time to time in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2030, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption.

NO OPTIONAL REDEMPTION . . . The CABs are not subject to redemption prior to their stated maturity.

NOTICE OF REDEMPTION . . . Not less than 30 days prior to a redemption date for the Bonds, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN AND ANY OTHER CONDITION TO REDEMPTION SATISFIED, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

With respect to any optional redemption of the Bonds, unless certain prerequisites to such redemption allowed by the Order have been met and money sufficient to pay the principal of and premium, if any, and interest on the Bonds, to be redeemed will have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice will state that said redemption may, at the option of the District, be conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent/Registrar on or prior to the date fixed for such redemption or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not fulfilled, such notice will be of no force and effect, the District will not redeem such Bonds, and the Paying Agent/Registrar will give notice in the manner in which the notice of redemption was given, to the effect that the Bonds, have not been redeemed.

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

DEFEASANCE . . . The Order provides that the District may discharge its obligation to the registered owners of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either (i) by depositing with the comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or prior redemption or (ii) by depositing with the paying agent, or other authorized escrow agent, amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in: (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 their acquisition or purchase by the District, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date of their acquisition or purchase by the District, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent.

Under current Texas law, upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment 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 the Bonds defeased in the manner provided above.

AMENDMENTS . . . The District may amend or supplement the Order, without the consent of any registered owner, in order to (i) cure any ambiguity, defect or omission in the Order that does not materially adversely affect the interests of the registered owners, (ii) grant additional rights or security for the benefit of the registered owners, (iii) add events of default as shall not be inconsistent with the provisions of the Order and that shall not materially adversely affect the interests of the registered owners, (iv) qualify the Order under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect, or (v) make such other provisions in regard to matters or questions arising under the Order as will not be inconsistent with the provisions of the Order and that will not in the opinion of the District's Bond Counsel materially adversely affect the interests of the registered owners. Additionally, the registered owners of Bonds aggregating in principal amount a majority of the aggregate principal amount of then outstanding Bonds have the right to approve any amendment that may be deemed necessary or desirable by the District; provided, however, that without the consent of 100% of the registered owners of the then outstanding Bonds, no amendment shall: (1) make any change in the maturity of any of the outstanding Bonds; (2) reduce the rate of interest borne by any of the outstanding Bonds; (3) reduce the amount of the principal of, or redemption premium, if any, payable on any outstanding Bonds; (4) modify the terms of payment of principal or of interest on outstanding Bonds or impose any condition with respect to such payment; or (5) change the minimum percentage of the principal amount of Bonds necessary for consent to such amendment.

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 accredited 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 believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.*

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered Bonds 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 Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but neither the District nor 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 Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Order will be given only to DTC.

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

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

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is U.S. Bank, National Association, Dallas, Texas. In the Order, the District retains the right to replace the Paying Agent/Registrar with respect to the Bonds. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a bank or trust company or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

In the event the Book-Entry-Only System should be discontinued with respect to the Bonds will be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest will be paid (i) by check sent United States mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Bonds will be paid to the registered owner at the stated maturity or earlier redemption upon presentation to the designated payment/transfer office of the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under "THE BONDS - Book-Entry-Only System" herein. If the date for the payment of the principal of or interest on the Bonds is a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to close, then the date for such

payment will be the next succeeding day which is not such a day, and payment on such date will have the same force and effect as if made on the date payment was due.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, printed Bond certificates will be delivered to registered owners and thereafter the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender of such printed certificates to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. Neither the District nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

RECORD DATE FOR INTEREST PAYMENT . . . The record date ("Record Date") for the interest payable on the Bonds on any interest payment date means the close of business on the last business day of the preceding month.

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

BONDHOLDERS' REMEDIES . . . The Order establishes specific events of default with respect to the Bonds. If the District defaults in the payment of the principal or interest on the Bonds when due, and the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, or the District defaults in the observance or performance of any of the covenants, conditions, or obligations of the District, the failure to perform materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Order, and the default continues for a period of 60 days after notice of such default is given by any owner to the District, the Order provides that 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, as well as enforce rights of payment under the Permanent School Fund Guarantee. Such right is in addition to any other rights the registered owners of the Bonds may be provided by the laws of the State. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court 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. 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 Bonds are qualified with respect to the customary rights of debtors relative to their creditors, by principles of governmental immunity, and by general principles of equity which permit the exercise of judicial discretion. See APPENDIX C – Form of Bond Counsel's Opinion.

INFECTIOUS DISEASE OUTBREAK – COVID-19 . . . A respiratory disease named “coronavirus disease 2019” (“COVID-19”) has recently spread throughout much of the world, including Texas and elsewhere in the U.S. On March 11, 2020, COVID-19 was declared a pandemic by the World Health Organization. The U.S. Centers for Disease Control and Prevention (“CDC”) has warned that widespread transmission of COVID-19 in the United States is likely to occur. To slow the spread of COVID-19 in the U.S., the U.S. government has imposed bans on travel from various countries, including China and many countries in Europe. Many companies, including some in Texas, have imposed restrictions on business travel and employee gatherings and/or have encouraged or required their employees to telecommute. Some local Texas governments have banned large gatherings. Some schools and universities have altered their schedules or closed temporarily.

POTENTIAL IMPACT OF COVID-19 . . . A continued spread of COVID-19, and measures taken to prevent or reduce such spread, could adversely impact state, national and global economic activities and, accordingly, adversely impact the financial condition and performance of the District; the extent of such impact could be material.

Businesses and individuals appear to be altering their behaviors in a manner that is having negative impacts on global and local economies. Stock values and crude oil prices, in the U.S. and globally, have seen significant declines attributed to COVID-19 concerns. Texas may be particularly at risk from any global slowdown, given the prevalence of international trade in the state and the risk of contraction in the oil and gas industry and spillover effects into other industries, including manufacturing.

Measures taken to prevent or reduce the spread of COVID-19 could limit the growth of or reduce economic activity in the State and the District, which in turn could limit the growth of or reduce the District’s ad valorem and sales tax collections. In addition, further or extended reductions in the value of stocks and other investments could impact employee retirement plans or other funds and could require actions by the State. Due to the recent and unprecedented nature of the spread of COVID-19, the duration and extent of the potential impact of COVID-19 on the Texas economy and the District’s revenues, expenses, and cash flow are uncertain and cannot be quantified at this time.

The World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (the “Pandemic”), which 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 in connection with COVID-19. On March 13, 2020, the President of the United States (the “President”) declared the Pandemic a national emergency and the Texas Governor (the “Governor”) declared COVID-19 an imminent threat of disaster for all counties in Texas (collectively, the “disaster declarations”). On March 25, 2020, in response to a request from the Governor, the President issued a Major Disaster Declaration for the State of Texas.

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 that would in any way prevent, hinder, or delay necessary action in coping with this disaster and issuing executive orders that have the force and effect of law. The Governor has issued a number of executive orders relating to COVID-19 preparedness and mitigation.

Due to a recent spike in COVID-19 cases, recent executive orders modified the phased reopening of businesses in Texas, subject to further restrictions in the Governor’s discretion. For example, Executive Order GA-28, which was issued on June 26, 2020 and amended on July 2, 2020, and remains in effect until modified, amended, rescinded or superseded by the Governor, established occupancy limits to 50 percent for most businesses in Texas, limited bars and similar establishments to drive-through, pickup or delivery options, and made most outdoor gatherings of more than 10 people subject to approval by local authorities, subject to exceptions outlined in the order. Businesses otherwise subject to a 50 percent occupancy limit and located in a county meeting certain Department of State Health Services criteria are eligible to operate at up to 75 percent of occupancy. In a separate order, the Governor imposed a moratorium on elective surgeries in Harris, Travis, Bexar and Dallas Counties. The Governor retains the authority to impose additional restrictions on activities. Under Executive Order GA-28, for the remainder of the 2019-2020 school year, public schools may resume operations in the summer under protocols outlined in guidance from the TEA. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <https://gov.texas.gov/>. Neither the information on (nor accessed through) such website of the Governor is incorporated by reference, either expressly or by implication, into this Official Statement.

For the 2019-2020 school year, TEA has informed Texas school districts that COVID-19-related school closings and/or absenteeism will not impact ADA calculations and school funding so long as a school district commits to support students instructionally while they are at home. In addition to providing educational resources online when classes were suspended, the District delivered online instruction through the end of the school year. As such, after taking into account the allocation by the state of certain CARES Act funding, the District does not anticipate a reduction in State funding for the 2019-2020 school year as a result of the school closures at this time. See “CURRENT PUBLIC SCHOOL FINANCE SYSTEM.”

The TEA recently advised districts that for the 2020-2021 school year district funding will return to being based on ADA calculations requiring attendance to be taken. However, the TEA is crafting an approach for determining ADA that provides districts with several options for determining daily attendance. These include, remote synchronous instruction, remote asynchronous instruction, on campus instruction, and the Texas Virtual Schools Network. To stabilize funding expectations, districts will be provided an ADA grace period for the first two six weeks of Foundation School Program reporting. Specifically, if ADA counts during those two six weeks are more than 1% less than the first two six weeks of the 2019- 2020 school year, the first two six weeks will be excluded from 2020-21 ADA calculations, subject to some restrictions. In addition to this grace period, districts will also have an attendance grace period for remote

asynchronous instruction plan approval, which continues through the end of the third six weeks. Additional information regarding the plans for the 2020-2021 school year may be obtained from the TEA. Following the initial grace period, the return to funding based on ADA calculations requiring attendance to be taken during the Pandemic may have a negative impact on revenues available to the District for operations and maintenance if students do not take part in the instruction options made available by the District.

The full extent of the ongoing impact of COVID-19 on the District's longer-term operational and financial performance will depend upon future developments, many of which are outside of its control, including the effectiveness of the mitigation strategies discussed above, the duration and spread of COVID-19, and future governmental actions, all of which are highly uncertain and cannot be predicted. The District continues to monitor the spread of COVID-19 and is working with local, state and national agencies to address the potential impact of the Pandemic upon the District. While the potential impact of the Pandemic on the District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District's operations and financial condition.

The Pandemic has negatively affected travel, commerce and financial markets globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide. In particular, the global oil market has been severely impacted by the Pandemic. These negative impacts may reduce or negatively affect property values within the District. The financial and operating data contained herein are the latest available, but are for the dates and the periods stated herein, which are for periods prior to the economic impact of the Pandemic and efforts to slow it. It is unclear at this time what effect, if any, COVID-19 and resulting economic disruption may have on future assessed values or the collection of taxes, either because of delinquencies or collection and valuation relief resulting from the declared emergency. Because the Bonds are secured by an unlimited ad valorem tax, 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 financial and operating data contained herein are the latest available, but are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the economic impact of the Pandemic on the District's financial condition. For a discussion of the impact of the Pandemic on the PSF, see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – Infectious Disease Outbreak."

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THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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 “CDBG Rules”). The CDBG 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 CDBG 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 CDBG 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 . . . 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 declared COVID-19 as a statewide public health disaster (the “COVID-19 Declarations”). Subsequent actions by the Governor imposed temporary restrictions on certain businesses and ordered all schools in the State to temporarily close. This situation is rapidly developing; for additional information on these events in the State, reference is made to the website of the Governor, <https://gov.texas.gov/>, and, with respect to public school events, the website of TEA, <https://tea.texas.gov/texas-schools/safe-and-healthy-schools/coronavirus-covid-19-support-and-guidance>.

Potential Impact of COVID-19 in the State and Investment Markets

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

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

TEA Continuity of Operations

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

Impact of COVID-19 on School Districts and Charter Districts

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

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

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VALUATION OF THE PSF AND GUARANTEED BONDS

Permanent School Fund Valuations

Fiscal Year Ending 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⁾

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

(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 \$87,684,853,521 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 \$4,551,091,442 (based on unaudited data, which is subject to adjustment).

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

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

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

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

The PSF(SLB) portfolio is generally characterized by three broad categories: (1) discretionary real assets investments, (2) sovereign and other lands, and (3) mineral interests. Discretionary real assets investments consist of externally managed real estate, infrastructure, and energy/minerals investment funds; internally managed direct real estate investments, and cash. Sovereign and other lands consist primarily of the lands set aside to the PSF when it was created. Mineral interests consist of all of the minerals that are associated with PSF lands. The investment focus of PSF(SLB) discretionary real assets investments has shifted from internally managed direct real estate investments to externally managed real assets investment funds. The PSF(SLB) makes investments in certain limited partnerships that legally commit it to possible future capital contributions. At August 31, 2019, the remaining commitments totaled approximately \$2.5 billion.

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

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

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

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

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

2011 AND 2019 CONSTITUTIONAL AMENDMENTS . . . On November 8, 2011, a referendum was held in the State as a result of legislation enacted that year that proposed amendments to various sections of the Texas Constitution pertaining to the PSF. At that referendum, voters of State approved non-substantive changes to the Texas Constitution to clarify references to the Fund, and, in addition, approved amendments that effected an increase to the base amount used in calculating the Distribution Rate from the Fund to the ASF, and authorized the SLB to make direct transfers to the ASF, as described below.

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

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

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

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

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

OTHER EVENTS AND DISCLOSURES . . . The State Investment Ethics Code governs the ethics and disclosure requirements for financial advisors and other service providers who advise certain State governmental entities, including the PSF. In accordance with the provisions of the State Investment Ethics Code, the SBOE periodically modifies its code of ethics, which occurred most recently in April 2018. The SBOE code of ethics includes prohibitions on sharing confidential information, avoiding conflict of interests and requiring disclosure filings with respect to contributions made or received in connection with the operation or management of the Fund. The code of ethics applies to members of the SBOE as well as to persons who are responsible by contract or by virtue of being a TEA PSF staff member for managing, investing, executing brokerage transactions, providing consultant services, or acting as a custodian of the PSF, and persons who provide investment and management advice to a member of the

SBOE, with or without compensation under certain circumstances. The code of ethics is codified in the Texas Administrative Code at 19 TAC sections 33.5 et seq., and is available on the TEA web site at <http://ritter.tea.state.tx.us/rules/tac/chapter033/ch033a.html#33.5>.

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

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

As of August 31, 2019, certain lawsuits were pending against the State and/or the GLO, which challenge the Fund's title to certain real property and/or past or future mineral income from that property, and other litigation arising in the normal course of the investment activities of the PSF. Reference is made to the Annual Report, when filed, for a description of such lawsuits that are pending, which may represent contingent liabilities of the Fund.

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

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

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

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

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

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

EVENT NOTICES . . . The TEA will also provide timely notices of certain events to the MSRB. Such notices will be provided not more than ten business days after the occurrence of the event. The TEA will provide notice of any of the following events with respect to the Guarantee Program: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if such event is material within the meaning of the federal securities laws; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax-exempt status of the Guarantee Program, or other material events affecting the tax status of the Guarantee Program; (7) modifications to rights of holders of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (8) bond calls, if such event is material within the meaning of the federal securities laws, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the Guarantee Program (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Guarantee Program in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Guarantee Program, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Guarantee Program); (13) the consummation of a merger, consolidation, or acquisition involving the Guarantee Program or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) the appointment of a successor or additional trustee with respect to the Guarantee Program or the change of name of a trustee, if such event is material within the meaning of the federal securities laws; (15) the incurrence of a financial obligation of the Guarantee Program, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Program, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Guarantee Program, any of which reflect financial difficulties. (Neither the Act nor any other law, regulation or instrument pertaining to the Guarantee Program make any provision with respect to the Guarantee Program for bond calls, debt service reserves, credit enhancement, liquidity enhancement, early redemption or the appointment of a trustee with respect to the Guarantee Program.) In addition, the TEA will provide timely notice of any failure by the TEA to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports.”

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

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

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

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

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

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

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

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

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

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

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

During the 2019 Legislative Session, the State Legislature made numerous changes to the current public school finance system, the levy and collection of ad valorem taxes, and the calculation of defined tax rates, including particularly those contained in House Bill 3 (“HB 3”) and Senate Bill 2 (“SB 2”). In some instances, the provisions of HB 3 and SB 2 will require further interpretation in connection with their implementation in order to resolve ambiguities contained in the bills. The District is still in the process of (a) analyzing the provisions of HB 3 and SB 2, and (b) monitoring the on-going guidance provided by TEA. The information contained herein under the captions “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” and “TAX RATE LIMITATIONS” is subject to change, and only reflects the District’s understanding of HB 3 and SB 2 based on information available to the District as of the date of this Official Statement. Prospective investors are encouraged to review HB 3, SB 2, and the Property Tax Code (as defined herein) for definitive requirements for the levy and collection of ad valorem taxes, the calculation of the defined tax rates, and the administration of the current public school finance system.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

POSSIBLE EFFECTS OF WEALTH TRANSFER PROVISIONS ON THE DISTRICT’S FINANCIAL CONDITION . . . The District’s wealth per student for the 2020-21 year is less than the equalized wealth value. Accordingly, the District has not been required to exercise one of the permitted wealth equalization options. As a district with wealth per student less than the equalized wealth value, the District may benefit in the future by agreeing to accept taxable property or funding assistance from or agreeing to consolidate with a property-rich district to enable such district to reduce its wealth per student to the permitted level.

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

AD VALOREM PROPERTY TAXATION

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

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

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

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

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

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

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

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

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

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

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

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

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

For a discussion of how the various exemptions described above are applied by the District, see “TAX RATE LIMITATIONS – District Application of Tax Code” herein.

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

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

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

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

payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes for certain taxpayers. Furthermore, the District may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances.

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

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

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

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

TAX RATE LIMITATIONS

M&O TAX RATE LIMITATIONS . . . The District is authorized to levy an M&O tax rate pursuant to the approval of the voters of the District at an election held on March 17, 1973 in accordance with the provisions of Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended.

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

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

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

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

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

Section 45.0031 of the Texas Education Code, as amended, requires a school district to demonstrate to the Texas Attorney General that it has the prospective ability to pay its maximum annual debt service on a proposed issue of bonds and all previously issued bonds, other than bonds approved by voters of a school district at an election held on or before April 1, 1991 and issued before April 3, 1976 (or debt issued to refund such bonds, collectively, “exempt bonds”), from a tax levied at a rate of \$0.50 per \$100 of assessed valuation before bonds may be issued (the “50-cent Test”). In demonstrating the ability to pay debt service at a rate of \$0.50, a school district may take into account EDA and IFA allotments to the school district, which effectively reduces the school district’s local share of debt service, and may also take into account Tier One funds allotted to the school district. If a school district exercises this option, it may not adopt an I&S tax until it has credited to the school district’s I&S fund an amount equal to all State allotments provided solely for payment of debt service and any Tier One funds needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Additionally, a school district may demonstrate its ability to comply with the 50-cent Test by applying the \$0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the school district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five (5) years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a school district uses projected

future taxable values to meet the 50-cent Test and subsequently imposes a tax at a rate greater than \$0.50 per \$100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Texas Attorney General must find that the school district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the 50-cent Test from a tax rate of \$0.45 per \$100 of valuation. Once the prospective ability to pay such tax has been shown and the bonds are issued, a school district may levy an unlimited tax to pay debt service. Refunding bonds issued pursuant to Chapter 1207, Texas Government Code, are not subject to the 50-cent Test; however, taxes levied to pay debt service on such bonds (other than bonds issued to refund exempt bonds) are included in maximum annual debt service for calculation of the 50-cent Test when applied to subsequent bond issues that are subject to the 50-cent Test. The Bonds are issued as refunding bonds pursuant to Chapter 1207 and are, therefore, not subject to the 50-cent Test; however, taxes levied to pay debt service on the Bonds are included in the calculation of the 50-cent Test as applied to subsequent issues of “new debt”. The District has not used projected property values or State assistance (other than EDA or IFA allotment funding) to satisfy this threshold test.

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

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

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

For the 2019 tax year, a school district with a Voter-Approval Tax Rate equal to or greater than \$0.97 (excluding the school district’s current I&S tax rate) may not adopt tax rate for the 2019 tax year that exceeds the school district’s Voter-Approval Tax Rate. For the 2019 tax year, TEA has set the District’s Voter-Approval Tax Rate (excluding its current I&S tax rate) at \$0.99. 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.

DISTRICT APPLICATION OF PROPERTY TAX CODE . . . The District grants the State-mandated exemptions of \$25,000 for general homestead exemption.

The District grants an additional \$10,000 for persons 65 years of age and older and the disabled. A taxpayer who qualifies for both the age 65 or older exemption and the disabled exemption must choose only one of the options to claim.

The District has not granted an additional exemption of 20% of the market value of residence homesteads; minimum exemption of \$5,000.

See Table 1 for a listing of the amounts of the exemptions described above.

The District grants a tax freeze for citizens who are disabled or are 65 years of age or older.

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

The District does not tax nonbusiness personal property; and the Hockley County Tax Assessor/Collector collects taxes for the District.

The District does permit split payments and discounts for the early payment of taxes are not allowed.

The District does not tax freeport property.

The District has not adopted a tax abatement policy.

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TABLE 1 - VALUATION, EXEMPTIONS AND TAX SUPPORTED DEBT

2020/2021 Market Valuation Established by the Hockley County Appraisal District (excluding exempt property)	\$ 1,722,773,617
Less Exemptions/Reductions at 100% Market Value:	<u>\$ 517,433,275</u>
2020/2021 Net Taxable Assessed Valuation	<u>\$ 1,205,340,342</u>
District Funded Debt Payable from Ad Valorem Taxes (as of 6/30/20) The Bonds	<u>\$ 15,870,000 ⁽¹⁾</u> <u>30,459,972</u>
Debt Payable from Ad Valorem Taxes	<u>\$ 46,329,972</u>
General Obligation Interest and Sinking Fund (as of 6/30/20)	\$ 1,100,810
Ratio General Obligation Debt to 2020/2021 Taxable Assessed Valuation	3.84%

2020 Estimated Population - 17,470
Per Capita Taxable Assessed Valuation - \$68,995
Per Capita General Obligation Debt Payable from Ad Valorem Taxes - \$2,652

(1) Excludes Refunded Bonds.

TABLE 2 - VALUATION AND TAX SUPPORTED DEBT HISTORY

Fiscal Year Ended 8/31	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	Total Tax Supported Debt Outstanding at End of Year	Ratio of Tax Supported Debt to Taxable Assessed Valuation	Tax Supported Debt Per Capita
2017	17,290	\$ 1,081,815,622	\$ 62,569	\$ 52,353,470	4.84%	\$ 3,028
2018	17,108	1,042,088,382	60,912	50,770,000	4.87%	2,968
2019	17,470	1,138,067,747	65,144	48,935,000	4.30%	2,801
2020	17,470	1,203,081,709	68,866	46,330,000	3.85%	2,652
2021	17,470	1,205,340,342	68,995	43,919,972 ⁽³⁾	3.64%	2,514

(1) Source: District Staff.

(2) As reported by the Hockley County Appraisal District on District's annual State Property Tax Reports and is subject to change during ensuing year.

(3) Projected, excludes the Refunded Bonds and includes the Bonds.

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TABLE 3 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 8/31		Distribution			% of Current Tax Collections to Tax Levy	% of Total Tax Collections to Tax Levy
	Tax Rate	General Fund	Interest and Sinking Fund	Tax Levy		
2016	\$1.3084	\$1.0400	\$0.2684	\$19,268,926	97.82%	98.82%
2017	1.4080	1.0400	0.3680	14,690,167	96.80%	98.23%
2018	1.3880	1.0400	0.3480	15,300,799	97.58%	99.01%
2019	1.3880	1.0600 ⁽¹⁾	0.3280	16,557,397	98.50%	99.55%
2020	1.3000	0.9900 ⁽²⁾	0.3100	16,444,468	97.04% ⁽³⁾	97.90% ⁽³⁾

(1) The District held a successful Tax Ratification Election on August 14, 2018.

(2) The decrease in the District's General Fund tax rate from the 2018/2019 fiscal year to the 2019/2020 fiscal year is a function of House Bill 3 adopted by the Texas Legislature in June 2019.

(3) Collections as of July 31, 2020.

TABLE 4 - TEN LARGEST TAXPAYERS ⁽¹⁾

Name of Taxpayer	Nature of Property	2019/2020 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Occidental Permian Ltd.	Oil and Gas	\$ 103,483,180	8.60%
Post-Montgomery Estate	Oil and Gas	55,299,940	4.60%
Great Western Drilling Company	Oil and Gas	54,190,510	4.50%
Sabinal Energy Operating	Oil and Gas	31,154,390	2.59%
Rogers S K Oil Inc	Oil and Gas	17,316,000	1.44%
Rocker A Operating Company	Oil and Gas	15,755,340	1.31%
Pipeline Plastics LLC	Oil and Gas	14,857,222	1.23%
Southwestern Public Service Co.	Utility	10,852,700	0.90%
Diamond Ethanol LLC	Oil and Gas	8,590,870	0.71%
El Ran Inc.	Oil and Gas	8,505,650	0.71%
		<u>\$ 320,005,802</u>	<u>26.60%</u>

(1) As shown above, the ten largest taxpayers in the District are concentrated in the oil and gas industry, and represent approximately 27% of the taxable assessed valuation of the District from year 2019/2020. Oil and gas prices in Texas and worldwide have been historically subject to fluctuation due to a multitude of factors. As a result, the District's taxable assessed valuation and, therefore, the tax rates required to pay debt service on the District's bonds, may be subject to volatility in future years. In addition, under State law, the District is generally permitted to levy debt service taxes in amount sufficient to cover debt payments coming due during the tax year. As a result, the District may not have sufficient reserves available in its debt service fund in the event that a significant taxpayer should experience financial difficulties and be unable to timely pay taxes as they come due. See also "THE BONDS - POTENTIAL IMPACT OF COVID-19".

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TABLE 5 - ESTIMATED OVERLAPPING DEBT

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

Taxing Jurisdiction	Total Funded Debt	Estimated %	District's Overlapping Funded Debt
	As of 6/30/20	Applicable	As of 6/30/20
Levelland ISD	\$ 46,329,972	100.00%	\$ 46,329,972 ⁽¹⁾
City of Levelland	8,700,000	100.00%	8,700,000
Hockley County	-	52.35%	-
Total Direct and Overlapping Tax Supported Debt			\$ 55,029,972
Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation			4.57%
Per Capita Overlapping Tax Supported Debt			\$ 3,150

(1) Excludes the Refunded Bonds and includes the Bonds.

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DEBT INFORMATION

TABLE 6 - TAX SUPPORTED DEBT SERVICE REQUIREMENTS

Period Ended 8/31	Outstanding Debt ⁽¹⁾			The Bonds ⁽²⁾			Total Debt Service Requirements	% of Principal Retired
	Principal	Interest	Total	Principal	Interest	Total		
2020	\$ 1,905,000	\$ 1,849,162	\$ 3,754,162	\$ -	\$ -	\$ -	\$ 3,754,162	
2021	1,910,000	599,375	2,509,375	500,000	432,791	932,791	3,442,166	
2022	1,990,000	512,400	2,502,400	440,000	491,976	931,976	3,434,376	
2023	2,075,000	428,150	2,503,150	445,000	490,426	935,426	3,438,576	
2024	2,150,000	345,425	2,495,425	445,000	488,098	933,098	3,428,523	25%
2025	2,245,000	262,675	2,507,675	450,000	484,995	934,995	3,442,670	
2026	2,330,000	173,988	2,503,988	450,000	481,074	931,074	3,435,061	
2027	865,000	109,075	974,075	1,995,000	468,234	2,463,234	3,437,309	
2028	900,000	73,000	973,000	2,020,000	444,804	2,464,804	3,437,804	48%
2029	690,000	42,400	732,400	32,055	2,674,942	2,706,997	3,439,397	
2030	715,000	14,300	729,300	762,917	1,938,500	2,701,417	3,430,717	
2031	-	-	-	3,175,000	395,628	3,570,628	3,570,628	
2032	-	-	-	3,225,000	344,005	3,569,005	3,569,005	
2033	-	-	-	3,280,000	289,089	3,569,089	3,569,089	73%
2034	-	-	-	3,345,000	230,347	3,575,347	3,575,347	
2035	-	-	-	3,400,000	167,673	3,567,673	3,567,673	
2036	-	-	-	2,120,000	113,846	2,233,846	2,233,846	
2037	-	-	-	2,165,000	69,852	2,234,852	2,234,852	
2038	-	-	-	2,210,000	23,625	2,233,625	2,233,625	100%
	<u>\$ 17,775,000</u>	<u>\$ 4,409,950</u>	<u>\$ 22,184,950</u>	<u>\$ 30,459,972</u>	<u>\$ 10,029,906</u>	<u>\$ 40,489,877</u>	<u>\$ 62,674,827</u>	

(1) Excludes the Refunded Bonds.

(2) Interest on the Bonds has been calculated at the rates shown on page 2 hereof.

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TABLE 7 - INTEREST AND SINKING FUND BUDGET PROJECTION

Tax Supported Debt Service Requirements, Fiscal Year Ending 8/31/20		\$ 3,754,162
Interest & Sinking Fund Balance, Fiscal Year Ending 8/31/19	\$ 1,098,066	
Budgeted Interest & Sinking Fund Tax Levy	<u>3,654,962</u>	<u>4,753,028</u>
Estimated Balance, Fiscal Year Ending 8/31/20		<u><u>\$ 998,866</u></u>

TABLE 8 - AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS

The District has no authorized but unissued unlimited tax bonds.

ANTICIPATED ISSUANCE OF UNLIMITED TAX DEBT . . . The District does not plan to issue any additional unlimited tax bonds, other than the Bonds, in the next twelve months.

TABLE 9 - OTHER OBLIGATIONS

The District purchased seven school vehicles on leases. The outstanding principal balance as of August 31, 2019 was \$189,525.74.

PENSION FUND . . . Pension funds for employees of Texas school districts, and any employee in public education in Texas, are administered by the Teacher Retirement System of Texas (the "System"). The individual employees contribute a fixed amount of their salary to the System, currently 6.4%, and the State of Texas contributes funds to the System based on statutory required minimum salary for certified personnel, except any District personnel paid by Federally funded programs. As a result of its participation in the System and having no other post-employment retirement benefit plans, the District has no obligations for other post-employment benefits within the meaning of Governmental Accounting Standards Board Statement No. 45. (For more detailed information concerning the retirement plan, see APPENDIX B, "Excerpts from the District's Annual Financial Report" - Note # 13.)

OTHER POST EMPLOYMENT BENEFITS . . . The Governmental Accounting Standards Board (GASB) issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75) in June 2015. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The adoption of GASB 75 is reflected in the 2016-2017 fiscal year financial statements.

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FINANCIAL INFORMATION

TABLE 10 - CHANGES IN NET POSITION

	Fiscal Year Ended August 31,				
	2019	2018	2017	2016	2015
REVENUES:					
Program Revenues:					
Charges for Services	\$ 1,182,326	\$ 1,196,491	\$ 1,222,648	\$ 1,140,259	\$ 1,082,718
Operating Grants and Contributions	5,412,285	4,809,748	6,247,934	6,053,242	5,791,564
General Revenues:					
Property Taxes, Levied for General Purposes	12,668,999	11,414,370	10,761,132	15,202,231	19,442,815
Property Taxes, Levied for Debt Service	3,870,307	3,819,330	3,808,323	3,926,331	3,874,292
Grants and Contributions not Restricted	15,457,635	10,098,727	13,131,054	8,953,725	5,577,186
Investment Earnings	227,296	136,486	82,287	109,610	172,602
Miscellaneous Revenue	45,282	212,851	233,541	205,242	574,534
Total Revenues	<u>\$ 38,864,130</u>	<u>\$ 31,688,003</u>	<u>\$ 35,486,919</u>	<u>\$ 35,590,640</u>	<u>\$ 36,515,711</u>
EXPENSES:					
Instruction	\$ 20,424,191	\$ 13,398,171	\$ 19,570,935	\$ 20,668,784	\$ 19,657,286
Instructional Resources and Media Services	521,244	309,483	383,227	416,889	374,069
Curriculum & Instructional Staff Development	74,430	42,160	96,573	52,087	50,513
Instructional Leadership	582,628	375,773	669,922	682,562	465,561
School Leadership	1,804,067	1,093,580	1,688,789	1,679,128	1,477,395
Guidance, Counseling & Evaluation Services	1,336,147	833,725	1,257,580	1,164,942	1,354,016
Social Work Services	3,351	3,511	2,835	7,613	22,098
Health Services	321,659	206,676	291,336	284,779	257,576
Student Transportation	1,494,411	979,508	1,284,974	1,226,925	1,294,948
Food Services	1,763,393	1,491,324	1,618,036	1,697,210	1,604,603
Extracurricular Activities	1,390,356	1,167,005	1,367,867	1,411,408	1,307,260
General Administration	1,602,503	1,197,149	1,499,559	1,485,804	1,458,654
Plant Maintenance and Operations	3,742,920	3,865,817	3,521,197	3,415,117	3,504,951
Security and Monitoring Services	143,883	150,217	136,146	196,115	242,601
Data Processing Services	563,602	498,895	531,914	550,313	618,916
Community Services	-	2,445	1,535	-	-
Debt Service - Interest on Long Term Debt	1,879,690	1,915,195	2,312,189	2,629,747	3,549,836
Debt Service - Bond Issuance Cost and Fees	1,840	2,640	1,000	250	-
Payments to Fiscal Agent/Member Districts of SSA	329,029	318,139	312,217	307,721	305,935
Other Intergovernmental Charges	198,414	191,033	187,003	228,450	233,641
Total Expenses	<u>\$ 38,177,758</u>	<u>\$ 28,042,446</u>	<u>\$ 36,734,834</u>	<u>\$ 38,105,844</u>	<u>\$ 37,779,859</u>
Transfers In (Out)	\$ -	\$ -	\$ -	\$ -	\$ -
Change in Net Position	\$ 686,372	\$ 3,645,557	\$ (1,247,915)	\$ (2,515,204)	\$ (1,264,148)
Net Position - Beginning	<u>(1,927,665)</u>	<u>14,288,319</u>	<u>15,546,157</u>	<u>18,085,999</u>	<u>23,070,514</u>
Prior Period Adjustment	-	(19,861,541) ⁽¹⁾	(9,923)	(24,638)	(3,720,367)
Net Position - Ending	<u>\$ (1,241,293)</u>	<u>\$ (1,927,665)</u>	<u>\$ 14,288,319</u>	<u>\$ 15,546,157</u>	<u>\$ 18,085,999</u>

Source: District's Audited Financial Statements.

- (1) During fiscal year 2018, the District adopted GASB No. 75 for Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. With GASB 75, the District must assume their proportionate share of the NET OPEB liability of the Teacher retirement System of Texas. Adoption of GASB 75 required a prior period adjustment to report the effect of GASB 75 retroactively. The prior period adjustment totaled (\$19,861,541) which resulted in a restated beginning net position balance of (\$19,861,541).

TABLE 11 - GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Year Ended August 31,				
REVENUES:	2019	2018	2017	2016	2015
Local and Intermediate Sources	\$ 13,046,115	\$ 11,781,826	\$ 11,150,862	\$ 15,663,776	\$ 20,174,642
State Program Revenues	13,342,524	13,632,713	13,349,782	8,649,736	6,232,371
Federal Program Revenues	968,553	939,804	535,318	536,017	455,742
Total Revenues	<u>\$ 27,357,192</u>	<u>\$ 26,354,343</u>	<u>\$ 25,035,962</u>	<u>\$ 24,849,529</u>	<u>\$ 26,862,755</u>
EXPENDITURES:					
Current:					
Instruction	\$ 14,002,669	\$ 14,179,132	\$ 14,023,798	\$ 14,764,118	\$ 15,688,392
Instructional Resources and Media Services	419,997	356,388	304,012	334,462	346,935
Curriculum and Instructional Staff Development	34,221	11,400	11,915	13,092	12,260
Instructional Leadership	148,146	145,090	167,276	189,062	162,475
School Leadership	1,532,869	1,474,306	1,471,382	1,467,176	1,372,683
Guidance, Counseling, and Evaluation Services	469,605	450,269	351,855	399,264	597,786
Social Work Services	-	-	-	5,368	18,555
Health Services	276,124	265,131	253,170	247,252	239,127
Student Transportation	2,116,454	1,105,947	1,441,011	1,123,187	1,684,432
Food Services	-	-	-	-	6,556
Extracurricular Activities	1,204,239	1,233,653	1,212,235	1,256,569	1,213,142
General Administration	1,155,264	1,118,237	1,026,388	1,010,602	1,057,879
Facilities Maintenance and Operations	3,412,767	3,678,628	3,120,935	3,115,233	3,294,162
Security and Monitoring Services	127,428	132,990	121,422	174,974	223,809
Data Processing Services	454,399	539,323	448,435	471,184	560,853
Community Services	-	2,165	1,535	-	-
Debt Service:					
Debt Service - Principal on Long Term Debt	147,707	531,631	195,882	177,667	79,803
Debt Service - Interest on Long Term Debt	-	5,450	9,786	15,296	6,636
Intergovernmental:					
Payments to Fiscal Agent/Member Districts of SSA	329,029	318,139	312,217	307,721	305,935
Other Intergovernmental Charges	198,414	191,033	187,003	228,450	233,641
Total Expenditures	<u>\$ 26,029,332</u>	<u>\$ 25,738,912</u>	<u>\$ 24,660,257</u>	<u>\$ 25,300,677</u>	<u>\$ 27,105,061</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ 1,327,860</u>	<u>\$ 615,431</u>	<u>\$ 375,705</u>	<u>\$ (451,148)</u>	<u>\$ (242,306)</u>
OTHER FINANCING SOURCES (USES):					
Capital Leases	\$ 243,480	\$ 457,255	\$ 377,560	\$ -	\$ 360,750
Sale of Real and Personal Property	-	-	-	-	-
Transfers In	1,025,195	944,753	894,021	1,040,218	860,066
Other Resources	-	-	-	-	-
Transfers Out (Use)	(886,879)	(950,619)	(896,574)	(976,186)	(871,450)
Other (Uses)	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>\$ 381,796</u>	<u>\$ 451,389</u>	<u>\$ 375,007</u>	<u>\$ 64,032</u>	<u>\$ 349,366</u>
Net Change in Fund Balance	\$ 1,709,656	\$ 1,066,820	\$ 750,712	\$ (387,116)	\$ 107,060
Beginning Fund Balance - September 1	\$ 9,351,608	\$ 8,284,788	\$ 7,534,076	\$ 7,921,190	\$ 7,814,130
Increase (Decrease) in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2</u>	<u>\$ -</u>
Ending Fund Balance - August 31	<u>\$ 11,061,264</u>	<u>\$ 9,351,608</u>	<u>\$ 8,284,788</u>	<u>\$ 7,534,076</u>	<u>\$ 7,921,190</u>

Source: District's Audited Financial Statements.

FINANCIAL POLICIES

Summary of Significant Accounting Policies . . . The District is a public education agency operating under the applicable laws and regulations of the State of Texas. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (“GASB”) and other authoritative sources identified in Statement on Auditing Standards No. 69 of the American Institute of Certified Public Accountants; and it complies with the requirements of the appropriate version of the Texas Education Agency’s Financial Accountability System Resource Guide, issued by the Texas Education Agency, and the requirements of contracts and grants of agencies from which it receives funds.

Basis of Presentation . . . *Government-wide financial statements* - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal Service fund activity is eliminated to avoid overstatement of revenues and expenses. The statements distinguish between governmental and business-type activities of the District.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore are clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. All taxes and revenues not classified as program revenues are presented as general revenues of the District.

Fund Financial Statements - Fund financial statements report detailed information about the District. Their focus is on major funds rather than reporting funds by type. Each major governmental aid fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Basis of Accounting . . . Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

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

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

Revenues from state and federal grants are recognized as earned when the related program expenditures are incurred. Revenues from local sources consist primarily of property taxes. Property tax revenues are recognized under the susceptible to accrual concept. Funds received but unearned are reflected as deferred revenues, and funds expended but not yet received are shown as receivables. For state entitlements, the District has adopted a budgetary basis of accounting for Foundation School Program revenues. Such entitlements are recorded as received.

Interest revenue and building rentals are recorded when earned since they are measurable and available. Other revenues such as fees, tuition, local food service revenue, and miscellaneous revenues are accounted for on the cash basis.

Expenditures are recognized in the accounting period in which the fund liability is incurred when measurable, except expenditures for debt service including unmatured interest on long-term debt. Expenditures for principal and interest on long-term debt are recognized when due.

Budgetary Data . . . The District is required by state law to adopt annual budgets for the General Fund, Debt Service Fund and the Food Service Special Revenue Fund, which is included within the Special Revenue Funds. The remaining Special Revenue Funds and the Capital Projects Fund adopt project-length budgets that do not correspond to the District's fiscal year. Each budget is presented on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles ("GAAP"). The budget is prepared and controlled at the function level.

1. Prior to August 31, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end.

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INVESTMENTS

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

INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF THE DISTRICT . . . 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 directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligation, the principal and interest of which is 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 or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the District selects from a list the governing body or designated investment committee of the District adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in the State that the District selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the District's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the District appoints as the District's custodian of the banking deposits issued for the District's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the SEC and operating under SEC Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of the Public Funds Investment Act (Chapter 2256, Texas Government Code) (the "PFIA") 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 Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or their respective successors, or are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and provided for by law for District deposits, or (ii) certificates of deposits where (a) the funds are invested by the District through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the District as required by law, or (B) a depository institution that has its main office or branch office in the State that is selected by the District, (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) 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 in clause (1) above or clause (12) below, 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 the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 365 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (13) no-load money market mutual funds registered with and regulated by the SEC that provide the District with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that comply with federal SEC Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.), and (14) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years and either (a) a duration of one year or more and invest exclusively in obligations described in under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract and are pledged to the District and deposited with the District or a third party selected and approved by the District.

Governmental bodies in the State are authorized to implement securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) of the first paragraph under this subcaption, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm not less than "A" or its equivalent, or (c) cash invested in obligations that are described in clauses (1) through (8) and (12) through (14) of the first paragraph under this subcaption, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the governmental body, held in the name of the governmental body and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

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

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 include a list of authorized investments for District funds, the maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the PFIA. 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, the District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and probable income to be derived." At least quarterly the District's investment officers must submit an investment report to the Board detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, the ending market value and the fully accrued interest for the reporting period of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) State law. No person may invest District funds without express written authority from the Board.

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

TABLE 12 - CURRENT INVESTMENTS

As of June 30, 2020, the District's investable funds were invested in the following categories:

Description	Book Value
Certificates of Deposit	\$ 8,362,141
Bank Accounts	5,588,336
Total	<u>\$ 13,950,477</u>

TAX MATTERS

GENERAL . . . The following discussion is a summary of certain expected material federal income tax consequences of the purchase, ownership and disposition of the Bonds and is based on the Internal Revenue Code of 1986 (the “Code”), the regulations promulgated thereunder, published rulings and pronouncements of the Internal Revenue Service (“IRS”) and court decisions currently in effect. There can be no assurance that the IRS will not take a contrary view, and no ruling from the IRS, has been, or is expected to be, sought on the issues discussed herein. Any subsequent changes or interpretations may apply retroactively and could affect the opinion and summary of federal income tax consequences discussed herein.

The following discussion is not a complete analysis or description of all potential U.S. federal tax considerations that may be relevant to, or of the actual tax effect that any of the matters described herein will have on, particular holders of the Bonds and does not address U.S. federal gift or estate tax or (as otherwise stated herein) the alternative minimum tax, state, local or other tax consequences. This summary does not address special classes of taxpayers (such as partnerships, or other pass-thru entities treated as a partnerships for U.S. federal income tax purposes, S corporations, mutual funds, insurance companies, financial institutions, small business investment companies, regulated investment companies, real estate investment trusts, grantor trusts, former citizens of the U.S., broker-dealers, traders in securities and tax-exempt organizations, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be subject to branch profits tax or personal holding company provisions of the Code or taxpayers qualifying for the health insurance premium assistance credit) that are subject to special treatment under U.S. federal income tax laws, or persons that hold Bonds as a hedge against, or that are hedged against, currency risk or that are part of hedge, straddle, conversion or other integrated transaction, or persons whose functional currency is not the “U.S. dollar”. This summary is further limited to investors who will hold the Bonds as “capital assets” (generally, property held for investment) within the meaning of Section 1221 of the Code. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

As used herein, the term “U.S. Holder” means a beneficial owner of a Bonds who or which is: (i) an individual citizen or resident of the United States, (ii) a corporation or partnership created or organized under the laws of the United States or any political subdivision thereof or therein, (iii) an estate, the income of which is subject to U.S. federal income tax regardless of the source; or (iv) a trust, if (a) a court within the U.S. is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (b) the trust validly elects to be treated as a U.S. person for U.S. federal income tax purposes. As used herein, the term “Non-U.S. Holder” means a beneficial owner of a Bond that is not a U.S. Holder.

THIS SUMMARY IS INCLUDED HEREIN FOR GENERAL INFORMATION ONLY AND DOES NOT DISCUSS ALL ASPECTS OF THE U.S. FEDERAL INCOME TAXATION THAT MAY BE RELEVANT TO A PARTICULAR HOLDER OF BONDS IN LIGHT OF THE HOLDER’S PARTICULAR CIRCUMSTANCES AND INCOME TAX SITUATION. PROSPECTIVE HOLDERS OF THE BONDS SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE BONDS BEFORE DETERMINING WHETHER TO PURCHASE BONDS. THE FOLLOWING DISCUSSION IS NOT INTENDED OR WRITTEN TO BE USED TO AVOID PENALTIES THAT MIGHT BE IMPOSED ON THE TAXPAYER IN CONNECTION WITH THE MATTERS DISCUSSED THEREIN. INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE TAX IMPLICATIONS OF THE PURCHASE, OWNERSHIP OR DISPOSITION OF THE BONDS UNDER APPLICABLE STATE OR LOCAL LAWS, OR ANY OTHER TAX CONSEQUENCE.

FOREIGN INVESTORS SHOULD ALSO CONSULT THEIR OWN TAX ADVISORS REGARDING THE TAX CONSEQUENCES UNIQUE TO NON-U.S. HOLDERS.

INFORMATION REPORTING AND BACKUP WITHHOLDING . . . Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the IRS. Payments of interest and principal may be subject to withholding under sections 1471 through 1474 or backup withholding under Section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner’s social security number or other taxpayer identification number (“TIN”), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient’s federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES TO U.S. HOLDERS . . . *Periodic Interest Payments and Original Issue Discount.* The Bonds are not obligations described in Section 103(a) of the Code. Accordingly, the stated interest paid on the Bonds or any original issue discount accruing on the Bonds will be includable in “gross income” within the meaning of Section 61 of the Code of each owner thereof and be subject to federal income taxation when received or accrued, depending upon the tax accounting method applicable to such owner.

Disposition of Bonds . . . An owner will recognize gain or loss on the redemption, sale, exchange or other disposition of a Bond equal to the difference between the redemption or sale price (exclusive of any amount paid for accrued interest) and the owner’s tax basis in the Bonds. Generally, a U.S. Holder’s tax basis in the Bonds will be the owner’s initial cost, increased by income reported by such U.S. Holder, including original issue discount and market discount income, and reduced, but not below zero, by any amortized premium. Any gain or loss generally will be a capital gain or loss and either will be long-term or short-term depending on whether the Refunding Bonds has been held for more than one year.

Defeasance of the Bonds . . . Defeasance of any Bonds may result in a reissuance thereof, for U.S. federal income tax purposes, in which event a U.S. Holder will recognize taxable gain or loss as described above.

STATE, LOCAL AND OTHER TAX CONSEQUENCES . . . Investors should consult their own tax advisors concerning the tax implications of holding and disposing of the Bonds under applicable state or local laws, or any other tax consequence, including the application of gift and estate taxes. Certain individuals, estates or trusts may be subject to a 3.8% surtax on all or a portion of the taxable interest that is paid on the Bonds. **PROSPECTIVE PURCHASERS OF THE BONDS SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE FOREGOING MATTERS**

CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES TO NON-U.S. HOLDERS . . . A Non-U.S. Holder that is not subject to U.S. federal income tax as a result of any direct or indirect connection to the U.S. in addition to its ownership of a Bond, will not be subject to U.S. federal income or withholding tax in respect of such Bond, provided that such Non-U.S. Holder complies, to the extent necessary, with identification requirements including delivery of a signed statement under penalties of perjury, certifying that such Non-U.S. Holder is not a U.S. person and providing the name and address of such Non-U.S. Holder. Absent such exemption, payments of interest, including any amounts paid or accrued in respect of accrued original issue discount, may be subject to withholding taxes, subject to reduction under any applicable tax treaty. Non-U.S. Holders are urged to consult their own tax advisors regarding the ownership, sale or other disposition of a Bond.

The foregoing rules will not apply to exempt a U.S. shareholder of a controlled foreign corporation from taxation on the U.S. shareholder's allocable portion of the interest income received by the controlled foreign corporation.

CONTINUING DISCLOSURE INFORMATION

In the Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the MSRB. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" for a description of the TEA's continuing disclosure undertaking to provide certain updated financial information and operating data annually with respect to the Permanent School Fund and the State of Texas, as the case may be, and to provide timely notice of specified material events related to the guarantee to the MSRB.

ANNUAL REPORTS . . . The District will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under Tables numbered 1 through 4 and 6 through 12 and in Appendix B. The District will update and provide this information within six months after the end of each fiscal year ending in and after 2020. The District will provide the updated information to the MSRB in electronic format, which will be available to the public free of charge via the EMMA system at www.emma.msrb.org. The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the SEC, as permitted by Rule 15c2-12. The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation.

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

NOTICE OF CERTAIN EVENTS . . . The District will also provide timely notices of certain events to the MSRB. The District will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into 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 Paying Agent/Registrar or the change of name of a Paying Agent/Registrar, if material; (15) incurrence of a financial obligation of the District (as defined by Rule 15c2-12, which includes certain debt, debt-like, and debt-related obligations), if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such 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 any such financial

obligation of the District, any of which reflect financial difficulties. In addition, the District will provide timely notice of any failure by the District to provide annual financial information in accordance with its agreement described above under "Annual Reports".

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

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

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

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

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . During the last five years, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with Rule 15c2-12, except as follows; for Fiscal years 2014-2018 the District failed to file their overlapping debt table as required. This information has since been filed along with a late notice.

OTHER INFORMATION

RATING . . . The Bonds are rated "A+" by S&P Global Ratings ("S&P") without regard to credit enhancement. The Bonds are expected to be guaranteed by the Permanent School Fund of the State of Texas, and S&P generally rates all bond issues guaranteed by the Permanent School Fund of the State of Texas "AAA". In addition, the District has issues outstanding which are rated "AAA" by S&P by virtue of the guarantee of the Permanent School Fund of the State of Texas. An explanation of the significance of such rating may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the District makes no representation as to the appropriateness of any rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

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

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE . . . The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction. The District assumes no responsibility for 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 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 provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS . . . Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the PFIA, 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 “OTHER INFORMATION - Ratings” herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the District has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

LEGAL MATTERS . . . The District will furnish to the Underwriters a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas as to the Bonds to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel with respect to the Bonds issued in compliance with the provisions of the Order, a form of which is attached to this Official Statement as APPENDIX C. 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. Bond Counsel also advises the TEA in connection with its disclosure obligations under Federal securities laws, but such firm has not passed upon any TEA disclosures contained in this Official Statement. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds which would affect the provision made for their payment or security or in any manner questioning the validity of said Bonds will also be furnished to the Underwriters. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the captions and subcaptions “PLAN OF FINANCING - Refunded Bonds,” “THE BONDS” (excluding the information under the subcaptions “Yield on Capital Appreciation Bonds,” “Permanent School Fund Guarantee,” “Book-Entry-Only-System,” “Bondholders’ Remedies” and “Sources and Uses of Proceeds”), “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS”, “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” (except under the subcaption “Possible Effects of Wealth Transfer Provisions on the District’s Financial Condition”), “TAX RATE LIMITATIONS”, “TAX MATTERS”, “CONTINUING DISCLOSURE INFORMATION” (excluding the information under the subcaption “Compliance with Prior Undertakings”), “OTHER INFORMATION - Registration and Qualification of Bonds for Sale”, “OTHER INFORMATION - Legal Investments and Eligibility to Secure Public Funds In Texas”, and “OTHER INFORMATION - Legal Matters” (excluding the last sentence of the first paragraph thereof) in the Official Statement and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the provisions of the Order. The legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas, whose legal fees of Underwriters’ counsel are contingent upon the delivery of the Bonds.

The 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 that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

FINANCIAL ADVISOR . . . Specialized Public Finance Inc. is employed as Financial Advisor to the District in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. Specialized Public Finance Inc., in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor to the District 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.

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

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

VERIFICATION OF MATHEMATICAL COMPUTATIONS . . . 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 Federal Securities, to pay, when due, the maturing 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's retained advisors, consultants or legal counsel.

UNDERWRITING . . . The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the District, at a price equal to the initial offering prices to the public, as shown on page 2 of this Official Statement, less an underwriting discount of \$202,091.13 and no accrued interest. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

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 respective responsibilities to investors under the federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information.

RBC Capital Markets, LLC ("RBC"), one of the Underwriters of the Bonds, has provided the following information for inclusion in this Official Statement: RBC and its respective affiliates are full-service financial institutions engaged in various activities, that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, RBC and its respective affiliates may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). RBC and its respective affiliates may engage in transactions for their own accounts involving the securities and instruments made the subject of this securities offering or other offering of the District. RBC and its respective affiliates may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the District. RBC and its respective affiliates may make a market in credit default swaps with respect to municipal securities in the future.

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

The Order authorizing the issuance of the Bonds authorized the Pricing Officer to approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorized its further use in the reoffering of the Bonds by the Underwriters.

Jeff Northern
Pricing Officer
Levelland Independent School District

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SCHEDULE I

SCHEDULE OF REFUNDED BONDS

Unlimited Tax Refunding Bonds,

Series 2012

Amount	Maturity	Coupon
\$ 250,000	2/15/2029	3.250%
255,000	2/15/2030	3.250%
1,150,000	2/15/2031	3.500%
1,185,000	2/15/2032	3.500%
1,225,000	2/15/2033	3.100%
1,270,000	2/15/2034	3.100%
1,310,000	2/15/2035	4.000%

Redemption Date: 2/15/2022

Redemption Price: 100%

Unlimited Tax School Building Bonds,

Series 2013

Amount	Maturity	Coupon
\$ 1,560,000	2/15/2027	4.000%
1,625,000	2/15/2028	4.000%
1,690,000	2/15/2029	4.125%
1,760,000	2/15/2030	4.125%
1,835,000	2/15/2031	4.250%
1,915,000	2/15/2032	4.250%
2,000,000	2/15/2033	4.250%
2,090,000	2/15/2034	4.375%
2,180,000	2/15/2035	4.375%
2,280,000	2/15/2036	4.500%
2,385,000	2/15/2037	4.500%
2,495,000	2/15/2038	4.500%

Redemption Date: 2/15/2023

Redemption Price: 100%

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SCHEDULE II

**SCHEDULE OF ACCRETED VALUE OF
PREMIUM CAPITAL APPRECIATION BONDS**

	2/15/2029	2/15/2030
	@	@
DATE	1.68804%	1.78812%
09/29/2020	4,343.20	4,231.25
02/15/2021	4,370.87	4,259.80
08/15/2021	4,407.76	4,297.89
02/15/2022	4,444.96	4,336.31
08/15/2022	4,482.48	4,375.08
02/15/2023	4,520.31	4,414.20
08/15/2023	4,558.46	4,453.66
02/15/2024	4,596.94	4,493.48
08/15/2024	4,635.74	4,533.66
02/15/2025	4,674.86	4,574.19
08/15/2025	4,714.32	4,615.08
02/15/2026	4,754.11	4,656.35
08/15/2026	4,794.23	4,697.98
02/15/2027	4,834.70	4,739.98
08/15/2027	4,875.50	4,782.36
02/15/2028	4,916.65	4,825.11
08/15/2028	4,958.15	4,868.25
02/15/2029	5,000.00	4,911.78
08/15/2029	-	4,955.69
02/15/2030	-	5,000.00

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APPENDIX A

GENERAL INFORMATION REGARDING THE DISTRICT

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THE DISTRICT

Levelland ISD is a mineral-producing and agricultural area which includes the City of Levelland, the county seat of Hockley County and principal commercial center located 25 miles west of Lubbock at the intersection of U.S. Highway 385 and State Highway 114. Levelland functions both as a self-sustained community with its own employment base and as a bedroom community to the Lubbock metropolitan area. Because of the proximity to Lubbock, citizens can enjoy the benefits of small town life while being able to access the economic, educational and cultural amenities of a mid-sized city⁽¹⁾. The 2010 U.S. Census population for Hockley County was 22,935. According to statistics provided by the Texas Railroad Commission, the County produced 11,575,132 BBL of crude oil and 34,711 MCF of natural gas in 2017.

(1) Municipal Advisory Council of Texas, Texas Municipal Reports.

ENROLLMENT ⁽¹⁾

Enrollment in the Levelland Independent School District has been as follows:

<u>School Year</u>	<u>Enrollment</u>
2015/2016	3,079
2016/2017	3,011
2017/2018	2,998
2018/2019	2,917
2019/2020	2,898

(1) Source: Texas Education Agency website: www.tea.texas.gov.

LABOR FORCE ESTIMATES (HOCKLEY COUNTY) ⁽¹⁾

	June	Annual Averages			
	2020	2019	2018	2017	2016
Civilian Labor Force	10,976	11,290	11,562	11,274	11,176
Total Employment	9,922	10,956	11,203	10,855	10,658
Total Unemployment	1,054	334	359	419	518
Percent Unemployment	9.6%	3.0%	3.1%	3.7%	4.6%

(1) Source: Texas Workforce Commission, Labor Market Information.

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APPENDIX B

EXCERPTS FROM THE
LEVELLAND INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT

For the Year Ended August 31, 2019

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

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MYATT, BLUME, AND ASSOCIATES, LTD., L.L.P.

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MEMBERS
TEXAS SOCIETY AND AMERICAN INSTITUTE
OF CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Levelland Independent School District
Levelland, Texas 79336

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Levelland 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 as noted in the table of contents, be presented to

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, combining and individual non-major fund financial statements, supplementary section and the required TEA schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (commonly called the Uniform Guidance) and is also not a required part of the basic financial statements.

The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements 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 them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2019 on our consideration of the Levelland 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 to describe the scope of our testing of internal control over financial reporting and compliance and results of the testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

The Texas Education Agency requires the District to include certain information in the Annual Financial and Compliance Report in conformity with laws and regulations of the State of Texas. This information is in Exhibits identified in the Table of Contents as J-1 through J-3. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Respectfully submitted,

Myatt, Blume, and Associates, LTD., L.L.P.

Myatt, Blume, and Associates, LTD., L.L.P.
Levelland, Texas 79336
December 5, 2019

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MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Levelland Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2019. Please read it in conjunction with the independent auditor's report and the District's basic financial statements.

FINANCIAL HIGHLIGHTS

- At the close of the most recent fiscal year, the District's liabilities exceeded its assets by \$1,241,293. Of this amount, (\$12,874,218) was unrestricted net position.
- The District's net assets increased by \$686,372 or (35.61%) as a result of this year's operations and prior period adjustments. The District had income that was \$686,372 more than the \$38,177,758 spent in expenses for governmental programs. This compares to last year when revenues exceeded expenses by \$3,645,557. Last year LISD implemented GASB 75 which required making a prior year adjustment to net assets of (\$19,861,541).
- The General Fund ended the year with a fund balance of \$11,061,264.
- The resources available for appropriation were \$451,730 more than budgeted for the General Fund.

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. 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 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 revenue covers 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 provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for non-major funds contain even more information about the District's individual funds. These are not required by TEA. The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

The primary purpose of the government-wide statements is to show whether the District has improved or deteriorated as result of the current year's activities. The Statement of Net Position includes all the District's assets and liabilities at the end of the year, while the Statement of Activities includes all the revenues and

expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

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

These two statements report the District's net position and changes in it. The District's net position (the difference between assets and liabilities) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider non-financial 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, the District has one kind of activity:

- ***Governmental activities*** – Most of the District's basic services are reported here, including 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 provide detailed information about the most significant funds – not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the Every Student Succeeds Act (ESSA) 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 three kinds of funds – governmental, proprietary, 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.
- ***Proprietary funds*** – The District reports the activities for which it charges users (whether outside customers or other units of the District) in proprietary funds using the same accounting method employed in the Statement of Net Position and the Statement of Activities. The internal service fund (one category of proprietary funds) reports activities that provide supplies and services for the District's other programs and activities – such as the District's self-insurance program.
- ***Fiduciary funds*** – 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. 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 activities.

Net position of the District's governmental activities increased from (\$1,927,665) to (\$1,241,293). 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 (\$13,509,218) at August 31, 2019. This increase in governmental net position was the result of the District's income exceeding expenses \$686,372.

Table I
Levelland Independent School District
NET POSITION

	Governmental Activities	
	2018	2019
Assets:		
Current and other assets	\$ 15,654,174	\$ 21,403,587
Capital assets	62,913,804	60,221,804
Total Assets	<u>\$ 78,567,978</u>	<u>\$ 81,625,391</u>
Liabilities:		
Long-term liabilities	\$ 70,863,944	\$ 74,106,089
Other liabilities	9,631,699	8,760,595
Total Liabilities	<u>\$ 80,495,643</u>	<u>\$ 82,866,684</u>
Net Position:		
Net investment in capital assets	\$ 6,407,699	\$ 6,391,733
Restricted for federal and state programs	503,591	572,231
Restricted for debt service	912,659	1,100,810
Restricted for capital projects	186,895	3,568,151
Restricted for other purposes	-	-
Unrestricted Net Position	<u>(9,938,509)</u>	<u>(12,874,218)</u>
Total Net Position	<u>\$ (1,927,665)</u>	<u>\$ (1,241,293)</u>

Table II
Levelland Independent School District
CHANGES IN NET POSITION

	Governmental Activities	
	2018	2019
Revenues:		
Program Revenues:		
Charges for services	\$ 1,196,491	\$ 1,182,326
Operating grants and contributions	4,809,748	5,412,285
General Revenues:		
Maintenance and operations taxes	11,414,370	12,668,999
Debt service taxes	3,819,330	3,870,307
Grants, contributions not restricted to specific functions	10,098,727	15,457,635
Investment earnings	136,486	227,296
Miscellaneous	<u>212,851</u>	<u>45,282</u>
Total Revenues	<u>\$ 31,688,003</u>	<u>\$ 38,864,130</u>
Expenses:		
Instruction	\$ 13,398,171	\$ 20,424,191
Instructional Resources and Media Services	309,483	521,244
Curriculum and Instructional Staff Development	42,160	74,430
Instructional Leadership	375,773	582,628
School Leadership	1,093,580	1,804,067
Guidance, Counseling and Evaluation Services	833,725	1,336,147
Social Work Services	3,511	3,351
Health Services	206,676	321,659
Student (Pupil) Transportation	979,508	1,494,411
Food Services	1,491,324	1,763,393
Co-Curricular/Extracurricular Activities	1,167,005	1,390,356
General Administration	1,197,149	1,602,503
Plant Maintenance and Operations	3,865,817	3,742,920
Security and Monitoring Services	150,217	143,883
Data Processing Services	498,895	563,602
Community Services	2,445	-
Debt Service – Interest on Long-Term Debt	1,915,195	1,879,690
Debt Service –Bond Issuance Cost and Fees	2,640	1,840
Payments Related to Shared Service Arrangements	318,139	329,029
Other Intergovernmental Charges	<u>191,033</u>	<u>198,414</u>
Total Expenses	<u>\$ 28,042,446</u>	<u>\$ 38,177,758</u>
Increase/(Decrease) in net position	\$ 3,645,557	\$ 686,372
Net Position at beginning of year	14,288,319	(1,927,665)
Prior period adjustment	<u>(19,861,541)</u>	<u>-</u>
Net Position at end of year	<u>\$ (1,927,665)</u>	<u>\$ (1,241,293)</u>

The District's total revenues increased \$7,176,127. The total cost of all programs and services increased \$10,135,312 or 36.14% from 2018.

The District experienced an increase in net position of \$686,372 this year. The District had net income of \$686,372.

The cost of all governmental activities this year was \$38,177,758 compared to \$28,042,446 last year. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through District taxes was only \$15,852,934 because some of the costs were paid by those who directly benefited from the programs (\$1,182,326), by other governments and organizations that subsidized certain programs with grants and contributions (\$20,869,920), and by investment and miscellaneous revenues (\$272,578).

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds as presented in the Balance Sheet reported a combined fund balance of \$12,781,679, which is above last year's total of \$11,069,294. Included in this year's total change in fund balance is an increase of \$1,709,657 in the District's General Fund. The primary reason for the General Fund's increase in governmental activities is due to a decrease in operating expenses.

Over the course of the year, the Board of Trustees revised the District's budget several times. These budget amendments served mainly to reallocate funds from programs with excess resources to programs that were short on resources.

The District's General Fund's fund balance of \$11,061,265 reported on the Balance Sheet differs from the General Fund's budgetary fund balance of \$9,351,608 reported on the budgetary comparison schedule. This is principally due to expenditures being realized lower than projected.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2019, the District had \$103,099,045 invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. This amount represents a net increase of \$1,322,846, or 1.3% above last year (\$101,776,199).

This year's major additions included:

Cactus Elementary School Improvements	13,873
Ag Barn Improvements	15,759
Capital Leases	243,480
Vehicles and Equipment	<u>1,134,179</u>
Total	<u>\$1,407,291</u>

More detailed information about the District's capital assets is presented in Note 6 to the financial statements.

Debt

At the end of the year, the District had \$52,136,679 in bonds, notes, and unamortized premiums outstanding versus \$54,401,689 last year – a decrease of 4.2%.

Other obligations include accrued compensated absences, the pension liability under GASB 68, and the OPEB liability under GASB 75. More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the fiscal-year 2019-2020 budget and the 2019 tax rates.

- Appraised tax valuation for 2019 used for the 2019-2020 budget preparation reflects an increase in local property tax values from \$1,133,064,737 to \$1,203,081,709. This is an increase in property value of \$70,016,972. This value multiplied by the Maintenance and Operation rate of \$1.06 indicates the District will experience an increase in local Maintenance and Operating property tax revenue of \$693,168 ($70,016,972 / 100 \times 0.99$).
- The District's 2019-20 Refined Average Daily attendance is projected to decrease by 75-90 students due to economic factors for the 2019-20 Fiscal Year.

These indicators were taken into account when adopting the General Fund budget for 2019-2020. Amounts available for appropriation in the General Fund Budget for 2019-2020 are \$27,494,774, which represents a 2.19% decrease as compared to the final 2018-19 budgeted revenues of \$26,905,462.

The tax rate will decrease to \$0.9900 per \$100 valuation for Maintenance and Operations. The Interest and Sinking Fund (I&S) tax rate for 2019 is set at \$0.3100 per \$100 valuation, as compared to last year's rate of \$0.3280. This reflects a decrease of \$0.0200 per \$100 valuation. The I&S Fund rate takes into account debt service requirements for the 2019-20 school year.

If the budgeted revenue and expenditures are realized, the General Fund balance of \$11,061,264 will remain the same at the end of the 2019-2020 school year.

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 Services Department, at Levelland Independent School District, 704 Eleventh Street, Levelland, Texas, 79336.

GOVERNMENT-WIDE STATEMENTS

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

EXHIBIT A-1

Data	Primary Government	
Control	Governmental	
Codes	Activities	
ASSETS		
1110	Cash and Cash Equivalents	\$ 4,677,520
1120	Current Investments	8,257,296
1220	Property Taxes - Delinquent	966,395
1230	Allowance for Uncollectible Taxes	(9,663)
1240	Due from Other Governments	1,186,119
1290	Other Receivables, Net	71,863
1300	Inventories	47,374
1410	Prepayments	361,790
	Capital Assets:	
1510	Land	418,719
1520	Buildings, Net	57,491,363
1530	Furniture and Equipment, Net	294,515
1540	Other Capital Assets, Net	1,200,440
1550	Leased Property Under Capital Leases, Net	816,767
1000	Total Assets	75,780,498
DEFERRED OUTFLOWS OF RESOURCES		
1705	Deferred Outflow Related to TRS Pension	4,761,114
1706	Deferred Outflow Related to TRS OPEB	1,083,779
1700	Total Deferred Outflows of Resources	5,844,893
LIABILITIES		
2110	Accounts Payable	174,174
2140	Interest Payable	1,915,958
2150	Payroll Deductions and Withholdings	116,274
2160	Accrued Wages Payable	1,181,788
2180	Due to Other Governments	348,047
	Noncurrent Liabilities:	
2501	Due Within One Year	2,040,158
2502	Due in More Than One Year	50,096,521
2540	Net Pension Liability (District's Share)	9,080,150
2545	Net OPEB Liability (District's Share)	12,889,260
2000	Total Liabilities	77,842,330
DEFERRED INFLOWS OF RESOURCES		
2605	Deferred Inflow Related to TRS Pension	833,815
2606	Deferred Inflow Related to TRS OPEB	4,190,539
2600	Total Deferred Inflows of Resources	5,024,354
NET POSITION		
3200	Net Investment in Capital Assets	6,391,733
3820	Restricted for Federal and State Programs	572,231
3850	Restricted for Debt Service	1,100,810
3860	Restricted for Capital Projects	3,568,151
3900	Unrestricted	(12,874,218)
3000	Total Net Position	\$ (1,241,293)

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

LEVELLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2019

EXHIBIT B-1

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		3	4	
		Charges for	Operating Grants and Contributions	Primary Gov. Governmental Activities
	Expenses	Services		
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 20,424,191	\$ 315,785	\$ 2,939,938	\$ (17,168,468)
12 Instructional Resources and Media Services	521,244	-	29,250	(491,994)
13 Curriculum and Instructional Staff Development	74,430	-	31,573	(42,857)
21 Instructional Leadership	582,628	218,638	183,499	(180,491)
23 School Leadership	1,804,067	-	3,472	(1,800,595)
31 Guidance, Counseling and Evaluation Services	1,336,147	218,638	520,143	(597,366)
32 Social Work Services	3,351	-	2,968	(383)
33 Health Services	321,659	-	30	(321,629)
34 Student (Pupil) Transportation	1,494,411	-	130,580	(1,363,831)
35 Food Services	1,763,393	187,411	1,320,187	(255,795)
36 Extracurricular Activities	1,390,356	68,408	-	(1,321,948)
41 General Administration	1,602,503	28,985	206,664	(1,366,854)
51 Facilities Maintenance and Operations	3,742,920	144,461	-	(3,598,459)
52 Security and Monitoring Services	143,883	-	-	(143,883)
53 Data Processing Services	563,602	-	43,981	(519,621)
72 Debt Service - Interest on Long-Term Debt	1,879,690	-	-	(1,879,690)
73 Debt Service - Bond Issuance Cost and Fees	1,840	-	-	(1,840)
93 Payments Related to Shared Services Arrangements	329,029	-	-	(329,029)
99 Other Intergovernmental Charges	198,414	-	-	(198,414)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 38,177,758	\$ 1,182,326	\$ 5,412,285	(31,583,147)

Data
Control
Codes

General Revenues:

Taxes:

MT	Property Taxes, Levied for General Purposes	12,668,999
DT	Property Taxes, Levied for Debt Service	3,870,307
GC	Grants and Contributions not Restricted	15,457,635
IE	Investment Earnings	227,296
MI	Miscellaneous Local and Intermediate Revenue	45,282
TR	Total General Revenues	32,269,519
CN	Change in Net Position	686,372
NB	Net Position - Beginning	(1,927,665)
NE	Net Position--Ending	\$ (1,241,293)

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

GOVERNMENTAL FUND FINANCIAL STATEMENTS

LEVELLAND INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2019

Data Control Codes	10 General Fund	50 Debt Service Fund	240 Breakfast and Lunch Program
ASSETS			
1110 Cash and Cash Equivalents	\$ 2,943,358	\$ 1,098,067	\$ 62,925
1120 Investments - Current	8,257,296	-	-
1220 Property Taxes - Delinquent	738,025	228,370	-
1230 Allowance for Uncollectible Taxes	(687,734)	(212,586)	-
1240 Due from Other Governments	8,819	2,743	51,154
1260 Due from Other Funds	980,889	-	-
1290 Other Receivables	71,863	-	-
1300 Inventories	-	-	47,374
1410 Prepayments	361,790	-	-
1000 Total Assets	<u>\$ 12,674,306</u>	<u>\$ 1,116,594</u>	<u>\$ 161,453</u>
LIABILITIES			
2110 Accounts Payable	\$ 126,826	\$ -	\$ 42,827
2150 Payroll Deductions and Withholdings Payable	116,274	-	-
2160 Accrued Wages Payable	953,459	-	25,542
2170 Due to Other Funds	21,477	-	-
2180 Due to Other Governments	344,715	-	6
2000 Total Liabilities	<u>1,562,751</u>	<u>-</u>	<u>68,375</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	50,291	15,784	-
2600 Total Deferred Inflows of Resources	<u>50,291</u>	<u>15,784</u>	<u>-</u>
FUND BALANCES			
Nonspendable Fund Balance:			
3410 Inventories	-	-	47,374
3430 Prepaid Items	361,790	-	-
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	-	45,704
3480 Retirement of Long-Term Debt	-	1,100,810	-
Assigned Fund Balance:			
3550 Construction	3,568,151	-	-
3590 Other Assigned Fund Balance	-	-	-
3600 Unassigned Fund Balance	7,131,323	-	-
3000 Total Fund Balances	<u>11,061,264</u>	<u>1,100,810</u>	<u>93,078</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 12,674,306</u>	<u>\$ 1,116,594</u>	<u>\$ 161,453</u>

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

		Total	
Other		Governmental	
Funds		Funds	
\$	573,170	\$	4,677,520
	-		8,257,296
	-		966,395
	-		(900,320)
	1,123,403		1,186,119
	-		980,889
	-		71,863
	-		47,374
	-		361,790
<u>\$</u>	<u>1,696,573</u>	<u>\$</u>	<u>15,648,926</u>
\$	4,521	\$	174,174
	-		116,274
	202,787		1,181,788
	959,412		980,889
	3,326		348,047
	<u>1,170,046</u>		<u>2,801,172</u>
	-		66,075
	-		66,075
	-		47,374
	-		361,790
	-		45,704
	-		1,100,810
	-		3,568,151
	526,527		526,527
	-		7,131,323
	<u>526,527</u>		<u>12,781,679</u>
<u>\$</u>	<u>1,696,573</u>	<u>\$</u>	<u>15,648,926</u>

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

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$ 12,781,679
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$101,776,199 and the accumulated depreciation was (\$38,862,395). In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.	6,512,607
2 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2019 capital outlays and debt principal payments is to increase net position.	3,755,851
3 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68. At the beginning of the year, the net position related to TRS was a Deferred Resource Outflow in the amount of \$4,761,114, a Deferred Resource Inflow in the amount of \$833,815 and a net pension liability in the amount of \$9,080,150. The impact of this on Net Position is (\$5,152,851).	(5,152,851)
4 The District participates in the TRS-Care plan for retirees through TRS. The District's share of the TRS plan resulted in a net OPEB liability of \$1,083,779, a deferred outflow of \$12,889,260 and a deferred inflow of \$4,190,539. This resulted in a difference between the ending fund balance and the ending net position of (\$15,996,020).	(15,996,020)
5 The 2019 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(4,099,291)
6 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.	956,732
19 Net Position of Governmental Activities	\$ (1,241,293)

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

LEVELLAND 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	240 Breakfast and Lunch Program
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 13,046,115	\$ 3,913,932	\$ 201,577
5800 State Program Revenues	13,342,524	100,567	13,249
5900 Federal Program Revenues	968,553	-	1,350,262
5020 Total Revenues	27,357,192	4,014,499	1,565,088
EXPENDITURES:			
Current:			
0011 Instruction	14,002,669	-	-
0012 Instructional Resources and Media Services	419,997	-	-
0013 Curriculum and Instructional Staff Development	34,221	-	-
0021 Instructional Leadership	148,146	-	-
0023 School Leadership	1,532,869	-	-
0031 Guidance, Counseling and Evaluation Services	469,605	-	-
0032 Social Work Services	-	-	-
0033 Health Services	276,124	-	-
0034 Student (Pupil) Transportation	2,116,454	-	-
0035 Food Services	-	-	1,526,993
0036 Extracurricular Activities	1,204,239	-	-
0041 General Administration	1,155,264	-	-
0051 Facilities Maintenance and Operations	3,412,767	-	-
0052 Security and Monitoring Services	127,428	-	-
0053 Data Processing Services	454,399	-	-
Debt Service:			
0071 Principal on Long-Term Debt	147,707	1,835,000	-
0072 Interest on Long-Term Debt	-	1,989,508	-
0073 Bond Issuance Cost and Fees	-	1,840	-
Capital Outlay:			
0081 Facilities Acquisition and Construction	-	-	-
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	329,029	-	-
0099 Other Intergovernmental Charges	198,414	-	-
6030 Total Expenditures	26,029,332	3,826,348	1,526,993
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	1,327,860	188,151	38,095
OTHER FINANCING SOURCES (USES):			
7913 Capital Leases	243,480	-	-
7915 Transfers In	1,025,195	-	10,442
8911 Transfers Out (Use)	(886,879)	-	(70,000)
7080 Total Other Financing Sources (Uses)	381,796	-	(59,558)
1200 Net Change in Fund Balances	1,709,656	188,151	(21,463)
0100 Fund Balance - September 1 (Beginning)	9,351,608	912,659	114,541
3000 Fund Balance - August 31 (Ending)	\$ 11,061,264	\$ 1,100,810	\$ 93,078

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

		Total	
Other		Governmental	
Funds		Funds	
\$	785,494	\$	17,947,118
	295,826		13,752,166
	3,891,265		6,210,080
	4,972,585		37,909,364
	3,384,320		17,386,989
	29,250		449,247
	31,573		65,794
	344,801		492,947
	3,472		1,536,341
	662,207		1,131,812
	2,968		2,968
	30		276,154
	130,580		2,247,034
	16,235		1,543,228
	2,137		1,206,376
	216,222		1,371,486
	2,507		3,415,274
	-		127,428
	43,981		498,380
	-		1,982,707
	-		1,989,508
	-		1,840
	187,503		187,503
	-		329,029
	-		198,414
	5,057,786		36,440,459
	(85,201)		1,468,905
	-		243,480
	53,634		1,089,271
	(132,392)		(1,089,271)
	(78,758)		243,480
	(163,959)		1,712,385
	690,486		11,069,294
\$	526,527	\$	12,781,679

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

EXHIBIT C-4

Total Net Change in Fund Balances - Governmental Funds	\$ 1,712,385
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2019 capital outlays and debt principal payments is to increase net position.	3,755,851
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(4,099,291)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.	47,092
GASB 68 required that certain plan expenditures be de-expended and recorded as Deferred Resource Outflows. These contributions made after the measurement date of the plan caused the change in Ending Net Position to increase by \$593,504. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability. This caused a decrease in Net Position totaling (\$558,412). Finally, the proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The Net pension expense decreased the change in Net Position by (\$666,795). The net result is a decrease in the change in net position.	(631,703)
GASB 75 required that certain plan expenditures be de-expended and recorded as Deferred Resource Outflows. These contributions made after the measurement date of the plan caused the change in Ending Net Position to increase by \$182,408. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net OPEB liability. This caused a decrease in Net Position totaling (\$149,940). Finally, the proportionate share of the TRS OPEB expense on the plan as a whole had to be recorded. The Net OPEB expense decreased the change in Net Position by (\$130,430). The net result is a decrease in the change in net position.	(97,962)
Change in Net Position of Governmental Activities	\$ 686,372

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

Fiduciary Fund Financial Statements

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

	School Activity Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 178,629
Total Assets	<u>\$ 178,629</u>
LIABILITIES	
Due to Student Groups	\$ 178,629
Total Liabilities	<u>\$ 178,629</u>

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

LEVELLAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

This report includes those activities, organizations and functions which are related to Levelland Independent School District and which are controlled by or dependent upon the District's governing body, the Board of School Trustees. The Board is the level of government which has governance responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the District. Since the District receives funding from local, state and federal government sources, it must comply with the requirements of the entities providing those funds. Because members of the Board of Trustees are elected by the public and appointed; have the authority to make decisions, appoint administrators and managers, and significantly influence operations; and have the primary accountability for fiscal matters; the District is not included in any other governmental "reporting entity" as defined by Governmental Accounting Standards Board ("GASB"), Statement No. 61, *The Financial Reporting Entity: Omnibus*.

The District's basic financial statements include the accounts of all District operations. The criteria for including organizations as component units within the District's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is fiscal dependency by the organization on the District

Based on the aforementioned criteria, the District has no component units.

The accounting policies of the District substantially comply with the rules prescribed by the Texas Education Agency's *Financial Accountability System Resource Guide*. These accounting policies conform to generally accepted accounting principles applicable to state and local governments.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely, to a significant extent, on fees and charges for support.

LEVELLAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Cont.)

The Statement of Activities demonstrates how other people or entities that participate in programs the District operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the District. Examples include member district payments for special education, school lunch charges, athletic events, facilities rent, etc.

The "grants and contributions" column includes amounts paid by organizations outside the District to help meet the operational or capital requirements of a given function. Examples include grants under the No Child Left Behind Act. If revenue is not program revenue, it is general revenue used to support all of the District's functions. Taxes are always general revenues.

Interfund activities within governmental funds and between governmental funds and proprietary funds appear as due to/due from on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Position and as other resources and other uses on the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and on the Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Position. All interfund transactions between governmental funds and internal service funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due from on the government-wide Statement of Net Position.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations. Operating expenses can be tied specifically to the production of the goods and services. All other revenues and expenses are non-operating.

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

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The District considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. The District considers them "available" if they will be collected within 60 days of the end of the fiscal year. 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.

LEVELLAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

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

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

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

Recently Adopted Accounting Pronouncements

In June 2015, GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This statement is effective for fiscal years beginning after June 15, 2017.

D. BASIS OF PRESENTATION - FUND ACCOUNTING

The District reports the following major governmental funds:

- I. The General Fund** – This fund is established to account for resources financing the fundamental operations of the District, in partnership with the community, in enabling and motivating students to reach their full potential. All revenues and expenditures not required to be accounted for in other funds are included here. This is a budgeted fund and any fund balances are considered resources available for current operations. Fund balances may be appropriated by the Board of Trustees to implement its responsibilities.

LEVELLAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

D. BASIS OF PRESENTATION - FUND ACCOUNTING (Cont.)

2. **National Breakfast and Lunch Program** – This fund accounts for the revenue and expenditures associated with the school breakfast and lunch program. Funding is provided from fees from students and faculty, USDA food reimbursements, and state and federal funds.
3. **Debt Service Fund** – To account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. Resources of this fund are generated by tax levies based on property values.
4. **Capital Projects Fund** – The capital projects fund is used to account for the construction, remodeling, adding and furnishing of various school buildings within the District. Resources for this fund are the proceeds from bond issuances.

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

Governmental Funds:

1. **Special Revenue Funds** – The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in special revenue funds. Most federal and some state financial assistance is accounted for in special revenue funds and sometimes unused balances must be returned to the grantor at the close of specified project periods. The District has fifteen (15) special revenue funds.

Proprietary Funds:

2. **Internal Service Funds** – Revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis are accounted for in internal service funds. The District's internal service fund previously accounted for insurance premium transactions but the fund is currently inactive and maintains a minimal cash balance.

Fiduciary Funds:

3. **Fiduciary Funds** – The District accounts for resources held for others in a custodial capacity in a fiduciary fund. The District's fiduciary fund is: Student Activity Funds.

E. PENSIONS

The fiduciary net position of the Texas Retirement System of Texas (TRS) has been determined on 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.

F. 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.

LEVELLAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

F. DEFERRED OUTFLOWS/INFLOWS

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The District has the following items that qualify for reporting in that category:

- Deferred outflow related to pensions and other post pension liability, which result from pension contributions after the measurement date (deferred and recognized in the following fiscal year) and differences in projected and actual earnings on pension liabilities. This amount is amortized over a five year period.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has the following items that qualify for reporting on the government-wide statement of net position.

- Deferred inflow related to pensions and other post pension liability, which result from differences in projected and actual earnings on pension liabilities. This amount is amortized over a five year period.

Additionally the District has one type of this item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported on in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

G. OTHER ACCOUNTING POLICIES

1. **Cash Equivalents** - For purposes of the statement of cash flows for proprietary funds and similar fund types, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. **Consumable Materials and Supplies** - The District reports disbursements for the purchase of consumable materials and supplies as expenditures. Inventories of such items, therefore, are not included in the balance sheet. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services, and they are recorded as expenditures, when received, and revenue is recognized for an equal amount. Any food commodities on hand at year-end are recorded as inventory and a reserve for investment in inventories is recorded in fund balance.
3. **Long-Term Debt** - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when incurred.

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

LEVELLAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

G. OTHER ACCOUNTING POLICIES (Cont.)

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

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

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

Assets	Years
Buildings	50
Building Improvements	20
Vehicles	2-15
Computer Equipment	3-15
Office Equipment	3-15

6. **Internal Service Fund** - Since internal service funds support the operations of governmental funds, they are consolidated with the governmental funds in the government-wide financial statements. The expenditures of governmental funds that create the revenues of internal service funds are eliminated to avoid "grossing up" the revenues and expenses of the District as a whole.
7. **Encumbrance Accounting** - The District employs encumbrance accounting for goods or purchased services documented by purchase orders and contracts. An encumbrance represents an appropriation related to unperformed contracts for goods and services but does not represent expenditures for the period, only a commitment to expend resources. Appropriations lapse at August 31 and encumbrances outstanding at that time are either canceled or appropriately provided for in the subsequent year's budget. The District had no material encumbrances outstanding at the fiscal year end.
8. **Due From (To) Other Funds** - Interfund receivables and payables arise from interfund transactions and are recorded in the affected funds in the period in which the transactions are executed. Interfund transfers are either short term loans or permanent transfers to cover excess expenditures.
9. **Deferred Inflows** - The District reports deferred inflows on its combined balance sheets. Deferred inflows arise when potential revenue does not meet the "measurable" and "available" criteria for recognition in the current period. Deferred inflows shown in the governmental funds consist of tax collections sixty days after August 31.

LEVELLAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

G. OTHER ACCOUNTING POLICIES (Cont.)

10. **Restriction on Assets** - Various funds may contain assets that are restricted in some manner. Those funds are the Food Service, Debt Service, and Capital Projects Funds. The purposes of these restrictions are for food inventories, debt retirement, and construction.

When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.

11. **Fund Equity** - In the fund financial statements, Fund Balance is classified depending on the relative strength of the spending constraints placed on the purpose for which resources can be used as follows:

Nonspendable Fund Balance – These are amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact.

Restricted Fund Balance – These are amounts constrained to specific purposes externally imposed by creditors (such as through debt covenants), grantors, and contributors, or laws, or regulations of other governments, or through constitutional provisions, or by enabling legislation.

Committed Fund Balance – These are amounts that can only be used for specific purposes, pursuant to constraints imposed by formal action of the government's highest level of decision making authority. In the case of the District it is the Board of Trustees.

Assigned Fund Balance – These are amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. These amounts can be set aside by designated management employees of the school district.

Unassigned Fund Balance – These are amounts that represent fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. In other governmental funds, it may be necessary to report a negative residual balance as unassigned.

12. **Data Control Codes** - The Data Control Codes refer to the account code structure prescribed by Texas Education Agency in the *Financial Accountability System Resource Guide*. Texas Education Agency requires school districts to display these codes in the financial statements filed with the Agency in order to ensure accuracy in building a statewide database for policy development and funding plans.
13. **Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

BUDGETARY DATA

The Board of Trustees adopts an "appropriated budget" for the major funds. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund budget report appears in Exhibit G-1 and the other budget reports are in Exhibits J-2 and J-3.

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

1. Prior to August 31, the District prepares a budget for the succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.

LEVELLAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Cont.)

BUDGETARY DATA

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

	August 31, 2019 Fund Balance
Appropriated Budget Funds - Special Revenue Funds	\$ 103,519
Non-appropriated Budget Funds	<u>468,712</u>
All Special Revenue Funds	<u>\$ 572,231</u>

NOTE 3. DEPOSITS AND INVESTMENTS

District Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits – State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent.

The District was in substantial compliance with state law regarding proper collateralization of its deposits, and subsequently was not exposed to custodial credit risk during the year. The District was properly collateralized at year end.

The following discloses the District's coverage of combined balances at fiscal year-end:

	Prosperity Bank August 31, 2019
Carrying Amount – District	\$ 5,217,452
Carrying Amount – Agency Funds	183,562
Net Reconciling Items	<u>(554,797)</u>
Cash on Deposit	4,846,217
FDIC Coverage – Demand Deposits	(250,000)
Collateralized Securities	<u>(17,630,167)</u>
Under (Over) Collateralized	<u>\$ (13,033,950)</u>

LEVELLAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

NOTE 3. DEPOSITS AND INVESTMENTS (Cont.)

Compliance with the Public Funds Investment Act

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

Statutes authorize the entity to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit; (3) certain municipal securities; (4) money market savings accounts; (5) repurchase agreements; (6) bankers acceptances; (7) mutual funds; (8) investment pools; (9) guaranteed investment contracts; (10) and common trust funds. The Act also requires the entity to have independent auditors perform test procedures related to investment practices as provided by the Act.

Levelland Independent School District is in substantial compliance with the requirements of the Act and with local policies.

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

Credit Risk – To limit the risk that an issuer or other counter-party to an investment will not fulfill its obligations, the District limits investments in commercial paper, corporate bonds, and mutual bond funds to the top ratings issued by nationally recognized statistical rating organizations (NRSROs).

Custodial Credit Risk for Investments – To limit the risk that, in the event of the failure of the counter-party to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party, the District requires counter-parties to register the securities in the name of the District and hand them over to the District or its designated agent. This includes securities in securities lending transactions.

Concentration of Credit Risk – To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the District limits investments in a single issuer to less than 5% of its total investments. The District further limits investments in a single issuer when they would cause investment risks to be significantly greater in the governmental activities, individual major funds, aggregate non-major funds and fiduciary fund types than they are in the primary government. Usually this limitation is 20%.

Interest Rate Risk – To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District requires the investment portfolio to have maturities of one year or less.

Foreign Currency Risk for Investments – The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment by limiting all investments denominated in a foreign currency to less than 5% of all investments.

LEVELLAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

NOTE 3. DEPOSITS AND INVESTMENTS (Cont.)

TexPool - The District maintains accounts with TexPool which is a public funds investment pool established under the authority of the Interlocal Cooperation Act and subject to the provisions of the Act. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires the pool 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 Standard and Poor's or other nationally recognized rating services; and 3) Maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares. Participation in the pool as allowed under the guidelines of the PFIA is voluntary and may be terminated and the funds withdrawn at the discretion of the Board of Directors without any liquidity fees.

The State Comptroller of Public Accounts exercises oversight responsibility over TexPool, the Texas Local Government Investment Pool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool.

The Advisory Board members review the investment policy and management fee structure. Finally, TexPool is rated AAAM by Standard & Poor's. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as the office of the Comptroller of Public Accounts for review. TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares. TexPool issues a separately stated annual financial report with an August 31 fiscal year-end. A copy of this report may be obtained by writing to Texas Treasury Safekeeping Trust Company, 208 East 10th Street, Austin, TX, 78701. The report is also available on the Trust's website at www.ttstc.com.

NOTE 4. INTERGOVERNMENTAL BALANCES

Due From Other Governments - The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2019, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from Other Governments. The Head Start federal grant receivable of approximately \$54,016 is passed through South Plains Community Action Association, Inc. and is reported as Other Receivables.

	State and Local Governments	Federal Government	Total
General Fund	\$ —	\$ —	\$ —
Special Revenue Funds	<u>980,889</u>	<u>—</u>	<u>980,889</u>
Total	<u>\$ 980,889</u>	<u>\$ —</u>	<u>\$ 980,889</u>

LEVELLAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

NOTE 5. INTERFUND BALANCES AND TRANSFERS

Interfund transfers are used to provide temporary loans to cover cash overdrafts and adjust fund balance to zero while interfund transfers during the year were used to fund operations, bring fund balances to zero or to adjust cash in the respective fund type.

Interfund transfers and balances at August 31, 2019, consisted of the following amounts:

Due To		General Fund	Special Revenue Funds	Totals	
General Fund		\$ -	\$ -	\$ -	
Special Revenue Fund		<u>980,889</u>	<u>-</u>	<u>980,889</u>	
Totals		<u>\$ 980,889</u>	<u>\$ -</u>	<u>\$ 980,889</u>	

Transfers From					
Transfers To	General Fund	Special Revenue Fund	Internal Service Fund	Capital Project Fund	Totals
General Fund	\$ 876,437	\$ 148,758	\$ -	\$ -	\$ 1,025,195
Internal Service Fund	-	-	-	-	-
Capital Project Fund	-	-	-	-	-
Special Revenue Fund	<u>10,442</u>	<u>53,634</u>	<u>-</u>	<u>-</u>	<u>64,076</u>
Totals	<u>\$ 886,879</u>	<u>\$ 202,392</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,089,271</u>

NOTE 6. CAPITAL ASSET ACTIVITY

Capital asset activity for the District's governmental activities for the year ended August 31, 2019, is detailed below. The District did not have any capital assets in the business-type activities.

	Beginning Balance	Additions	Adjustments/ Retirements	Ending Balance
Governmental Activities:				
Land	\$ 418,719	\$ -	\$ -	\$ 418,719
Construction in Progress	-	-	-	-
Buildings and Improvements	92,985,975	40,504	-	93,026,479
Furniture and Equipment	6,860,897	1,123,307	(84,445)	7,899,759
Capital Leases	<u>1,510,608</u>	<u>243,236</u>	<u>-</u>	<u>1,753,844</u>
Totals at Historic Cost	<u>\$ 101,776,199</u>	<u>\$ 1,407,047</u>	<u>\$ (84,445)</u>	<u>\$ 103,098,801</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	\$ (32,187,526)	\$ (3,347,590)	\$ -	\$ (35,535,116)
Furniture and Equipment	(5,990,185)	(499,064)	84,445	(6,404,804)
Capital Leases	<u>(684,684)</u>	<u>(252,588)</u>	<u>-</u>	<u>(937,272)</u>
Total Accumulated Depreciation	<u>\$ (38,862,395)</u>	<u>\$ (4,099,242)</u>	<u>\$ 84,445</u>	<u>\$ (42,877,192)</u>
Governmental Activities Capital Assets	<u>\$ 62,913,804</u>	<u>\$ (2,692,195)</u>	<u>\$ -</u>	<u>\$ 60,221,609</u>

**LEVELLAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019**

NOTE 6. CAPITAL ASSET ACTIVITY (Cont.)

Depreciation expense was charged to the governmental functions as disclosed below:

Function	Amount
Instruction	\$ 2,245,202
Instructional Resources and Media Services	58,012
Curriculum Development and Instructional Staff Development	8,496
Instructional Leadership	63,655
School Leadership	198,390
Guidance, Counseling and Evaluation Services	146,152
Social Work Services	383
Health Services	35,660
Student (Pupil) Transportation	290,162
Food Services	198,418
Curricular/Extracurricular Activities	155,781
General Administration	177,102
Plant Maintenance and Operations	441,018
Security and Monitoring Service	16,455
Data Processing Services	<u>64,356</u>
Total Depreciation Expense	<u>\$ 4,099,242</u>

NOTE 7. LONG-TERM OBLIGATIONS

Long term bond and note indebtedness of the District is reflected in the government-wide Statement of Net Position. Current requirements for principal and interest expenditures are accounted for in the Debt Service Fund and General Fund. There are a number of limitations and restrictions contained in the following various obligation bond indentures. The District is in substantial compliance with all significant limitations and restrictions as of August 31, 2019.

On November 10, 2011, the Levelland Independent School District issued \$8,570,000 Advanced Refunding Bonds, Series 2011 and \$24,996 in part Premium Capital Appreciation Bonds. The average interest rate on these issues was 3.1574512 percent. The refunding resulted in \$939,374 gross present value debt savings over the next 18.26 years. These bonds were issued to refund and decrease interest rates on 2004 and 2005 Schoolhouse Bonds.

On July 26, 2012, the Levelland Independent School District issued \$8,999,996 Advanced Refunding Bonds, Series 2012 and \$39,996 in part as Premium Capital Appreciation Bonds. The average interest rate on these issues was 3.0342022 percent. The refunding resulted in \$1,487,738 gross present value debt savings over the next 22.55 years. These bonds were issued to refund and decrease interest rates on 2004 and 2005 Schoolhouse Bonds.

Capital Appreciation Bonds (CAB) are deep discount bonds which do not accrue and pay interest on a semi-annual basis. Rather, the interest is accreted and is payable when the bonds mature at par value, which is the sum of the initial principal amount and the total amount of accreted interest. The accreted interest is calculated annually and considered a long-term liability along with the CAB principal amount until the year of maturity.

In September 2013, the Levelland Independent School District issued \$39,470,000 Unlimited Tax School Building Bonds, Series 2013. The average interest rate on this issue was 4.27083 percent. These bonds were issued to fund district-wide capital projects.

LEVELLAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

NOTE 7. LONG-TERM OBLIGATIONS (Cont.)

Compensated Absences - Upon retirement or death of certain employees, the District pays any accrued sick leave and vacation leave in a lump cash payment to such employee or his/her estate. The disclosed additions and deductions are computed based on \$55 per day for professional sick leave and \$27.50 per day for paraprofessional sick leave. A summary of changes in the accumulated vacation leave liability is included in the detail below and the full balance is considered long-term on the Statement of Net Position.

Long-term debt obligation activity for the District's governmental activities for the year ended August 31, 2019, is detailed below. There are no long-term obligations in the business-type activities.

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental Activities:				
Bonds and Notes Payable:				
Unlimited Tax Building Bonds	34,360,000	-	(1,130,000)	33,230,000
Advanced Refunding Bonds	16,345,008	-	(705,000)	15,640,008
Capital Appreciation Bonds	64,992	-	-	64,992
Capital Leases	<u>457,255</u>	<u>243,480</u>	<u>(145,405)</u>	<u>555,330</u>
Total Bonds and Notes Payable	51,227,255	243,480	(1,980,405)	49,490,330
Accreted Interest	1,155,007	-	-	1,155,007
Premium on Bonds	<u>1,233,798</u>	<u>-</u>	<u>(108,569)</u>	<u>1,125,229</u>
Net Bonds and Notes Payable	53,616,060	243,480	(2,088,974)	53,616,060
Pension Liability - TRS	5,136,068	4,499,812	(555,730)	9,080,150
OPEB Liability - TRS	11,316,187	1,751,154	(178,081)	12,889,260
Compensated Absences	<u>795,631</u>	<u>243,300</u>	<u>(206,896)</u>	<u>296,116</u>
Total Governmental Activities	<u>\$ 70,863,946</u>	<u>\$ 6,737,746</u>	<u>\$ (3,029,681)</u>	<u>\$ 74,572,011</u>

Interest expense and amounts due within one year for the District's obligations is detailed below:

Description	Interest Rate Payable	Amounts Original Issue	Interest Current Year	Amount Outstanding 8/31/19	Due Within One Year
2011 Refunding Bonds	2.00000	8,570,000			
2011 CAB Bonds	-	24,996	276,675	7,115,000	535,000
2012 Refunding Bonds	3.00000	8,960,000	289,008	8,590,000	190,000
2012 CAB Bonds	-	39,996	-	-	-
2013 Unlimited Tax Building Bonds	4.00000	39,740,000	1,423,825	33,230,000	1,180,000
Capital Leases	0.00000	<u>457,255</u>	<u>2,303</u>	<u>555,330</u>	<u>135,158</u>
TOTAL			\$ 1,991,811	\$ 49,490,330	\$ 2,040,158

LEVELLAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

NOTE 7. LONG-TERM OBLIGATIONS (Cont.)

Future debt service requirements for the District are as follows:

Year Ended August 31,	2011 Refunding and CAB Bonds			Capital Leases		
	Principal	Interest	Total Debt Service	Principal	Interest	Total Debt Service
2020	535,000	260,850	795,850	145,405	10,246	155,651
2021	550,000	244,575	794,575	145,405	7,883	153,288
2022	565,000	225,025	790,025	145,405	5,393	150,798
2023	590,000	201,925	791,925	53,954	2,767	56,721
2024	610,000	177,925	787,925	-	-	-
2025-2029	3,485,000	491,325	3,976,325	-	-	-
2030	780,000	13,163	793,163	-	-	-
Total	7,115,000	1,614,788	8,729,788	490,169	26,289	516,458

Year Ended August 31,	2012 Refunding and CAB Bonds			2013 Unlimited Tax Building Bonds		
	Principal	Interest	Total Debt Service	Principal	Interest	Total Debt Service
2020	190,000	283,382	473,382	1,180,000	1,371,725	2,551,725
2021	200,000	277,533	477,533	1,240,000	1,311,225	2,551,225
2022	205,000	271,457	476,457	1,295,000	1,254,325	2,549,325
2023	210,000	265,232	475,232	1,350,000	1,201,425	2,551,425
2024	215,000	258,858	473,858	1,400,000	1,151,325	2,551,325
2025-2029	1,175,000	1,191,825	2,366,825	7,825,000	4,934,082	12,759,082
2030-2034	5,085,000	740,284	5,825,284	9,600,000	3,153,595	12,753,595
2035-2038	1,310,000	26,200	1,336,200	9,340,000	862,864	10,202,864
Total	8,590,000	3,314,771	11,904,771	33,230,000	15,240,566	48,470,566

NOTE 8. COMMITMENTS UNDER OPERATING LEASES

Commitments under operating (non-capitalized) lease agreements for facilities and equipment provide for minimum future rental payments as of August 31, 2019, as follows:

Year Ending August 31,	
2020	313,940
2021	313,940
Total	<u>\$ 627,880</u>
Rental Expenditures in Fiscal Year 2019	
	<u>\$ 313,940</u>

The imputed interest on the operating leases ranges from 0% to 5%.

**LEVELLAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019**

NOTE 9. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

The District receives revenues from local and intermediate sources during the year. The revenue consisted of the following sources for the respective funds and reconciles to the Statement of Activities below.

	General Fund	Special Revenue Funds	Capital Projects Fund	Debt Service Fund	Total
Property Taxes	\$ 12,473,213	\$ -	\$ -	\$ 3,861,069	\$ 16,334,282
Penalties, interest and other tax related income	162,398	-	-	40,816	203,214
Shared Service Arrangements	-	650,989	-	-	650,989
Food Sales	-	201,517	-	-	201,517
Co-curricular student activities	68,408	-	-	-	68,408
Oil Royalties	30,263	-	-	-	30,263
Investment Income	214,582	61	607	12,046	227,296
Rental Income	5,885	-	-	-	5,885
Insurance Recoveries	-	-	-	-	-
Other	147,460	77,804	-	-	225,264
Total	\$ 13,102,209	\$ 930,371	\$ 607	\$ 3,913,931	\$ 17,947,118

Charges for Service	\$ 1,182,326
Property Taxes – General	12,668,999
Property Taxes – Debt Service	3,870,307
Investment Earnings	227,296
Miscellaneous Local Revenue	45,282
Local Revenue – Governmental Activities – Exhibit B-1	17,994,210
Reclassification Adjustments - Exhibit C-4	(47,092)
Total Local Revenue – Governmental Funds – Exhibit C-3	\$ 17,947,118

NOTE 10. JOINT VENTURE-SHARED SERVICE ARRANGEMENTS

The District is the fiscal agent for a Shared Services Arrangement ("SSA") which provides educational services for handicapped and permanently impaired students. In addition to the District, other member districts include those listed below. All services are provided by the fiscal agent. The member districts provide the funds to the fiscal agent. According to guidance provided in TEA's Resource Guide, the District has accounted for the fiscal agent's activities of the SSA in Special Revenue Fund No. 437, Shared Services Arrangements - Special Education. The SSA has been accounted for using Model 3 in the SSA section of the Resource Guide. Expenditures of the SSA are summarized below:

Anton Independent School District	\$ 26,189
Levelland Independent School District	329,029
Meadow Independent School District	31,511
Morton Independent School District	43,450
Ropesville Independent School District	47,867
Smyer Independent School District	47,915
Sundown Independent School District	68,336
Whiteface Consolidated School District	35,612
Whitharral Independent School District	21,080
Total	\$ 650,989

LEVELLAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

NOTE 11. PROPERTY TAXES

Property taxes are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The District levies its taxes on October 1 on the assessed (appraised) value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the District's fiscal year.

Delinquent Taxes Receivable - Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General 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.

NOTE 12. INDIRECT COSTS

The District recorded revenues received from the Texas Education Agency for indirect cost allowance for the year ended August 31, 2019 for the following grants:

Title I, Part A	24,000
Title I, Part C	6,400
Carl Perkins	668
Title II, Part A	3,325
Title IV, Part B-21 st	20,868
Title V, Part B	1,870
Title IV, Part A	1,315
SSA – IDEA, Part B, Formula	20,000
SSA – IDEA, Part B, Preschool	<u>312</u>
Total	<u>\$ 78,758</u>

NOTE 13. DEFINED BENEFIT PENSION PLAN

Plan Description – Levelland Independent School District participates in a cost-sharing multiple employer defined benefit pension plan that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). TRS's defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code.

The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

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

Pension Plan Fiduciary Net Position – Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report (CAFR) 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>, by writing to TRS at 1000 Red River Street, Austin, Texas 78701-2698, or by calling (512)542-6592.

LEVELLAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

NOTE 13. DEFINED BENEFIT PENSION PLAN (Cont.)

Benefits Provided – TRS provides services and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity. 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 grandfathered in under a previous rule.

There are no automatic post-employment benefit changes, including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs, can be granted by the Texas Legislature, as noted in the plan description above.

Contributions – Contribution requirements are established or amended pursuant to Article 16, Section 67 of the Texas Constitution, which requires the Texas Legislature to establish a member contribution rate of not less than 6% of the member's annual compensation, and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year.

Texas Government Code Section 821.006 prohibits benefit improvements if, as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Employee contribution rates are set in State statute, Texas Government Code Section 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code Section 825.402 for member contributions and established employee contribution rates for fiscal years 2014-2017.

The 84th Texas Legislature General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2017 and 2018. The 85th Texas Legislature General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2018 and 2019.

	<u>Contribution Rates</u>	
	<u>2018</u>	<u>2019</u>
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Current fiscal year Employer Contributions	\$ 593,504	
Current fiscal year Member Contributions	\$ 1,346,520	
2018 NECE On-Behalf Contributions	\$ 851,447	

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.

LEVELLAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

NOTE 13. DEFINED BENEFIT PENSION PLAN (Cont.)

Contributions (Cont.)

Employers (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

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

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

Valuation Date	August 31, 2018
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	3.69%
Long-term Expected Investment Rate of Return*	8.00%
Inflation	2.30%
Salary Increases*	3.50% to 9.50%
Payroll Growth Rate	2.50%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

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

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

Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expenses 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.

LEVELLAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

NOTE 13. DEFINED BENEFIT PENSION PLAN (Cont.)

Best estimates of geometric real rates of return for each major asset class included in the systems target asset allocation as of August 31, 2018 are summarized below:

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

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

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

	1% Decrease in Discount Rate (5.9%)	Discount Rate (6.9%)	1% Increase in Discount Rate (7.9%)
Proportionate Share of the Net Pension Liability	\$ 13,704,124	\$ 9,080,150	\$ 5,336,769

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources / Deferred Inflow of Resources Related to Pensions – At August 31, 2019, the District reported a liability of \$9,080,150 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	\$ 9,080,150
State's proportionate share that is associated with the District	<u>\$ 13,920,582</u>
Total	<u>\$ 23,000,732</u>

LEVELLAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

NOTE 13. DEFINED BENEFIT PENSION PLAN (Cont.)

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

At August 31, 2018, the employer's proportion of the collective net pension liability was 0.0164966380%, which was an increase of 0.0004336807% from its proportion measured as of August 31, 2017.

Changes Since the Prior Actuarial Valuation – There were no changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

For the year ended August 31, 2019, the District recognized pension expense of \$2,602,974 and revenue of \$1,377,767 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 pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experiences	\$ 56,598	\$ 222,791
Changes in actuarial assumptions	3,273,831	102,307
Differences between projected and actual investment earnings	-	172,289
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	<u>837,181</u>	<u>336,428</u>
Total as of August 31, 2018 measurement date	\$ 4,167,610	\$ 833,815
Contributions paid to TRS subsequent to the measurement date	<u>593,504</u>	<u>-</u>
Total as fiscal year-end	<u>\$ 4,761,114</u>	<u>\$ 833,815</u>

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

Year Ended August 31,	Pension Expense Amount
2020	\$ 905,386
2021	\$ 542,817
2022	\$ 439,098
2023	\$ 514,339
2024	\$ 558,404
Thereafter	\$ 373,751

NOTE 14. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLAN

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

OPEB Plan Fiduciary Net Position – Detail information about 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 by visiting the TRS website at www.trs.state.tx.us, by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling 1-800-223-8778.

LEVELLAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

NOTE 14. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLAN (CONT.)

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

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

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

TRS-Care Plan Premiums Rates			
Effective Sept. 1, 2016 – Dec. 31, 2017			
	TRS-Care 1	TRS-Care 2	TRS-Care 3
	<u>Basic Plan</u>	<u>Optional Plan</u>	<u>Optional Plan</u>
Retiree*	\$ -	\$ 70	\$ 100
Retiree and Spouse	20	175	255
Retiree* and Children	41	132	182
Retiree and Family	61	237	337
Surviving Children only	28	62	82
<i>*or surviving spouse</i>			

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 1.0% of the employee's salary. Section 1575.203 establishes the active employee's rate which is .65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25 percent or not more than 0.75 percent of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

<u>Contribution Rates</u>		
	<u>2018</u>	<u>2019</u>
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%
Current fiscal year employer contributions		\$ 182,408
Current fiscal year member contributions		\$ 113,666
2017 measurement year NECE on-behalf contributions		\$ 185,506

LEVELLAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

NOTE 14. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLAN (CONT.)

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

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$394.6 million in fiscal year 2018.

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

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

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

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2018
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Discount Rate*	3.69%
Aging Factors	Based on plan specific experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Payroll Growth Rate	2.50%
Salary Increases**	3.05% to 9.05%
Health Trend Rates***	8.50% FY 2019, decreasing 0.5% per year to 4.50% FY 2027 and later years

Other Information: There was a significant plan change adopted in fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan option will be offered and all retirees will be required to contribute monthly premiums for coverage. Assumption changes made for the August 31, 2018 valuation include a change to the assumption regarding the phase-out of the Medicare Part D subsidies and a change to the discount rate from 3.42% as of August 31, 2017 to 3.69% as of August 31, 2018.

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

LEVELLAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

NOTE 14. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLAN (CONT.)

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

	1% Decrease in Discount Rate (2.69%)	Discount Rate (3.69%)	1% Increase in Discount Rate (4.69%)
Proportionate Share of the Net OPEB Liability	\$ 15,342,648	\$ 12,889,260	\$ 10,948,472

Healthcare Costs Trend Rates Sensitivity Analysis – The following schedule shows the impact of the net OPEB liability the plan using the assumed healthcare cost trend rate, as well as what the net OPEB liability would be if it were calculated using a trend rate that is one-percentage point lower or one-percentage point higher than the assumed health care trend rate.

	1% Increase	Current Healthcare Cost Trend rate	1% Increase
Proportionate Share of the Net OPEB Liability	\$ 10,704,741	\$ 12,889,260	\$ 15,766,320

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources / Deferred Inflow of Resources Related to Pensions – At August 31, 2019, the District reported a liability of \$12,889,260 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	\$ 12,889,260
State's proportionate share that is associated with the District	\$ 13,445,863
Total	<u>\$ 26,335,123</u>

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

At August 31, 2018 the employer's proportion of the collective Net OPEB Liability was 0.0258141879% which was a decrease of -0.0002082605% from its proportion measured as of August 31, 2017

For the year ended August 31, 2018, the District recognized OPEB expense of (\$769,450) and revenue of (\$489,080) for support provided by the State.

At August 31, 2019, the District reports its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to OPEB from following sources:

LEVELLAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

NOTE 14. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLAN (CONT.)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experiences	\$ 683,985	\$ 203,411
Changes in actuarial assumptions	215,087	3,872,483
Differences between projected and actual investment earnings	2,254	-
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	45	114,645
Total as of August 31, 2018 measurement date	\$ 901,371	\$ 4,190,539
Contributions paid to TRS subsequent to the measurement date	182,408	-
Total as fiscal year-end	<u>\$ 1,083,779</u>	<u>\$ 4,190,539</u>

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

Year Ended August 31,	Pension Expense Amount
2020	\$ (521,546)
2021	\$ (521,546)
2022	\$ (521,546)
2023	\$ (521,972)
2024	\$ (522,216)
Thereafter	\$ (680,432)

NOTE 15. COMMITMENTS

Bond Commitment - Voters within the District's boundaries approved a \$39,470,000 bond issue in May 2013, which was issued in September 2013 (See Note 7). These bonds are earmarked for facility improvements and renovations. The District spent the rest of the proceeds during this year.

NOTE 16. OTHER REQUIRED DISCLOSURES

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 collectability 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.

Construction - The District maintains a Capital Projects Fund which is presently designated to construct and equip school buildings and acquire school sites within the District. As of August 31, 2019, the Board assigned \$3,568,151 to construction fund balance.

Litigation - On February 12, 2019 a Levelland ISD bus driver hit a pedestrian while driving a group of students to Lubbock, Texas. As of December 4, 2019, the pedestrian's family sued the School District for over \$100,000 in damages. The Schools District and attorneys are assessing the issue as of December 4, 2019.

LEVELLAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

NOTE 16. OTHER REQUIRED DISCLOSURES (Cont.)

Subsequent Events – FASB ASC 855-10-50-1 requires reporting entities to disclose the date through which subsequent events have been evaluated and whether that date is the date the financial statements were issued or available to be issued. Management has evaluated subsequent events through the date of the auditors' report, which is the date the financial statements were available to be issued.

Related Organization - The Student Activities For Excellence (S.A.F.E.) Foundation (the "Foundation"), a not-for-profit entity which was organized to provide scholarship funds, is a "related organization" of the District as defined by Governmental Accounting Standards Board Statement No. 14. The members of the board of the Foundation are appointed by an outside taxpayer group. This Foundation was renamed the Levelland ISD Foundation for Excellence (LIFE) during the 2011-2012 school year. The board members changed and new leadership began operating the foundation under the original charter for the same purposes as the old foundation with a few minor changes.

Related Party Transactions – No related party transactions were noted for disclosure during the fiscal year.

Risk Management - The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2019, the District purchased TASB Risk management.

Auto, Liability, and/or Property Programs

During the year ended August 31, 2019, Levelland ISD participated in the following Risk Management Fund (the fund) programs:

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

The Fund was created and 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.

Unemployment Compensation Pool

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.

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 Levelland ISD has no additional liability beyond contractual obligations for payments of contributions.

LEVELLAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

NOTE 16. OTHER REQUIRED DISCLOSURES (Cont.)

Risk Management (Cont.)

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

REQUIRED SUPPLEMENTARY INFORMATION

LEVELLAND INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED AUGUST 31, 2019

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 12,765,076	\$ 12,765,076	\$ 13,046,115	\$ 281,039
5800 State Program Revenues	13,369,247	13,369,247	13,342,524	(26,723)
5900 Federal Program Revenues	631,139	771,139	968,553	197,414
5020 Total Revenues	26,765,462	26,905,462	27,357,192	451,730
EXPENDITURES:				
Current:				
0011 Instruction	14,978,622	14,513,022	14,002,669	510,353
0012 Instructional Resources and Media Services	381,448	458,948	419,997	38,951
0013 Curriculum and Instructional Staff Development	34,500	54,500	34,221	20,279
0021 Instructional Leadership	172,366	202,366	148,146	54,220
0023 School Leadership	1,523,654	1,578,654	1,532,869	45,785
0031 Guidance, Counseling and Evaluation Services	505,274	515,274	469,605	45,669
0033 Health Services	269,049	306,049	276,124	29,925
0034 Student (Pupil) Transportation	2,029,628	2,162,628	2,116,454	46,174
0036 Extracurricular Activities	1,268,217	1,268,217	1,204,239	63,978
0041 General Administration	1,152,281	1,232,281	1,155,264	77,017
0051 Facilities Maintenance and Operations	3,389,628	3,489,628	3,412,767	76,861
0052 Security and Monitoring Services	145,000	175,000	127,428	47,572
0053 Data Processing Services	520,031	503,131	454,399	48,732
0061 Community Services	3,000	3,000	-	3,000
Debt Service:				
0071 Principal on Long-Term Debt	143,000	163,000	147,707	15,293
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	330,000	360,000	329,029	30,971
0099 Other Intergovernmental Charges	218,000	218,000	198,414	19,586
6030 Total Expenditures	27,063,698	27,203,698	26,029,332	1,174,366
1100 Excess (Deficiency) of Revenues Over (Under)	(298,236)	(298,236)	1,327,860	1,626,096
Expenditures				
OTHER FINANCING SOURCES (USES):				
7913 Capital Leases	243,236	243,236	243,480	244
7915 Transfers In	1,015,304	1,015,304	1,025,195	9,891
8911 Transfers Out (Use)	(960,304)	(960,304)	(886,879)	73,425
7080 Total Other Financing Sources (Uses)	298,236	298,236	381,796	83,560
1200 Net Change in Fund Balances	-	-	1,709,656	1,709,656
0100 Fund Balance - September 1 (Beginning)	9,351,608	9,351,608	9,351,608	-
3000 Fund Balance - August 31 (Ending)	\$ 9,351,608	\$ 9,351,608	\$ 11,061,264	\$ 1,709,656

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

	Measurement Year Ended August 31,				
	2018	2017	2016	2015	2014
District's Proportion of the Net Pension Liability (Asset)	0.0164966380%	0.0160629573%	0.0162344003%	0.0186245000%	0.0122930000%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 9,080,150	\$ 5,136,068	\$ 6,134,738	\$ 6,583,513	\$ 3,283,630
States Proportionate Share of the Net Pension Liability (Asset) associated with the District	13,920,582	8,618,994	10,983,545	11,558,349	9,806,962
Total	\$ 23,000,732	\$ 13,755,062	\$ 17,118,283	\$ 18,141,862	\$ 13,090,592
District's Covered Payroll	\$ 17,184,451	\$ 16,973,619	\$ 17,289,679	\$ 17,289,679	\$ 1,432,947
District's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Payroll	52.84%	30.26%	35.48%	38.08%	229.15%
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	73.74%	82.17%	78.00%	78.43%	83.25%

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."

LEVELLAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS FOR PENSIONS
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	\$ 593,504	\$ 558,412	\$ 526,206	\$ 518,267	\$ 549,966
Contribution in Relation to the Contractually Required Contribution	(593,504)	(558,412)	(526,206)	(518,267)	(549,966)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 16,077,343	\$ 17,184,451	\$ 16,973,619	\$ 17,289,679	\$ 18,432,947
Contributions as a percentage of Covered Payroll	3.69%	3.25%	3.10%	3.00%	2.98%

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."

LEVELLAND 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

	Measurement Year Ended August 31,	
	2018	2017
District's Proportion of the Net OPEB Liability (Asset)	0.0258141879%	0.0260224484%
District's Proportionate Share of the Net OPEB Liability (Asset)	\$ 12,889,260	\$ 11,316,187
State's Proportionate Share of the Net OPEB Liability (Asset) associated with the District	13,445,863	12,278,211
Total	<u>\$ 26,335,123</u>	<u>\$ 23,594,398</u>
District's Covered Payroll	\$ 17,184,451	\$ 16,973,619
District's Proportionate Share of the Net OPEB Liability (Asset) as a percentage of its Covered Payroll	75.01%	66.67%
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 fiscal years 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."

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

	Fiscal Year Ended August 31,	
	2019	2018
Contractually Required Contribution	\$ 182,408	\$ 149,940
Contribution in Relation to the Contractually Required Contribution	(182,408)	(149,940)
Contribution Deficiency (Excess)	\$ -	\$ -
District's Covered Payroll	\$ 16,077,343	\$ 17,184,451
Contributions as a percentage of Covered Payroll	1.13%	0.87%

Note: Only two years of data is presented in accordance with GASB #75, paragraph 245. "The information for all fiscal years 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."

COMBINING AND OTHER STATEMENTS

LEVELLAND INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AUGUST 31, 2019

Data Control Codes		205 Head Start	211 ESEA I, A Improving Basic Program	212 ESEA Title I Part C Migrant	226 IDEA - Part B Discretionary
ASSETS					
1110	Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ -
1240	Due from Other Governments	54,016	220,952	75,074	-
1000	Total Assets	<u>\$ 54,016</u>	<u>\$ 220,952</u>	<u>\$ 75,074</u>	<u>\$ -</u>
LIABILITIES					
2110	Accounts Payable	\$ -	\$ -	\$ -	\$ -
2160	Accrued Wages Payable	23,644	36,662	1,080	-
2170	Due to Other Funds	30,372	184,290	73,994	-
2180	Due to Other Governments	-	-	-	-
2000	Total Liabilities	<u>54,016</u>	<u>220,952</u>	<u>75,074</u>	<u>-</u>
FUND BALANCES					
Assigned Fund Balance:					
3590	Other Assigned Fund Balance	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ 54,016</u>	<u>\$ 220,952</u>	<u>\$ 75,074</u>	<u>\$ -</u>

EXHIBIT H-1 (Cont'd)

242 Summer Feeding Program	244 Career and Technical - Basic Grant	255 ESEA II,A Training and Recruiting	263 Title III, A English Lang. Acquisition	265 Title IV, B Community Learning	270 ESEA V, Pt B Rural & Low Income	289 LEP	313 SSA IDEA, Part B Formula
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	35,138	53,088	13,332	139,987	53,893	27,387	274,179
<u>\$ -</u>	<u>\$ 35,138</u>	<u>\$ 53,088</u>	<u>\$ 13,332</u>	<u>\$ 139,987</u>	<u>\$ 53,893</u>	<u>\$ 27,387</u>	<u>\$ 274,179</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	3,404	-	-	-	-	98,131
-	35,138	49,684	13,332	139,987	53,893	27,387	176,048
-	-	-	-	-	-	-	-
<u>-</u>	<u>35,138</u>	<u>53,088</u>	<u>13,332</u>	<u>139,987</u>	<u>53,893</u>	<u>27,387</u>	<u>274,179</u>
-	-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ -</u>	<u>\$ 35,138</u>	<u>\$ 53,088</u>	<u>\$ 13,332</u>	<u>\$ 139,987</u>	<u>\$ 53,893</u>	<u>\$ 27,387</u>	<u>\$ 274,179</u>

LEVELLAND INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AUGUST 31, 2019

Data Control Codes	314 SSA IDEA, Part B Preschool	410 State Instructional Materials	437 SSA Special Education	459 SSA - Slaton Lubbock Coope Levelland ISD
ASSETS				
1110 Cash and Cash Equivalents	\$ -	\$ 1,127	\$ 504,265	\$ 31,239
1240 Due from Other Governments	3,732	172,625	-	-
1000 Total Assets	<u>\$ 3,732</u>	<u>\$ 173,752</u>	<u>\$ 504,265</u>	<u>\$ 31,239</u>
LIABILITIES				
2110 Accounts Payable	\$ -	\$ 1,127	\$ 3,394	\$ -
2160 Accrued Wages Payable	1,070	-	29,008	9,788
2170 Due to Other Funds	2,662	172,625	-	-
2180 Due to Other Governments	-	-	3,151	-
2000 Total Liabilities	<u>3,732</u>	<u>173,752</u>	<u>35,553</u>	<u>9,788</u>
FUND BALANCES				
Assigned Fund Balance:				
3590 Other Assigned Fund Balance	-	-	468,712	21,451
3000 Total Fund Balances	<u>-</u>	<u>-</u>	<u>468,712</u>	<u>21,451</u>
4000 Total Liabilities and Fund Balances	<u>\$ 3,732</u>	<u>\$ 173,752</u>	<u>\$ 504,265</u>	<u>\$ 31,239</u>

EXHIBIT H-1

480 HEB Grant ABC Campus	481 Middle School UIL	482 Student Chromebook	498 Crosswalks/ Imagination Destination	499 Monsanto Grant	Total Nonmajor Special Revenue Funds	697 2013 Bond Capital Project Fund	Total Nonmajor Governmental Funds
\$ 13,740	\$ -	\$ 22,799	\$ -	\$ -	\$ 573,170	\$ -	\$ 573,170
-	-	-	-	-	1,123,403	-	1,123,403
<u>\$ 13,740</u>	<u>\$ -</u>	<u>\$ 22,799</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,696,573</u>	<u>\$ -</u>	<u>\$ 1,696,573</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,521	\$ -	\$ 4,521
-	-	-	-	-	202,787	-	202,787
-	-	-	-	-	959,412	-	959,412
-	-	175	-	-	3,326	-	3,326
<u>-</u>	<u>-</u>	<u>175</u>	<u>-</u>	<u>-</u>	<u>1,170,046</u>	<u>-</u>	<u>1,170,046</u>
13,740	-	22,624	-	-	526,527	-	526,527
<u>13,740</u>	<u>-</u>	<u>22,624</u>	<u>-</u>	<u>-</u>	<u>526,527</u>	<u>-</u>	<u>526,527</u>
<u>\$ 13,740</u>	<u>\$ -</u>	<u>\$ 22,799</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,696,573</u>	<u>\$ -</u>	<u>\$ 1,696,573</u>

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

Data Control Codes	205 Head Start	211 ESEA I, A Improving Basic Program	212 ESEA Title I Part C Migrant	226 IDEA - Part B Discretionary
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800 State Program Revenues	-	-	-	-
5900 Federal Program Revenues	344,263	721,817	183,787	7,000
5020 Total Revenues	344,263	721,817	183,787	7,000
EXPENDITURES:				
Current:				
0011 Instruction	344,263	578,792	68,460	7,000
0012 Instructional Resources and Media Services	-	17,494	-	-
0013 Curriculum and Instructional Staff Development	-	13,250	8,500	-
0021 Instructional Leadership	-	-	-	-
0023 School Leadership	-	-	-	-
0031 Guidance, Counseling and Evaluation Services	-	-	-	-
0032 Social Work Services	-	87	2,881	-
0033 Health Services	-	30	-	-
0034 Student (Pupil) Transportation	-	-	-	-
0035 Food Services	-	-	-	-
0036 Extracurricular Activities	-	-	-	-
0041 General Administration	-	88,164	97,546	-
0051 Facilities Maintenance and Operations	-	-	-	-
0053 Data Processing Services	-	-	-	-
Capital Outlay:				
0081 Facilities Acquisition and Construction	-	-	-	-
6030 Total Expenditures	344,263	697,817	177,387	7,000
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	24,000	6,400	-
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	-	-	-
8911 Transfers Out (Use)	-	(24,000)	(6,400)	-
7080 Total Other Financing Sources (Uses)	-	(24,000)	(6,400)	-
1200 Net Change in Fund Balance	-	-	-	-
0100 Fund Balance - September 1 (Beginning)	-	-	-	-
3000 Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ -	\$ -

242 Summer Feeding Program	244 Career and Technical - Basic Grant	255 ESEA II,A Training and Recruiting	263 Title III, A English Lang. Acquisition	265 Title IV, B Community Learning	270 ESEA V, Pt B Rural & Low Income	289 LEP	313 SSA IDEA, Part B Formula
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
16,235	58,046	105,106	25,245	918,853	53,893	32,734	1,401,087
16,235	58,046	105,106	25,245	918,853	53,893	32,734	1,401,087
-	57,378	95,678	21,525	783,104	52,023	31,419	597,317
-	-	-	-	11,756	-	-	-
-	-	6,103	3,720	-	-	-	-
-	-	-	-	-	-	-	175,326
-	-	-	-	3,472	-	-	-
-	-	-	-	-	-	-	512,582
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	34,718	-	-	95,862
16,235	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	20,954	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	43,981	-	-	-
-	-	-	-	-	-	-	-
16,235	57,378	101,781	25,245	897,985	52,023	31,419	1,381,087
-	668	3,325	-	20,868	1,870	1,315	20,000
-	-	-	-	-	-	-	-
-	(668)	(3,325)	-	(20,868)	(1,870)	(1,315)	(20,000)
-	(668)	(3,325)	-	(20,868)	(1,870)	(1,315)	(20,000)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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

Data Control Codes	314 SSA IDEA, Part B Preschool	410 State Instructional Materials	437 SSA Special Education	459 SSA - Slaton Lubbock Coope Levelland ISD
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ 650,989	\$ 77,804
5800 State Program Revenues	-	261,488	26,073	8,265
5900 Federal Program Revenues	23,199	-	-	-
5020 Total Revenues	23,199	261,488	677,062	86,069
EXPENDITURES:				
Current:				
0011 Instruction	22,887	261,488	286,603	139,703
0012 Instructional Resources and Media Services	-	-	-	-
0013 Curriculum and Instructional Staff Development	-	-	-	-
0021 Instructional Leadership	-	-	169,475	-
0023 School Leadership	-	-	-	-
0031 Guidance, Counseling and Evaluation Services	-	-	149,625	-
0032 Social Work Services	-	-	-	-
0033 Health Services	-	-	-	-
0034 Student (Pupil) Transportation	-	-	-	-
0035 Food Services	-	-	-	-
0036 Extracurricular Activities	-	-	-	-
0041 General Administration	-	-	9,558	-
0051 Facilities Maintenance and Operations	-	-	-	-
0053 Data Processing Services	-	-	-	-
Capital Outlay:				
0081 Facilities Acquisition and Construction	-	-	-	-
6030 Total Expenditures	22,887	261,488	615,261	139,703
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	312	-	61,801	(53,634)
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	-	-	53,634
8911 Transfers Out (Use)	(312)	-	(53,634)	-
7080 Total Other Financing Sources (Uses)	(312)	-	(53,634)	53,634
1200 Net Change in Fund Balance	-	-	8,167	-
0100 Fund Balance - September 1 (Beginning)	-	-	460,545	21,451
3000 Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ 468,712	\$ 21,451

480 HEB Grant ABC Campus	481 Middle School UIL	482 Student Chromebook	498 Crosswalks/ Imagination Destination	499 Monsanto Grant	Total Nonmajor Special Revenue Funds	697 2013 Bond Capital Project Fund	Total Nonmajor Governmental Funds
\$ -	\$ 2,137	\$ 26,449	\$ 2,507	\$ 25,000	\$ 784,886	\$ 608	\$ 785,494
-	-	-	-	-	295,826	-	295,826
-	-	-	-	-	3,891,265	-	3,891,265
-	2,137	26,449	2,507	25,000	4,971,977	608	4,972,585
7,855	-	3,825	-	25,000	3,384,320	-	3,384,320
-	-	-	-	-	29,250	-	29,250
-	-	-	-	-	31,573	-	31,573
-	-	-	-	-	344,801	-	344,801
-	-	-	-	-	3,472	-	3,472
-	-	-	-	-	662,207	-	662,207
-	-	-	-	-	2,968	-	2,968
-	-	-	-	-	30	-	30
-	-	-	-	-	130,580	-	130,580
-	-	-	-	-	16,235	-	16,235
-	2,137	-	-	-	2,137	-	2,137
-	-	-	-	-	216,222	-	216,222
-	-	-	2,507	-	2,507	-	2,507
-	-	-	-	-	43,981	-	43,981
-	-	-	-	-	-	187,503	187,503
7,855	2,137	3,825	2,507	25,000	4,870,283	187,503	5,057,786
(7,855)	-	22,624	-	-	101,694	(186,895)	(85,201)
-	-	-	-	-	53,634	-	53,634
-	-	-	-	-	(132,392)	-	(132,392)
-	-	-	-	-	(78,758)	-	(78,758)
(7,855)	-	22,624	-	-	22,936	(186,895)	(163,959)
21,595	-	-	-	-	503,591	186,895	690,486
\$ 13,740	\$ -	\$ 22,624	\$ -	\$ -	\$ 526,527	\$ -	\$ 526,527

LEVELLAND INDEPENDENT SCHOOL DISTRICT
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 AGENCY FUND
 FOR THE YEAR ENDED AUGUST 31, 2019

	BALANCE SEPTEMBER 1 2018	ADDITIONS	DEDUCTIONS	BALANCE AUGUST 31 2019
STUDENT ACTIVITY ACCOUNT				
Assets:				
Cash and Temporary Investments	<u>\$ 169,952</u>	<u>\$ 507,714</u>	<u>\$ 499,037</u>	<u>\$ 178,629</u>
Liabilities:				
Due to Student Groups	<u>\$ 169,952</u>	<u>\$ 507,714</u>	<u>\$ 499,037</u>	<u>\$ 178,629</u>
TOTAL AGENCY FUNDS				
Assets:				
Cash and Temporary Investments	<u>\$ 169,952</u>	<u>\$ 507,714</u>	<u>\$ 499,037</u>	<u>\$ 178,629</u>
Liabilities:				
Due to Student Groups	<u>\$ 169,952</u>	<u>\$ 507,714</u>	<u>\$ 499,037</u>	<u>\$ 178,629</u>

TEA REQUIRED SCHEDULES

LEVELLAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2019

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2010 and prior years	Various	Various	\$ Various
2011	1.040000	0.090900	1,639,159,354
2012	1.040000	0.090900	1,502,256,685
2013	1.040000	0.069440	1,618,167,450
2014	1.040000	0.220200	1,534,845,378
2015	1.040000	0.220200	1,827,304,856
2016	1.040000	0.268400	1,763,421,951
2017	1.040000	0.368000	1,043,335,724
2018	1.040000	0.348000	1,102,363,040
2019 (School year under audit)	1.060000	0.328000	1,126,031,097
1000 TOTALS			

(1) Source: Hockley County Tax Assessor/Collector (October 1, Tax Roll)

(2) Current year adjustments must be applied to the tax levy after October 1 due to taxpayer protests and valuation adjustments.

(3) Tax rates are per \$100 of assessed valuations.

EXHIBIT J-1

(10) Beginning Balance 9/1/2018	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2019
\$ 172,068	\$ -	\$ 36	\$ 3	\$ (8,560)	\$ 163,469
17,301	-	644	56	(566)	16,035
19,838	-	739	65	(851)	18,183
27,460	-	1,768	118	(109)	25,465
33,780	-	1,663	352	(1,001)	30,764
52,535	-	3,894	824	(1,046)	46,771
96,092	-	13,107	3,382	(910)	78,693
186,788	-	31,115	11,010	(13,128)	131,535
312,965	-	75,412	25,234	(59,632)	152,687
-	16,559,588	12,322,394	3,812,967	(121,434)	302,793
<u>\$ 918,827</u>	<u>\$ 16,559,588</u>	<u>\$ 12,450,772</u>	<u>\$ 3,854,011</u>	<u>\$ (207,237)</u>	<u>\$ 966,395</u>

LEVELLAND INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - DEBT SERVICE FUND
 FOR THE YEAR ENDED AUGUST 31, 2019

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 3,726,008	\$ 3,726,008	\$ 3,913,932	\$ 187,924
5800 State Program Revenues	101,000	101,000	100,567	(433)
5020 Total Revenues	3,827,008	3,827,008	4,014,499	187,491
EXPENDITURES:				
Debt Service:				
0071 Principal on Long-Term Debt	3,827,008	1,835,000	1,835,000	-
0072 Interest on Long-Term Debt	-	1,989,508	1,989,508	-
0073 Bond Issuance Cost and Fees	-	2,500	1,840	660
6030 Total Expenditures	3,827,008	3,827,008	3,826,348	660
1200 Net Change in Fund Balances	-	-	188,151	188,151
0100 Fund Balance - September 1 (Beginning)	912,659	912,659	912,659	-
3000 Fund Balance - August 31 (Ending)	\$ 912,659	\$ 912,659	\$ 1,100,810	\$ 188,151

LEVELLAND INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
 FOR THE YEAR ENDED AUGUST 31, 2019

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 253,765	\$ 253,765	\$ 201,577	\$ (52,188)
5800 State Program Revenues	9,000	9,000	13,249	4,249
5900 Federal Program Revenues	1,378,000	1,378,000	1,350,262	(27,738)
5020 Total Revenues	1,640,765	1,640,765	1,565,088	(75,677)
EXPENDITURES:				
Current:				
0035 Food Services	1,570,765	1,570,765	1,526,993	43,772
6030 Total Expenditures	1,570,765	1,570,765	1,526,993	43,772
1100 Excess of Revenues Over Expenditures	70,000	70,000	38,095	(31,905)
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	-	10,442	10,442
7961 Transfers Out (Use)	(70,000)	(70,000)	(70,000)	-
7080 Total Other Financing Sources (Uses)	(70,000)	(70,000)	(59,558)	10,442
1200 Net Change in Fund Balances	-	-	(21,463)	(21,463)
0100 Fund Balance - September 1 (Beginning)	114,541	114,541	114,541	-
3000 Fund Balance - August 31 (Ending)	\$ 114,541	\$ 114,541	\$ 93,078	\$ (21,463)

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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

LEVELLAND INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX REFUNDING BONDS,
TAXABLE SERIES 2020, DATED AUGUST 15, 2020,
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$30,459,971.50

AS BOND COUNSEL FOR THE ISSUER (the “Issuer”) of the Bonds described above (the “Bonds”), we have examined into the legality and validity of the Bonds, which mature and bear interest from the dates specified in the text of the Bonds, until maturity or redemption, at the rates and payable on the dates as stated in the text of the Bonds, with the Bonds being subject to redemption prior to maturity, all in accordance with the terms and conditions stated in the text of the Bonds.

WE HAVE EXAMINED the Constitution and laws of the State of Texas, certified copies of the proceedings of the Issuer and other documents authorizing and relating to the issuance of said Bonds, including two of the executed Bonds (Bond Nos. TR-1 and TCAB-1).

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

IT IS OUR OPINION THAT THE BONDS are not obligations described in Section 103(a) of the Internal Revenue Code of 1986.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Bonds, including the amount, accrual or receipt of interest on, the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds.

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.



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.

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

Very truly yours,

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SPECIALIZED PUBLIC FINANCE INC.
FINANCIAL ADVISORY SERVICES