

OFFICIAL STATEMENT
Dated: October 14, 2020

NEW ISSUE: BOOK-ENTRY-ONLY

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

The District has designated the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions.

\$3,930,000

SPRING HILL INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Gregg County, Texas)
Unlimited Tax Refunding Bonds, Series 2020

Dated Date: November 1, 2020

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

The Spring Hill Independent School District Unlimited Tax Refunding Bonds, Series 2020 (the "Bonds") are being issued pursuant to the Constitution and general laws of the State of Texas, including Chapter 1207, Texas Government Code, as amended ("Chapter 1207"), and an order (the "Order") authorizing the issuance of the Bonds adopted on June 8, 2020 by the Board of Trustees (the "Board") of the Spring Hill Independent School District (the "District"). As permitted by Chapter 1207, the Board, in the Order, delegated the authority to certain District officials to execute a pricing certificate (the "Approval Certificate") establishing the pricing terms for the Bonds. The Approval Certificate was executed by the Chief Financial Officer of the District on October 14, 2020, which completed the sale of the Bonds. The Bonds are payable as to principal and interest from the proceeds of an ad valorem tax levied annually, without legal limit as to rate or amount, against all taxable property located within the District. The District has received conditional approval from the Texas Education Agency for the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined), which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "THE BONDS – Permanent School Fund Guarantee" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

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

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

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

The Bonds maturing on or after February 15, 2034 are subject to redemption at the option of the District in whole or in part on August 15, 2030 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. The Term Bonds (hereinafter defined) are subject to mandatory sinking fund redemption as described herein. (See "THE BONDS - Optional Redemption" and "THE BONDS – Mandatory Sinking Fund Redemption")

MATURITY SCHEDULE
(On Inside Cover)

The Bonds are offered for delivery when, as and if issued, and received by the initial purchaser thereof at a competitive sale (the "Purchaser") subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, Dallas, Texas, Bond Counsel. The Bonds are expected to be available for initial delivery through the facilities of DTC on or about November 18, 2020.

\$3,930,000
SPRING HILL INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Gregg County, Texas)
UNLIMITED TAX REFUNDING BONDS, SERIES 2020

MATURITY SCHEDULE
Base CUSIP No.: 849662⁽¹⁾

\$3,435,000 Serial Bonds

Maturity Date <u>2/15</u>	Principal Amount	Interest Rate	Initial Yield	CUSIP No. Suffix⁽¹⁾
2021	\$80,000	3.00%	0.19%	QJ3
2022	785,000	3.00	0.20	QK0
2023	680,000	3.00	0.21	QL8
2024	45,000	3.00	0.40	QM6
2025	50,000	3.00	0.50	QN4
2026	50,000	3.00	0.65	QP9
2027	55,000	3.00	0.80	QQ7
2028	55,000	3.00	0.90	QR5
2029	55,000	3.00	1.00	QS3
2030	55,000	3.00	1.10	QT1
**	**	**	**	**
2039	755,000	2.00	1.65 ⁽²⁾	RC7
2040	770,000	2.00	1.70 ⁽²⁾	RD5

(Interest to accrue from the Dated Date)

\$495,000 Term Bonds

\$240,000 1.300% Term Bond due February 15, 2034 – Price 100.00 (yield 1.30%) CUSIP Suffix No. QX2⁽¹⁾
\$255,000 1.625% Term Bond due February 15, 2038 – Price 99.625 (yield 1.65%) CUSIP Suffix No. RB9⁽¹⁾

(Interest to accrue from the Dated Date)

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

⁽²⁾ Yield calculated based on the assumption that the Bonds denoted and sold at a premium will be redeemed on August 15, 2030, the first optional call date for such Bonds, at a redemption price of par, plus accrued interest to the redemption date.

SPRING HILL INDEPENDENT SCHOOL DISTRICT

BOARD OF TRUSTEES

<u>Name</u>	<u>Date Initially Elected</u>	<u>Current Term Expires</u>	<u>Occupation</u>
Mark White, President	2012	2021	Self Employed – Real Estate
John Borens, Vice President	2008	2023	Pharmaceutical Sales
Ben Shelton, Secretary	2016	2022	Director of Operations – Church
Frank Bufkin III, Member	2015	2021	Business Owner – Oil Industry
Dave Duncan, Member	2020	2023	Measurement Technician
Meredith Smeltzer, Member	2019	2022	Real Estate Agent
Kyle Stephens, Member	2020	2022	Engineer

APPOINTED OFFICIALS

<u>Name</u>	<u>Position</u>	<u>Length of Education Service</u>	<u>Length of Service with the District</u>
Dr. Wayne Guidry	Superintendent	17 Years	1 Year
Martin Cobb	Chief Financial Officer	20 Years	3 Years

CONSULTANTS AND ADVISORS

Norton Rose Fulbright US LLP, Dallas, Texas	Bond Counsel
SAMCO Capital Markets, Inc., Plano, Texas	Financial Advisor
Wilf & Henderson, P.C., Texarkana, Texas	Certified Public Accountants

For additional information, contact:

Dr. Wayne Guidry
Superintendent
Spring Hill Independent School District
3101 Spring Hill Road
Longview, Texas 75605
(903) 323-7741

Douglas Whitt / Brian Grubbs / Robert White
SAMCO Capital Markets, Inc.
5800 Granite Parkway, Suite 210
Plano, Texas 75024
(214) 765-1469
(214) 279-8683 (Fax)

USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

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

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

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

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

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

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

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

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

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SELECTED DATA FROM THE OFFICIAL STATEMENT

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

The District	The Spring Hill Independent School District (the "District") is a political subdivision of the State of Texas located in Gregg County, Texas. The District is governed by a seven-member Board of Trustees (the "Board"). Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors.
The Bonds	The Bonds are being issued in the principal amount of \$3,930,000 pursuant to the Constitution and general laws of the State of Texas, including particularly Chapter 1207, Texas Government Code, as amended ("Chapter 1207"), and the order (the "Order") adopted by the Board on June 8, 2020. As permitted by Chapter 1207, the Board, in the Order, delegated the authority to certain District officials to execute a pricing certificate (the "Approval Certificate") establishing the pricing terms for the Bonds. The Approval Certificate was executed by the Chief Financial Officer of the District on October 14, 2020, which completed the sale of the Bonds. Proceeds from the sale of the Bonds will be used to (i) refund a portion of the District's outstanding bonds for debt service savings and (ii) pay the costs of issuing the Bonds. (See "PLAN OF FINANCING - Purpose", "PLAN OF FINANCING - Refunded Bonds" and "Schedule I – Schedule of Refunded Bonds").
Paying Agent/Registrar	The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas. The District intends to use the Book-Entry-Only System of The Depository Trust Company. (See "BOOK-ENTRY-ONLY SYSTEM").
Security	The Bonds will constitute direct obligations of the District, payable as to principal and interest from ad valorem taxes levied annually against all taxable property located within the District, without legal limitation as to rate or amount. Payments of principal and interest on the Bonds will be further secured by the corpus of the Permanent School Fund of Texas. (See "THE BONDS – Security", "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").
Redemption	The Bonds maturing on or after February 15, 2034 are subject to redemption at the option of the District in whole or in part on August 15, 2030 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. The Term Bonds (hereinafter defined) are subject to mandatory sinking fund redemption as described herein. (See "THE BONDS - Optional Redemption" and "THE BONDS – Mandatory Sinking Fund Redemption")
Permanent School Fund Guarantee	The District has received conditional approval from the Texas Education Agency (the "TEA") for the payment of the Bonds to be guaranteed under the Permanent School Fund Guarantee Program (defined herein), which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "THE BONDS – Permanent School Fund Guarantee" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.")
Rating	The Bonds are rated "AAA" by S&P Global Ratings ("S&P") based upon the guaranteed repayment thereof under the Permanent School Fund Guarantee Program (as defined herein) of the Texas Education Agency. The District's unenhanced, underlying rating, including the Bonds, is "A+" by S&P. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – Ratings of Bonds Guaranteed Under the Guarantee Program" and "RATING" herein.)
Tax Matters	In the opinion of Bond Counsel for the District, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law subject to the matters described under "TAX MATTERS" herein. (See "TAX MATTERS" and "Appendix C - Form of Legal Opinion of Bond Counsel.")
Qualified Tax-Exempt Obligations	The District has designated the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions. (See "TAX MATTERS – Qualified Tax-Exempt Obligations").
Payment Record	The District has never defaulted on the payment of its bonded indebtedness.
Legal Opinion	Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by Norton Rose Fulbright US LLP, Dallas, Texas, Bond Counsel. (See "Appendix C – Form of Legal Opinion of Bond Counsel").
Delivery	When issued, anticipated to be on or about November 18, 2020.

INTRODUCTORY STATEMENT

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

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

There follows in this Official Statement descriptions of the Bonds and the order (the "Order") adopted by the Board of Trustees of the District (the "Board") on June 8, 2020 authorizing the issuance of the Bonds and certain other information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained upon request by writing the Spring Hill Independent School District, 3101 Spring Hill Road, Longview, Texas 75605 and, during the offering period, from the Financial Advisor, SAMCO Capital Markets, Inc., 5800 Granite Parkway, Suite 210, Plano, Texas 75024 by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

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

COVID-19

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

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in Texas in response to the Pandemic. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency (including TEA) that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has since issued a number of executive orders relating to COVID-19 preparedness and mitigation. These include, for example, the issuance on September 17, 2020 of Executive Order GA-30, which, among other things, provided further guidelines for the reopening of businesses and the maximum threshold level of occupancy related to such establishments. Certain businesses, such as cybersecurity services, child care services, local government operations, youth camps, recreational programs, schools, and religious services, do not have the foregoing limitations. The Governor's order also states, in providing or obtaining services, every person (including individuals, businesses, and other legal entities) should use good-faith efforts and available resources to follow the minimum standard health protocols. Executive Order GA-30 permits visits to nursing homes, state supported living centers, assisted living facilities, or long-term care facilities as determined through the guidance from the Texas Health and Human Services Commission. Executive Order GA-30 remains in place until amended, rescinded, or superseded by the Governor.

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

On September 24, 2020, TEA issued updated public planning health guidance related to instructional and operational flexibilities in planning for the 2020-2021 school year to address on campus and virtual instruction, non-UIL extracurricular sports and activities, and other activities that cannot be accomplished virtually. Within the guidance, TEA instructs schools to provide parental and public notices of the school district's plan for on-campus instruction (posted one week prior to the commencement of in person education) in order to mitigate COVID-19 within their facilities and confirms the attendance requirements for promotion (which may be completed by virtual education). The guidance further details screening mechanisms, identification of symptoms, and procedures for confirmed, suspected, and exposed cases. Certain actions, such as notification to health department officials and closure of high-traffic areas, will be required in the instance of confirmed cases. Schools are highly encouraged to engage in mitigation practices promoting health and hygiene consistent with CDC guidelines (including social distancing, facial coverings, frequent disinfecting of all areas, limiting visitations, etc.) to avoid unnecessary exposure to others to prevent the spread of COVID-19.

The 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 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 addition, the federal government has taken, and continues to consider additional, action without precedent in effort to counteract or mitigate the Pandemic's economic impact. These conditions and related responses and reactions may reduce or negatively affect property values within the District. See "AD VALOREM TAX PROCEDURES". The Bonds are secured by an unlimited ad valorem tax, and a reduction in property

values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District's share of operations and maintenance expenses payable from ad valorem taxes.

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

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

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

PLAN OF FINANCING

Purpose

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

Refunded Bonds

The Refunded Bonds, and interest due thereon, are to be paid on their scheduled redemption date from cash and investments to be deposited with BOKF, NA, Dallas, Texas, a national banking association (the "Escrow Agent") pursuant to an Escrow Agreement (the "Escrow Agreement") between the District and the Escrow Agent.

The Order provides that the District will deposit certain proceeds of the sale of the Bonds, along with other lawfully available funds of the District, with the Escrow Agent in the amount necessary and sufficient to accomplish the discharge and final payment of the Refunded Bonds at their scheduled date of early redemption (the "Redemption Date"). Such funds shall be held by the Escrow Agent in an escrow fund (the "Escrow Fund") irrevocably pledged to the payment of principal of and interest on the Refunded Bonds. Amounts on deposit in the Escrow Fund shall, until such time as needed for their intended purpose, be (i) held uninvested in cash and/or (ii) invested in certain direct, noncallable obligations of the United States of America (including obligations unconditionally guaranteed by the United States of America) (the "Federal Securities"). Cash and investments (if any) held in the Escrow Fund shall not be available to pay debt service requirements on the Bonds.

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

Public Finance Partners LLC, will issue its report (the "Report") verifying at the time of delivery of the Bonds to the Purchaser thereof the mathematical accuracy of the schedules that demonstrate the Escrowed Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds. See "VERIFICATION OF ACCURACY OF MATHEMATICAL COMPUTATIONS". Such maturing principal of and interest on the Escrowed Securities will not be available to pay the Bonds.

By the deposit of the cash and Federal Securities, if any, with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of all of the Refunded Bonds in accordance with the law. It is the opinion of Bond Counsel, in reliance upon the Report that as a result of such defeasance the Refunded Bonds will be outstanding only for the purpose of receiving payments from the Escrow Fund held for such purpose by the Escrow Agent and such Refunded Bonds will not be deemed as being outstanding obligations of the District payable from taxes nor for the purpose of applying any limitation on the issuance of debt.

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

THE BONDS

General Description

The Bonds are dated November 1, 2020 (the "Dated Date") and will bear interest from such Dated Date. The Bonds will mature on the dates and in the principal amounts set forth on page ii of this Official Statement. Interest on the Bonds will be computed on the basis of a 360-day year of twelve 30-day months, and is payable on February 15, 2021 and on each February 15 and August 15 thereafter until stated maturity or prior redemption.

The Bonds will be issued only as fully registered bonds. The Bonds will be issued in the denominations of \$5,000 of principal or any integral multiple thereof within a maturity.

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

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

Authority for Issuance

The Bonds are issued pursuant to the Constitution and general laws of the State, including Chapter 1207, Texas Government Code, as amended (“Chapter 1207”), and the Order. As permitted by Chapter 1207, the Board, in the Order, delegated the authority to certain District officials to execute a pricing certificate (the “Approval Certificate”) establishing the pricing terms for the Bonds. The Approval Certificate was executed by the Chief Financial Officer of the District on October 14, 2020, which completed the sale of the Bonds.

Optional Redemption

The Bonds maturing on or after February 15, 2034, are subject to redemption, at the option of the District, in whole or in part, in principal amounts of \$5,000 or integral multiples thereof, on August 15, 2030, or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the District shall determine the amounts and maturities thereof to be redeemed and shall direct the Paying Agent/Registrar to select by lot the Bonds, or portions thereof, to be redeemed.

Mandatory Sinking Fund Redemption

The Bonds maturing on February 15, 2034 and February 15, 2038 (the “Term Bonds”) are subject to mandatory sinking fund redemption prior to their stated maturity, and will be redeemed by the District, at a redemption price equal to the principal amount thereof plus interest accrued thereon to the redemption date, on the dates and in the principal amounts shown in the following schedule:

<u>Term Bonds</u> <u>February 15, 2034</u>		<u>Term Bonds</u> <u>February 15, 2038</u>	
<u>Date</u>	<u>Amount</u>	<u>Date</u>	<u>Amount</u>
<u>(2/15)</u> 2031	\$60,000	<u>(2/15)</u> 2035	\$65,000
2032	60,000	2036	60,000
2033	60,000	2037	65,000
2034*	60,000	2038*	65,000

**Stated Maturity*

Approximately forty-five (45) days prior to each mandatory redemption date for any Term Bond, the Paying Agent/Registrar shall randomly select by lot or other customary method the numbers of the Term Bonds within the applicable Stated Maturity to be redeemed on the next following February 15 from money set aside for that purpose in the Bond Fund (as defined in the Order). Any Term Bonds not selected for prior redemption shall be paid on the date of their Stated Maturity.

The principal amount of a Term Bond required to be redeemed pursuant to the operation of such mandatory redemption provisions shall be reduced, at the option of the District, by the principal amount of any Term Bonds of such Stated Maturity which, at least fifty (50) days prior to the mandatory redemption date (i) shall have been defeased or acquired by the District and delivered to the Paying Agent/Registrar for cancellation, or (ii) shall have been redeemed, to the extent applicable, pursuant to the optional redemption provisions set forth above and not theretofore credited against a mandatory redemption requirement.

Notice of Redemption and DTC Notices

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

The Paying Agent/Registrar and the District, so long as the Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Order or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the Beneficial Owner, shall not affect the validity of the redemption of the Bonds called for redemption or any other action premised on such notice or 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 “BOOK-ENTRY-ONLY SYSTEM” herein.)

With respect to any optional redemption of the Bonds, unless certain prerequisites to such redemption required by the Order have been met and moneys sufficient to pay the redemption price of the Bonds to be redeemed shall have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice may state that such redemption is conditional upon the satisfaction of such prerequisites and receipt of such moneys by the Paying Agent/Registrar on or prior to the date fixed for such redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not satisfied or sufficient moneys are not received, such notice shall be of no force and effect, the District shall not redeem such Bonds and the Paying Agent/Registrar shall give notice, in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

Security

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

Permanent School Fund Guarantee

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

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

Legality

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

Payment Record

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

Amendments

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

Defeasance

The Order provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on such Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with the Paying Agent/Registrar, or other authorized escrow agent, in trust (1) money sufficient to make such payment or (2) Government Securities to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds. The Order provides that "Government Securities" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of 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, (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, and (d) any other then authorized securities or obligations under applicable law that may be used to defease obligations such as the Bonds. District officials may restrict the use of such eligible securities as deemed appropriate. The District has the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Securities for the Government Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance.

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

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid and will cease to be outstanding obligations secured by the Order or treated as debt of the District for purposes of taxation or applying any limitation on the District's ability to issue debt or for any other purpose.

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

Sources and Uses of Funds

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

Sources	
Par Amount of Bonds	\$ 3,930,000.00
Net Premium	161,869.20
Accrued Interest on Bonds	4,489.12
District Contribution	650,000.00
Total Sources of Funds	<u>\$ 4,746,358.32</u>
Uses	
Deposit to Escrow Fund	\$ 4,632,396.62
Costs of Issuance	77,321.03
Purchaser's Discount	32,151.55
Deposit to Interest and Sinking Fund	4,489.12
Total Uses of Funds	<u>\$ 4,746,358.32</u>

REGISTERED OWNERS' REMEDIES

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

BOOK-ENTRY-ONLY SYSTEM

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

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

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry

transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a S&P Global Ratings rating of AA+. The DTC Rules applicable to its Participants are on file with the United States Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

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

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

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

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

Use of Certain Terms in Other Sections of this Official Statement

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

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

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

Successor Paying Agent/Registrar

Provision is made in the Order for replacing the Paying Agent/Registrar. If the District replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District shall be a commercial bank or trust company organized under the laws of the United States or any state or other entity duly qualified and legally authorized to serve and perform

the duties of the Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District has agreed to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first-class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Initial Registration

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

Future Registration

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

Neither the District nor the Paying Agent/Registrar shall be required to issue or transfer to an assignee of a Holder any Bond called for redemption, in whole or in part, within forty-five (45) days of the date fixed for the redemption of such Bond; provided, however, such limitation on transferability shall not be applicable to an exchange by the Holder of the unredeemed balance of a Bond called for redemption in part.

Record Date For Interest Payment

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

Replacement Bonds

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

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

The information below concerning the State Permanent School Fund and the Guarantee Program for school district bonds has been provided by the Texas Education Agency (the "TEA") and is not guaranteed as to accuracy or completeness by, and is not construed as a representation by the District, the Financial Advisor, or the 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 changed 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 are 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 July 2020. 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. Periodic changes in the asset allocation policies have been made with the objective of providing diversity to Fund assets, and have included an alternative asset allocation in addition 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, approved in July 2020, is as follows: (i) an equity allocation of 37% (consisting of U.S. large cap equities targeted at 14%, international large cap equities at 14%, emerging market equities at 3%, and U.S. small/mid cap equities at 6%), (ii) a fixed income allocation of 25% (consisting of a 12% allocation for core bonds, a 7% allocation for emerging market debt in local currency, a 3% allocation for high yield bonds, and a 3% allocation for U.S. Treasury bonds), and (iii) an alternative asset allocation of 38% (consisting of a private equity allocation of 15%, a real estate allocation of 11%, an absolute return allocation of 7%, a 1% allocation for private equity and real estate for emerging managers, and a real return allocation of 4%). As compared to the 2016 asset allocation, the 2020 asset allocation increased U.S. large cap equities and small/mid-cap U.S. equities by a combined 2%, added high yield bonds and U.S Treasury bonds to the fixed income allocation in the amounts noted above, increased combined private equity and real estate from 23% to 27%, eliminated the risk parity allocation, which was previously a 7% allocation within the global risk control strategy category of alternative assets, and reduced the absolute return allocation within the global risk control strategy category of alternative assets to 7% from 10%.

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. In July 2020, the SBOE adopted an asset allocation policy for the liquidity account consisting of 20% cash, 40% equities and 40% fixed income. The liquidity account equity allocation consists of U.S. large cap, U.S. small/mid cap and international large cap equities of 20%, 5% and 15%, respectively. The liquidity account fixed income allocation consists of core bonds, Treasury Inflation Protection Securities and short duration fixed income categories of 5%, 10% and 25%, respectively.

For a variety of reasons, each change in asset allocation for the Fund, including the 2020 modifications, have been or will be 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 within 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 Final IRS Regulations will result in a substantial increase in the amount of bonds guaranteed under the Guarantee Program, and as the amount of guaranteed bonds approaches the IRS Limit, it is expected that the SBOE will seek changes to the existing IRS guidance regarding the Guarantee Program with the objective of obtaining an increase in the IRS Limit. The implementation of the Charter School Bond Guarantee Program is also expected to increase the amount of guaranteed bonds.

The Act requires that the Commissioner prepare, and the SBOE approve, an annual report on the status of the Guarantee Program (the Annual Report). The State Auditor audits the financial statements of the PSF, which are separate from other State financial statements.

The School District Bond Guarantee Program

The School District Bond Guarantee Program requires an application be made by a school district to the Commissioner for a guarantee of its bonds. If the conditions for the School District Bond Guarantee Program are satisfied, the guarantee becomes effective upon approval of the bonds by the Attorney General and remains in effect until the guaranteed bonds are paid or defeased, by a refunding or otherwise.

In the event of default, holders of guaranteed school district bonds will receive all payments due from the corpus of the PSF. Following a determination that a school district will be or is unable to pay maturing or matured principal or interest on any guaranteed bond, the Act requires the school district to notify the Commissioner not later than the fifth day before the stated maturity date of such bond or interest payment. Immediately following receipt of such notice, the Commissioner must cause to be transferred from the appropriate account in the PSF to the Paying Agent/Registrar an amount necessary to pay the maturing or matured principal and interest. Upon receipt of funds for payment of such principal or interest, the Paying Agent/Registrar must pay the amount due and forward the canceled bond or evidence of payment of the interest to the State Comptroller of Public Accounts (the "Comptroller"). The Commissioner will instruct the Comptroller to withhold the amount paid, plus interest, from the first State money payable to the school district. The amount withheld pursuant to this funding "intercept" feature will be deposited to the credit of the PSF. The Comptroller must hold such canceled bond or evidence of payment of the interest on behalf of the PSF. Following full reimbursement of such payment by the school district to the PSF with interest, the Comptroller will cancel the bond or evidence of payment of the interest and forward it to the school district. The Act permits the Commissioner to order a school district to set a tax rate sufficient to reimburse the PSF for any payments made with respect to guaranteed bonds, and also sufficient to pay future payments on guaranteed bonds, and provides certain enforcement mechanisms to the Commissioner, including the appointment of a board of managers or annexation of a defaulting school district to another school district.

If a school district fails to pay principal or interest on a bond as it is stated to mature, other amounts not due and payable are not accelerated and do not become due and payable by virtue of the district's default. The School District Bond Guarantee Program does not apply to the payment of principal and interest upon redemption of bonds, except upon mandatory sinking fund redemption, and does not apply to the obligation, if any, of a school district to pay a redemption premium on its guaranteed bonds. The guarantee applies to all matured interest on guaranteed school district bonds, whether the bonds were issued with a fixed or variable interest rate and whether the interest rate changes as a result of an interest reset provision or other bond order provision requiring an interest rate change. The guarantee does not extend to any obligation of a school district under any agreement with a third party relating to guaranteed bonds that is defined or described in State law as a "bond enhancement agreement" or a "credit agreement," unless the right to payment of such third party is directly as a result of such third party being a bondholder.

In the event that two or more payments are made from the PSF on behalf of a district, the Commissioner shall request the Attorney General to institute legal action to compel the district and its officers, agents and employees to comply with the duties required of them by law in respect to the payment of guaranteed bonds.

Generally, the SDBGP Rules limit guarantees to certain types of notes and bonds, including, with respect to refunding bonds issued by school districts, a requirement that the bonds produce debt service savings, and that bonds issued for capital facilities of school districts must have been voted as unlimited tax debt of the issuing district. The Guarantee Program Rules include certain accreditation criteria for districts applying for a guarantee of their bonds, and limit guarantees to districts that have less than the amount of annual debt service per average daily attendance that represents the 90th percentile of annual debt service per average daily attendance for all school districts, but such limitation will not apply to school districts that have enrollment growth of at least 25% over the previous five school years. The SDBGP Rules are codified in the Texas Administrative Code at 19 TAC section 33.65, and are available at <http://ritter.tea.state.tx.us/rules/tac/chapter033/ch033a.html#33.65>.

The Charter District Bond Guarantee Program

The Charter District Bond Guarantee Program became effective March 3, 2014. The SBOE published final regulations in the Texas Register that provide for the administration of the Charter District Bond Guarantee Program (the "CDBGP Rules"). The CDBGP Rules are codified at 19 TAC section 33.67, and are available at <http://ritter.tea.state.tx.us/rules/tac/chapter033/ch033a.html#33.67>.

The Charter District Bond Guarantee Program has been authorized through the enactment of amendments to the Act, which provide that a charter holder may make application to the Commissioner for designation as a "charter district" and for a guarantee by the PSF under the Act of bonds issued on behalf of a charter district by a non-profit corporation. If the conditions for the Charter District Bond Guarantee Program are satisfied, the guarantee becomes effective upon approval of the bonds by the Attorney General and remains in effect until the guaranteed bonds are paid or defeased, by a refunding or otherwise.

As of March 20, 2020 (the most recent date for which data is available), the percentage of students enrolled in open-enrollment charter schools (excluding charter schools authorized by school districts) to the total State scholastic census was approximately 6.15%. At September 10, 2020, there were 182 active open-enrollment charter schools in the State and there were 840 charter school campuses active under such charters (though as of such date, 19 of such campuses are not currently serving students for various reasons). Section 12.101, Texas Education Code, as amended by the Legislature in 2013, limits the number of charters that the Commissioner may grant to 215 charters as of the end of fiscal year 2014, with the number increasing in each fiscal year thereafter through 2019 to a total number of 305 charters. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see "Capacity Limits for the Guarantee Program." The Act provides that the Commissioner may not approve

the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

In accordance with the Act, the Commissioner may not approve charter district bonds for guarantee if such guarantees will result in lower bond ratings for public school district bonds that are guaranteed under the School District Bond Guarantee Program. To be eligible for a guarantee, the Act provides that a charter district's bonds must be approved by the Attorney General, have an unenhanced investment grade rating from a nationally recognized investment rating firm, and satisfy a limited investigation conducted by the TEA.

The Charter District Bond Guarantee Program does not apply to the payment of principal and interest upon redemption of bonds, except upon mandatory sinking fund redemption, and does not apply to the obligation, if any, of a charter district to pay a redemption premium on its guaranteed bonds. The guarantee applies to all matured interest on guaranteed charter district bonds, whether the bonds were issued with a fixed or variable interest rate and whether the interest rate changes as a result of an interest reset provision or other bond resolution provision requiring an interest rate change. The guarantee does not extend to any obligation of a charter district under any agreement with a third party relating to guaranteed bonds that is defined or described in State law as a "bond enhancement agreement" or a "credit agreement," unless the right to payment of such third party is directly as a result of such third party being a bondholder.

The Act provides that immediately following receipt of notice that a charter district will be or is unable to pay maturing or matured principal or interest on a guaranteed bond, the Commissioner is required to instruct the Comptroller to transfer from the Charter District Reserve Fund to the district's paying agent an amount necessary to pay the maturing or matured principal or interest. If money in the Charter District Reserve Fund is insufficient to pay the amount due on a bond for which a notice of default has been received, the Commissioner is required to instruct the Comptroller to transfer from the PSF to the district's paying agent the amount necessary to pay the balance of the unpaid maturing or matured principal or interest. If a total of two or more payments are made under the Charter District Bond Guarantee Program on charter district bonds and the Commissioner determines that the charter district is acting in bad faith under the program, the Commissioner may request the Attorney General to institute appropriate legal action to compel the charter district and its officers, agents, and employees to comply with the duties required of them by law in regard to the guaranteed bonds. As is the case with the School District Bond Guarantee Program, the Act provides a funding "intercept" feature that obligates the Commissioner to instruct the Comptroller to withhold the amount paid with respect to the Charter District Bond Guarantee Program, plus interest, from the first State money payable to a charter district that fails to make a guaranteed payment on its bonds. The amount withheld will be deposited, first, to the credit of the PSF, and then to restore any amount drawn from the Charter District Reserve Fund as a result of the non-payment.

The CDBGP Rules provide that the PSF may be used to guarantee bonds issued for the acquisition, construction, repair, or renovation of an educational facility for an open-enrollment charter holder and equipping real property of an open-enrollment charter school and/or to refinance promissory notes executed by an open-enrollment charter school, each in an amount in excess of \$500,000 the proceeds of which loans were used for a purpose described above (so-called new money bonds) or for refinancing bonds previously issued for the charter school that were approved by the attorney general (so-called refunding bonds). Refunding bonds may not be guaranteed under the Charter District Bond Guarantee Program if they do not result in a present value savings to the charter holder.

The CDBGP Rules provide that an open-enrollment charter holder applying for charter district designation and a guarantee of its bonds under the Charter District Bond Guarantee Program satisfy various provisions of the regulations, including the following: It must (i) have operated at least one open-enrollment charter school with enrolled students in the State for at least three years; (ii) agree that the bonded indebtedness for which the guarantee is sought will be undertaken as an obligation of all entities under common control of the open-enrollment charter holder, and that all such entities will be liable for the obligation if the open-enrollment charter holder defaults on the bonded indebtedness, provided, however, that an entity that does not operate a charter school in Texas is subject to this provision only to the extent it has received state funds from the open-enrollment charter holder; (iii) have had completed for the past three years an audit for each such year that included unqualified or unmodified audit opinions; and (iv) have received an investment grade credit rating within the last year. Upon receipt of an application for guarantee under the Charter District Bond Guarantee Program, the Commissioner is required to conduct an investigation into the financial status of the applicant charter district and of the accreditation status of all open-enrollment charter schools operated under the charter, within the scope set forth in the CDBGP Rules. Such financial investigation must establish that an applying charter district has a historical debt service coverage ratio, based on annual debt service, of at least 1.1 for the most recently completed fiscal year, and a projected debt service coverage ratio, based on projected revenues and expenses and maximum annual debt service, of at least 1.2. The failure of an open-enrollment charter holder to comply with the Act or the applicable regulations, including by making any material misrepresentations in the charter holder's application for charter district designation or guarantee under the Charter District Bond Guarantee Program, constitutes a material violation of the open-enrollment charter holder's charter.

From time to time, TEA has limited new guarantees under the Charter District Bond Guarantee Program to conform to capacity limits specified by the Act. Legislation enacted during the Legislature's 2017 regular session modified the manner of calculating the capacity of the Charter District Bond Guarantee Program (the "CDBGP Capacity"), which further increased the amount of the CDBGP Capacity, beginning with State fiscal year 2018, but that provision of the law does not increase overall Program capacity, it merely allocates capacity between the School District Bond Guarantee Program and the Charter District Bond Guarantee Program. See "Capacity Limits for the Guarantee Program" and "2017 Legislative Changes to the Charter District Bond Guarantee Program." Other factors that could increase the CDBGP Capacity include Fund investment performance, future increases in the Guarantee Program multiplier, changes in State law that govern the calculation of the CDBGP Capacity, as described below, growth in the relative percentage of students enrolled in open-enrollment charter schools to the total State scholastic census, legislative and administrative changes in funding for charter districts, changes in level of school district or charter district participation in the Program, or a combination of such circumstances.

2017 Legislative Changes to the Charter District Bond Guarantee Program

The CDBGP Capacity is established by the Act. During the 85th Texas Legislature, which concluded on May 29, 2017, Senate Bill 1480 ("SB 1480") was enacted. The complete text of SB 1480 can be found at <http://www.capitol.state.tx.us/tlodocs/85R/billtext/pdf/SB01480F.pdf#navpanes=0>. SB 1480 modified how the CDBGP Capacity will be established under the Act effective as of September 1, 2017, and made other substantive changes to the Act that affects the Charter District Bond Guarantee Program. Prior to the enactment of SB 1480, the CDBGP Capacity was calculated as the State Capacity Limit less the amount of outstanding bond guarantees under the Guarantee Program multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population. As of August 31, 2019, the amount of outstanding bond guarantees represented 71.94% of the IRS Limit (which is currently the applicable capacity limit) for the Guarantee Program (based on unaudited data). SB 1480 amended the CDBGP Capacity calculation so that the State Capacity Limit is multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population

prior to the subtraction of the outstanding bond guarantees, thereby potentially substantially increasing the CDBGP Capacity. However, certain provisions of SB 1480, described below, and other additional factors described herein, could result in less than the maximum amount of the potential increase provided by SB 1480 being implemented by the SBOE or otherwise used by charter districts. Still other factors used in determining the CDBGP Capacity, such as the percentage of the charter district scholastic population to the overall public school scholastic population, could, in and of itself, increase the CDBGP Capacity, as that percentage has grown from 3.53% in September, 2012 to 6.15% in March 2020. 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 July 31, 2020, the Charter District Reserve Fund contained \$39,357,006, which represented approximately 1.56% of the guaranteed charter district bonds. SB 1480 also authorized the SBOE to manage the Charter District Reserve Fund in the same manner as it manages the PSF. Previously, the Charter District Reserve Fund was held by the Comptroller, but effective April 1, 2018, the management of the Reserve Fund was transferred to the PSF division of TEA, where it will be held and invested as a non-commingled fund under the administration of the PSF staff.

Charter District Risk Factors

Open-enrollment charter schools in the State may not charge tuition and, unlike school districts, charter districts have no taxing power. Funding for charter district operations is largely from amounts appropriated by the Legislature. The amount of such State payments a charter district receives is based on a variety of factors, including the enrollment at the schools operated by a charter district. The overall amount of education aid provided by the State for charter schools in any year is also subject to appropriation by the Legislature. The Legislature may base its decisions about appropriations for charter schools on many factors, including the State's economic performance. Further, because some public officials, their constituents, commentators and others have viewed charter schools as controversial, political factors may also come to bear on charter school funding, and such factors are subject to change.

Other than credit support for charter district bonds that is provided to qualifying charter districts by the Charter District Bond Guarantee Program, State funding for charter district facilities construction is limited to a program established by the Legislature in 2017, which provides \$60 million per year for eligible charter districts with an acceptable performance rating for a variety of funding purposes, including for lease or purchase payments for instructional facilities. Since State funding for charter facilities is so limited, charter schools generally issue revenue bonds to fund facility construction and acquisition, or fund facilities from cash flows of the school. Some charter districts have issued non-guaranteed debt in addition to debt guaranteed under the Charter District Bond Guarantee Program, and such non-guaranteed debt is likely to be secured by a deed of trust covering all or part of the charter district's facilities. In March 2017, the TEA began requiring charter districts to provide the TEA with a lien against charter district property as a condition to receiving a guarantee under the Charter District Bond Guarantee Program. However, charter district bonds issued and guaranteed under the Charter District Bond Guarantee Program prior to the implementation of the new requirement did not have the benefit of a security interest in real property, although other existing debts of such charter districts that

are not guaranteed under the Charter District Bond Guarantee Program may be secured by real property that could be foreclosed on in the event of a bond default.

The maintenance of a State-granted charter is dependent upon on-going compliance with State law and TEA regulations, and TEA monitors compliance with applicable standards. TEA has a broad range of enforcement and remedial actions that it can take as corrective measures, and such actions may include the loss of the State charter, the appointment of a new board of directors to govern a charter district, the assignment of operations to another charter operator, or, as a last resort, the dissolution of an open-enrollment charter school.

As described above, the Act includes a funding “intercept” function that applies to both the School District Bond Guarantee Program and the Charter District Bond Guarantee Program. However, school districts are viewed as the “educator of last resort” for students residing in the geographical territory of the district, which makes it unlikely that State funding for those school districts would be discontinued, although the TEA can require the dissolution and merger into another school district if necessary to ensure sound education and financial management of a school district. That is not the case with a charter district, however, and open-enrollment charter schools in the State have been dissolved by TEA from time to time. If a charter district that has bonds outstanding that are guaranteed by the Charter District Bond Guarantee Program should be dissolved, debt service on guaranteed bonds of the district would continue to be paid to bondholders in accordance with the Charter District Bond Guarantee Program, but there would be no funding available for reimbursement of the PSF by the Comptroller for such payments. As described under “The Charter District Bond Guarantee Program,” the Act establishes a Charter District Reserve Fund, which could in the future be a significant reimbursement resource for the PSF.

Infectious Disease Outbreak

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

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

The anticipated continued spread of COVID-19, and measures taken to prevent or reduce its spread, have adversely impacted State, national and global economic activities and, accordingly, materially adversely impacted 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, scheduled bond payments for school districts for the 2020 calendar year have generally not been affected by COVID-19. TEA has issued guidance to school districts and charter districts regarding a variety of matters pertaining to school operations in light of the on-going COVID-19 pandemic. Certain aspects of TEA’s guidance include waivers pertaining to State funding provisions, local financial matters and general operations. TEA has implemented “hold harmless” funding for school districts and charter districts for the last 12 weeks of school year 2019–2020 and during the first 12 weeks of the 2020–21 school year. Additional information in this regard is available at the TEA website at <https://tea.texas.gov/texas-schools/health-safety-discipline/covid/coronavirus-covid-19-support-and-guidance>.

Ratings of Bonds Guaranteed Under the Guarantee Program

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

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations

Fiscal Year Ended 8/31	Book Value ⁽¹⁾	Market Value ⁽¹⁾
2015	\$29,081,052,900	\$36,196,265,273
2016	30,128,037,903	37,279,799,335
2017	31,870,581,428	41,438,672,573
2018	33,860,358,647	44,074,197,940
2019 ⁽²⁾	35,288,344,219	46,464,447,981

⁽¹⁾ SLB managed assets are included in the market value and book value of the Fund. In determining the market value of the PSF from time to time during a fiscal year, the TEA uses current, unaudited values for TEA managed investment portfolios and cash held by the SLB. With respect to SLB managed assets shown in the table above, market values of land and mineral interests, internally managed real estate, investments in externally managed real estate funds and cash are based upon information reported to the PSF by the SLB. The SLB reports that information to the PSF on a quarterly basis. The valuation of such assets at any point in time is dependent upon a variety of factors, including economic conditions in the State and nation in general, and the values of these assets, and, in particular, the valuation of mineral holdings administered by the SLB, can be volatile and subject to material changes from period to period.

⁽²⁾ At August 31, 2019, mineral assets, sovereign and other lands and internally managed discretionary real estate, external discretionary real estate investments, domestic equities, and cash managed by the SLB had book values of approximately \$13.4 million, \$216.7 million, \$3,640.2 million, \$7.5 million, and \$4,457.3 million, respectively, and market values of approximately \$3,198.2 million, \$619.7 million, \$3,927.6 million, \$1.3 million, and \$4,457.3 million, respectively. At July 31, 2020, the PSF had a book value of \$36,431,148,233 and a market value of \$47,621,722,583. July 31, 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. Using the IRS Limit of \$117,318,653,038 (the IRS Limit is currently the lower of the two federal and State capacity limits of Program capacity), net of the Program's 5% reserve, as of July 31, 2020, 95.92% of Program capacity was available to the School District Bond Guarantee Program and 4.08% was available to the Charter District Bond Guarantee Program.

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

Fiscal Year Ended 8/31	School District Bonds		Charter District Bonds		Totals	
	No. of Issues	Principal Amount	No. of Issues	Principal Amount	No. of Issues	Principal Amount
2015	3,089	\$63,197,514,047	28	\$757,935,000	3,117	\$63,955,449,047
2016	3,244	67,342,303,445	35	961,025,000	3,279	68,303,328,445
2017	3,253	72,884,480,023	40	1,381,610,000	3,293	74,266,090,023
2018	3,249	77,647,966,069	44	1,432,935,000	3,293	79,080,901,069
2019 ⁽²⁾	3,297	82,537,755,203	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 July 31, 2020 (based on unaudited data, which is subject to adjustment), there were \$90,353,133,727 of bonds guaranteed under the Guarantee Program, representing 3,388 school district issues, aggregating \$87,833,583,727 in principal amount and 61 charter district issues, aggregating \$2,519,550,000 in principal amount. At July 31, 2020, the capacity allocation of the Charter District Bond Guarantee Program was \$4,551,091,422 (based on unaudited data, which is subject to adjustment).

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

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

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

The market value of the Fund's assets is directly impacted by the performance of the various financial markets in which the assets are invested. The most important factors affecting investment performance are the asset allocation decisions made by the SBOE and SLB. The current SBOE long term asset allocation policy allows for diversification of the PSF(SBOE) portfolio into alternative asset classes whose returns are not as positively correlated as traditional asset classes. The implementation of the long term asset allocation will occur over several fiscal years and is expected to provide incremental total return at reduced risk.

As of August 31, 2019, the PSF(SBOE) portion of the Fund had diversified into emerging market and large cap international equities, absolute return funds, real estate, private equity, risk parity, real return Treasury Inflation-Protected Securities, real return commodities, and emerging market debt.

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

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

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

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

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

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

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

2011 and 2019 Constitutional Amendment

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

The amendments approved at the referendum included an increase to the base used to calculate the Distribution Rate by adding to the calculation base certain discretionary real assets and cash in the Fund that is managed by entities other than the SBOE (at present, by the SLB). The value of those assets were already included in the value of the Fund for purposes of the Guarantee Program, but prior to the amendment had not been included in the calculation base for purposes of making transfers from the Fund to the ASF. While the amendment provided for an increase in the base for the calculation of approximately \$2 billion, no new resources were provided for deposit to the Fund. As described under "The Total Return Constitutional Amendment" the SBOE is prevented from approving a Distribution Rate or making a pay out from the Fund if the amount

distributed would exceed 6% of the average of the market value of the Fund, excluding real property in the Fund, but including discretionary real asset investments on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium or if such pay out would exceed the Ten Year Total Return.

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

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

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

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

Other Events and Disclosures

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

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

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

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

PSF Continuing Disclosure Undertaking

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

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

Annual Reports

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

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

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

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

Event Notices

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

Availability of Information

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

Limitations and Amendments

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

The continuing disclosure agreement of the TEA is made only with respect to the PSF and the Guarantee Program. The issuer of guaranteed bonds or an obligated person with respect to guaranteed bonds may make a continuing disclosure undertaking in

accordance with Rule 15c2-12 with respect to its obligations arising under Rule 15c2-12 pertaining to financial and operating data concerning such entity and notices of material events relating to such guaranteed bonds. A description of such undertaking, if any, is included elsewhere in the Official Statement.

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

Compliance with Prior Undertakings

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

SEC Exemptive Relief

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

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

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

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

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

Possible Effects of Changes in Law on District Bonds

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

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

requirements for the levy and collection of ad valorem taxes, the calculation of the defined tax rates, and the administration of the current public school finance system.

Overview

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

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

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

Local Funding for School Districts

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

State Compression Percentage

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

Maximum Compressed Tax Rate

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

Tier One Tax Rate

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

Enrichment Tax Rate

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

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

State Funding for School Districts

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

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

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

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

Tier One

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

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

Tier Two

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

Copper Penny per student in WADA for the 2019-2020 school year requires school districts to compress their levy of Copper Pennies by a factor of 0.64834. As such, school districts that levied an Enrichment Tax Rate of \$0.17 in school year 2018-2019 must reduce their Enrichment Tax Rate to approximately \$0.138 per \$100 taxable value for the 2019-2020 school year.

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

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

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

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

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

Tax Rate and Funding Equity

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

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

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

Local Revenue Level in Excess of Entitlement

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

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

transfer provisions are expected to reduce the cumulative amount of recapture payments paid by school districts by approximately \$3.6 billion during the 2020-2021 State fiscal biennium.

Options for Local Revenue Levels in Excess of Entitlement

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

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

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

For the 2020-2021 school year, the District was not designated as an "excess local revenue" Chapter 49 district by TEA. Accordingly, the District has not been required to exercise one of the wealth equalization options permitted under applicable State law. As a district with local revenue less than the maximum permitted level, the District may benefit in the future by agreeing to accept taxable property or funding assistance from, or agreeing to consolidate with, a property-rich district to enable such district to reduce its wealth per student to the permitted level.

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

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

AD VALOREM TAX PROCEDURES

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

Valuation of Taxable Property

The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the "Appraisal Review Board") responsible for appraising property for all taxing units within the county. The appraisal of property within the District is the responsibility of the Gregg 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 "AD VALOREM TAX PROCEDURES – District and Taxpayer Remedies").

State Mandated Homestead Exemptions

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

Information of the District – Assessed Valuation” for the reduction in taxable valuation attributable to state-mandated homestead exemptions.

Local Option Homestead Exemptions

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

State Mandated Freeze on School District Taxes

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

Personal Property

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

Freeport and Goods-In-Transit Exemptions

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

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

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

Other Exempt Property

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

Temporary Exemption for Qualified Property Damaged by a Disaster

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

Tax Increment Reinvestment Zones

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

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

Tax Limitation Agreements

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

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

District and Taxpayer Remedies

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

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

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

Levy and Collection of Taxes

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

District's Rights in the Event of Tax Delinquencies

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

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

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

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

TAX RATE LIMITATIONS

M&O Tax Rate Limitations

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 December 2, 1967 pursuant to Article 2784e-1, Texas Revised Civil Statutes Annotated.

HB3 established the following maximum M&O tax rate per \$100 of taxable value that may be adopted by independent school districts, such as the District, for the 2019 and subsequent tax years:

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

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

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

I&S Tax Rate Limitations

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

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

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

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

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

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

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

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

THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT

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

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

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

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

The District's taxes are collected by the Gregg County Tax Assessor-Collector.

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

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

The District does grant a portion of the additional local option exemption of up to 20% of the market value of residence homesteads. The District does grant the local over-65 exemption.

The District has taken action to tax "goods-in-transit".

The District has not granted the freeport exemption.

EMPLOYEE BENEFIT PLANS AND OTHER POST-EMPLOYMENT BENEFITS

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

During the year ended August 31, 2019, employees of the District were covered by a fully-insured health insurance plan (the "Health Care Plan"). The District contributed \$250 per month per employee to the Health Care Plan. Employees, at their option, authorize payroll withholdings to pay premiums for dependents. See "Other Information – Note A.15 – Health Care Coverage" in the Financial Statements.

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

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

RATING

The Bonds are rated "AAA" by S&P Global Ratings ("S&P") based upon the guaranteed repayment thereof under the Permanent School Fund Guarantee Program of the Texas Education Agency. The District's current unenhanced, underlying rating, including the Bonds, is "A+" by S&P. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM– Ratings of Bonds Guaranteed Under the Guarantee Program" herein).

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

LEGAL MATTERS

The delivery of the Bonds is subject to approval of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property in the District, and the approving legal opinion of Norton Rose Fulbright US LLP, Dallas, Bond Counsel to the District ("Bond Counsel"), to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under section 103(a) of the Internal Revenue Code, subject to the matters described under "TAX MATTERS" herein. The form of Bond Counsel's opinion is attached hereto as Appendix C. The legal fee to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds.

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

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

TAX MATTERS

Tax Exemption

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

In rendering the foregoing opinions, Bond Counsel will rely upon the representations and certifications of the District made in certificates pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the District with the provisions of the Order subsequent to the issuance of the Bonds. The Order contains covenants by the District with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage "profits" from the investment of the proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the District described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the

opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on tax-exempt obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the District as the "taxpayer," and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the District may have different or conflicting interests from the owners of the Bonds. Public awareness of any audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Except as described above, Bond Counsel expresses no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds.

Tax Changes

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

Ancillary Tax Changes

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions (see "Qualified Tax-Exempt Obligations" herein), life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a financial asset securitization investment trust (a "FASIT"), and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Tax Accounting Treatment of Discount Bonds

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

However, such interest may be required to be taken into account in determining the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions (see "Qualified Tax-Exempt Obligations" herein), life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income.

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

Tax Accounting Treatment of Premium Bonds

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

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

Qualified Tax-Exempt Obligations

Section 265 of the Code provides, in general, that interest expense to acquire or carry tax-exempt obligations is not deductible from the gross income of the owner of such obligations. In addition, section 265 of the Code generally disallows 100% of any deduction for interest expense which is incurred by "financial institutions" described in such section and is allocable, as computed in such section, to tax-exempt interest on obligations acquired after August 7, 1986. Section 265(b) of the Code provides an exemption to this interest disallowance rule for financial institutions stating that such disallowance does not apply to interest expense allocable to certain tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) bonds) which are properly designated by an issuer as "qualified tax-exempt obligations." An issuer may designate obligations as

“qualified tax-exempt obligations” only if the amount of the issue of which they are a part, when added to the amount of certain other tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) obligations other than certain current refunding bonds) issued or reasonably anticipated to be issued by the issuer and certain related entities during the same calendar year, does not exceed \$10,000,000.

The District has designated the Bonds as “qualified tax-exempt obligations” and certified its expectation that the above described \$10,000,000 ceiling will not be exceeded. Accordingly, it is anticipated that financial institutions which purchase the Bonds will not be subject to the 100% disallowance of interest expense allocable to interest on the Bonds under section 265(b) of the Code. However, the deduction for interest expense incurred by a financial institution which is allocable to the interest on the Bonds will be reduced by 20% pursuant to section 291 of the Code.

INVESTMENT POLICIES

Investments

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

Legal Investments

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

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

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

Investment Policies

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

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

Current Investments

As of July 31, 2020, the District has approximately \$8,471,009 (unaudited) invested in LOGIC (a government investment pool that generally has characteristics of a money-market mutual fund) and \$4,549,932 (unaudited) invested at a local bank. The market value of such investments (as determined by the District by reference to published quotations, dealer bids, and comparable information) is approximately 100% of the book value. No funds of the District are invested in derivative securities, i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

FINANCIAL ADVISOR

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

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

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

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

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

The District will provide certain updated financial information and operating data annually to the MSRB. The information to be updated includes financial information and operating data with respect to the District of the general type included in this Official Statement in Appendix A (such information being the "Annual Operating Report"). The District will additionally provide financial statements of the District (the "Financial Statements"), that will be (i) prepared in accordance with the accounting principles described in Appendix D or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation and shall be in substantially the form included in Appendix D and (ii) audited, if the District commissions an audit of such Financial Statements and the audit is completed within the period during which they must be provided. The District will update and provide the Annual Operating Report within six months after the end of each fiscal year and the Financial Statements within 12 months of the end of each fiscal year, in each case beginning with the fiscal year ending in and after 2020. The District may provide the Financial Statements earlier, including at the time it provides its Annual Operating Report, but if the audit of such Financial Statements is not complete within 12 months after any such fiscal year end, then the District shall file unaudited Financial Statements within such 12-month period and audited Financial Statements for the applicable fiscal year, when and if the audit report on such Financial Statements becomes available.

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

The District's current fiscal year end is August 31. Accordingly, the Annual Operating Report must be provided by the last day of February in each year and audited financial statements (or unaudited financial statements if audited financial statements are not yet available) by August 31 in each year unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Notice of Certain Events

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

material; (15) incurrence of a Financial Obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the District, any of which reflect financial difficulties. In addition, the District will provide timely notice of any failure by the District to provide annual financial information in accordance with their agreement described above under "Annual Reports". The District will provide each notice described in this paragraph to the MSRB. Neither the Bonds nor the Order make any provision for debt service reserves, credit enhancement (except for the Permanent School Fund guarantee), or liquidity enhancement.

For these purposes, (a) any event described in clause (12) of in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District, and (6) the District intends the words used in the immediately preceding clauses (15) and (16) and in the definition of Financial Obligation above to have the meaning as ascribed to them in SEC Release No. 34-83885 dated August 20, 2018.

Availability of Information

All information and documentation filing required to be made by the District in accordance with its undertaking made for the Bonds will be filed with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB at www.emma.msrb.org.

Limitations and Amendments

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

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

Compliance with Prior Undertakings

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

VERIFICATION OF MATHEMATICAL COMPUTATIONS

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

LITIGATION

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

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

FORWARD-LOOKING STATEMENTS

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

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

market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the District. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

WINNING BIDDER

After requesting competitive bids for the Bonds, the District accepted the bid of Piper Sandler & Co. (the "Purchaser" or the "Initial Purchaser") to purchase the Bonds at the interest rates shown on page ii of this Official Statement at a price of par, plus a premium of \$161,869.20, less a Purchaser's discount of \$32,151.55, plus accrued interest on the Bonds from their Dated Date to their date of initial delivery. The District can give no assurance that any trading market will be developed for the Bonds after their sale by the District to the Purchaser. The District has no control over the price at which the Bonds are subsequently sold and the initial yield at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Purchaser.

CERTIFICATION OF THE OFFICIAL STATEMENT

At the time of payment for and delivery of the Initial Bonds, the Purchaser will be furnished a certificate, executed by proper officials of the District, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the District contained in its Official Statement, and any addenda, supplement or amendment thereto, for the Bonds, on the date of such Official Statement, on the date of sale of said Bonds and the acceptance of the best bid therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the District and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the District, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the District believes to be reliable and the District has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the District, since August 31, 2019, the date of the last financial statements of the District appearing in the Official Statement.

CONCLUDING STATEMENT

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

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

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

In the Order, the Board delegated to certain District officials the authority to approve the form and content of this Official Statement and any addenda, supplement or amendment thereto, and the Board authorized its further use in the re-offering of the Bonds by the Purchaser.

Martin Cobb

Pricing Officer

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SPRING HILL INDEPENDENT SCHOOL DISTRICT

Schedule I - Schedule of Refunded Bonds

Unlimited Tax School Building and Refunding Bonds, Series 2011

Maturities Being Redeemed	Original CUSIP	Principal Amount Outstanding	Interest Rate	Principal Amount Being Refunded	Call Date	Principal Amount Unrefunded
2/15/2022	849662GQ8	\$ 725,000.00	4.000%	\$ 725,000.00	February 15, 2021 @ Par	-
2/15/2023	849662GR6	760,000.00	4.000%	760,000.00	February 15, 2021 @ Par	-
2/15/2039		1,035,000.00	4.750%	1,035,000.00 ⁽¹⁾	February 15, 2021 @ Par	-
2/15/2040	849662GS4	1,055,000.00	4.750%	1,055,000.00 ⁽¹⁾	February 15, 2021 @ Par	-
		\$ 3,575,000.00		\$ 3,575,000.00		\$ -

⁽¹⁾ Represents a mandatory sinking fund redemption of the term bond outstanding in the principal amount of \$2,090,000 that matures February 15, 2040

Maturities Being Redeemed	Original CUSIP	Reoffering Yield	Principal Refunded	Principal Outstanding	Remaining	Maturity Value Refunded	Maturity Value Remaining	Call Date
2/15/2039	849662GW5	5.900%	\$ 230,000.00	\$ 230,000.00	-	\$ 1,420,000.00	\$ 1,420,000.00	February 15, 2021 @ Accreted Value
2/15/2040	849662GX3	5.910%	220,000.00	220,000.00	-	1,450,000.00	1,450,000.00	February 15, 2021 @ Accreted Value
			\$ 450,000.00	\$ 450,000.00	\$ -	\$ 2,870,000.00	\$ 2,870,000.00	

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APPENDIX A

FINANCIAL INFORMATION OF THE DISTRICT

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SPRING HILL INDEPENDENT SCHOOL DISTRICT

Financial Information

ASSESSED VALUATION ⁽¹⁾

2020/21 Total Valuation.....		\$ 672,022,459
Less Exemptions & Deductions ⁽²⁾ :		
State Homestead Exemption	\$ 49,900,652	
State Over-65 Exemption	6,299,518	
Disabled Exemption	4,156,171	
Local Over-65 Exemption	2,437,105	
Local Optional Homestead Exemption	67,232,785	
Veterans Exemption	446,500	
Surviving Spouse 100% Disabled Veteran	206,450	
Productivity Loss	4,592,559	
Homestead Cap Loss	1,154,937	
	\$ 136,426,677	
 2020/21 Net Taxable Valuation		 \$ 535,595,782

(1) Source: Certified Values from Gregg County Appraisal District as of August 2020. The passage of a Texas Constitutional Amendment on November 3, 2015 increased the homestead exemption from \$15,000 to \$25,000. See "AD VALOREM TAX PROCEDURES -- Residential homestead Exemptions" in the Official Statement.
 (2) Excludes the values on which property taxes are frozen for persons 65 years of age or older and disabled taxpayers, which totaled \$15,534,610 in 2019/20.

VOTED GENERAL OBLIGATION DEBT

Unlimited Tax Bonds Outstanding ⁽¹⁾		\$ 38,011,000
Less: The Refunded Bonds		(4,025,000)
Plus: The Bonds		3,930,000
Total Unlimited Tax Bonds ⁽¹⁾		37,916,000
Less: Interest & Sinking Fund Balance (As of August 31, 2020) ⁽²⁾		(1,780,826)
Net General Obligation Debt		\$ 36,135,174
 Ratio of Net G.O. Debt to Net Taxable Valuation ⁽³⁾		
	6.75%	
 2020 Population Estimate ⁽⁴⁾		
	9,468	
Per Capita Net Taxable Valuation		
	\$56,569	
Per Capita Net G.O. Debt		
	\$3,817	

(1) Excludes interest accreted on outstanding capital appreciation bonds.
 (2) Source: Unaudited figure from Spring Hill ISD.
 (3) The ratio of Net Obligations to Net Taxable Valuation above does not take into account funding assistance for voted bond debt service received from the State of Texas. The District expects to receive state funding assistance for voted bond debt service equal to approximately 20% of its debt service requirements for its unlimited tax debt service for the 2019/20 fiscal year. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement and "DEBT SERVICE REQUIREMENTS" in this appendix and see "Audited Financial Report Fiscal Year Ended August 31, 2019" in Appendix D for more information relative to the District's outstanding obligations.
 (4) Source: Municipal Advisory Council of Texas.

PROPERTY TAX RATES AND COLLECTIONS

Fiscal Year	Net Taxable Valuation		% Collections ⁽⁴⁾	
	Taxable Valuation	Tax Rate	Current ⁽⁵⁾	Total ⁽⁵⁾
2006/07	\$ 328,791,008 ⁽¹⁾	\$ 1.5150 ⁽⁶⁾	98.00%	99.66%
2007/08	357,106,690 ⁽¹⁾	1.1850 ⁽⁶⁾	98.16%	100.69%
2008/09	394,894,092 ⁽¹⁾	1.5400	98.04%	99.80%
2009/10	414,269,404 ⁽¹⁾	1.5400	98.09%	99.47%
2010/11	419,149,616 ⁽¹⁾	1.5400	98.87%	101.14%
2011/12	435,474,067 ⁽¹⁾	1.5400	99.11%	100.28%
2012/13	458,780,295 ⁽¹⁾	1.6700	98.72%	99.54%
2013/14	471,618,030 ⁽¹⁾	1.6700	99.07%	100.38%
2014/15	485,896,384 ⁽¹⁾	1.6700	99.13%	100.09%
2015/16	476,685,156 ^{(1) (2)}	1.6700	98.75%	99.37%
2016/17	477,272,885 ^{(1) (2)}	1.6700	98.94%	100.05%
2017/18	494,641,301 ^{(1) (2)}	1.6700	98.87%	99.57%
2018/19	501,403,903 ^{(1) (2)}	1.6700	98.72%	99.86%
2019/20	514,412,799 ^{(1) (2)}	1.5683	97.50% ⁽⁸⁾	97.50% ⁽⁸⁾
2020/21	535,595,782 ^{(2) (3)}	1.5532 ⁽⁷⁾		

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

TAX RATE DISTRIBUTION ⁽¹⁾

	2016/17	2017/18	2018/19	2019/20 ⁽²⁾	2020/21
Maintenance & Operations	\$1.1700	\$1.1700	\$1.1700	\$1.0683	\$1.0532
Debt Service	\$0.5000	\$0.5000	\$0.5000	\$0.5000	\$0.5000
Total Tax Rate	\$1.6700	\$1.6700	\$1.6700	\$1.5683	\$1.5532

(1) On September 15, 2012, the District successfully held a tax ratification election. The voters of the District approved a maintenance and operations tax not to exceed \$1.17.

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

VALUATION AND FUNDED DEBT HISTORY

Fiscal Year	Net Taxable Valuation	Bond Debt Outstanding ⁽¹⁾	Ratio Debt to A.V. ⁽²⁾
2006/07	\$ 328,791,008	\$ 8,785,183	2.67%
2007/08	357,106,690	37,480,000	10.50%
2008/09	394,894,092	41,075,000	10.40%
2009/10	414,269,404	40,170,000	9.70%
2010/11	419,149,616	41,880,000	9.99%
2011/12	435,474,067	41,130,000	9.44%
2012/13	458,780,295	40,285,000	8.78%
2013/14	471,618,030	39,435,000	8.36%
2014/15	485,896,384	39,575,000	8.14%
2015/16	476,685,156	38,585,000	8.09%
2016/17	477,272,885	40,881,000	8.57%
2017/18	494,641,301	41,131,000	8.32%
2018/19	501,403,903	39,557,000	7.89%
2019/20	514,412,799	38,011,000	7.39%
2020/21	535,595,782 ⁽³⁾	36,312,000 ⁽⁴⁾	6.78%

(1) At fiscal year end. Excludes interest accreted on outstanding capital appreciation bonds.

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

(3) Source: Certified Values from the Gregg County Appraisal District as of August 2020.

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

ESTIMATED OVERLAPPING DEBT STATEMENT

Taxing Body	Amount	Percent Overlapping	Amount Overlapping
Gregg County	\$ -	5.39%	\$ -
City of Longview	101,360,000	8.22%	8,331,792
Total Overlapping Debt ⁽¹⁾			\$ 8,331,792
Spring Hill Independent School District ⁽²⁾			36,135,174
Total Direct & Overlapping Debt			\$ 44,466,966
Ratio of Net Direct & Overlapping Debt to Net Taxable Valuation		8.30%	
Per Capita Direct & Overlapping Debt		\$4,697	

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

(2) Includes the Bonds and excludes the Refunded Bonds. Excludes interest accreted on outstanding capital appreciation bonds.

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

PRINCIPAL TAXPAYERS ⁽¹⁾**2020/21 Top Ten Taxpayers**

<u>Name of Taxpayer</u>	<u>Type of Business</u>	<u>Taxable Value</u>	<u>% of Net Valuation</u>
Wal-Mart Real Estate Business	Real Estate	\$ 6,115,650	1.14%
AEP Southwestern Electric Power Co.	Electric Utility	4,030,350	0.75%
F&H Rental Properties LP	Real Estate	3,754,180	0.70%
Spring Hill State Bank	Bank	2,836,780	0.53%
Dallas Production Inc.	Oil & Gas	2,765,914	0.52%
Panther Place Apartment Homes LLC	Apartments	2,326,430	0.43%
Roseland Sticks & Bricks LLC	Commercial	2,020,160	0.38%
Brookshire Grocery Co. #45	Grocery	1,802,390	0.34%
3354 Gilmer Rd Ltd.	Commercial	1,702,740	0.32%
Breitburn Operating LP	Energy	1,457,856	0.27%
		<u>\$ 28,812,450</u>	<u>5.38%</u>

2019/20 Top Ten Taxpayers

<u>Name of Taxpayer</u>	<u>Type of Business</u>	<u>Taxable Value</u>	<u>% of Net Valuation</u>
Wal-Mart Real Estate Business	Real Estate	\$ 6,123,270	1.19%
AEP Southwestern Electric Power Co.	Electric Utility	3,811,180	0.74%
F&H Rental Properties LP	Real Estate	3,393,430	0.66%
Spring Hill State Bank	Bank	2,778,220	0.54%
Breitburn Operating LP	Energy	2,767,641	0.54%
Dallas Production Inc.	Oil & Gas	2,431,790	0.47%
Roseland Sticks & Bricks LLC	Commercial	2,053,910	0.40%
Brookshire Grocery Co. #45	Grocery	1,967,500	0.38%
Pine Villa Properties LLC	Apartments	1,918,840	0.37%
Panther Place Apartment Homes LLC	Apartments	1,875,400	0.36%
		<u>\$ 29,121,181</u>	<u>5.66%</u>

2018/19 Top Ten Taxpayers

<u>Name of Taxpayer</u>	<u>Type of Business</u>	<u>Taxable Value</u>	<u>% of Net Valuation</u>
Wal-Mart Real Estate Business	Real Estate	\$ 6,385,640	1.27%
AEP Southwestern Electric Power Co.	Electric Utility	4,364,360	0.87%
F&H Rental Properties LP	Real Estate	2,935,790	0.59%
Spring Hill State Bank	Bank	2,828,350	0.56%
Traylor Properties LLC	Real Estate	2,323,336	0.46%
Breitburn Operating LP	Energy	2,311,729	0.46%
Brookshire Grocery Co. #45	Grocery	2,179,520	0.43%
Pine Villa Properties LLC	Apartments	2,141,720	0.43%
Roseland Sticks & Bricks LLC	Commercial	2,090,100	0.42%
Panther Place Apartment Homes LLC	Apartments	1,875,400	0.37%
		<u>\$ 29,435,945</u>	<u>5.87%</u>

(1) Source: Gregg County Appraisal District.

CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY

<u>Category</u>	<u>2020/21</u> ⁽¹⁾	<u>% of</u> <u>Total</u>	<u>2019/20</u> ⁽²⁾	<u>% of</u> <u>Total</u>	<u>2018/19</u> ⁽²⁾	<u>% of</u> <u>Total</u>
Real, Residential, Single-Family	\$ 530,849,845	78.99%	\$ 511,647,123	79.11%	\$ 496,996,759	78.82%
Real, Residential, Multi-Family	30,437,760	4.53%	28,945,680	4.48%	27,444,940	4.35%
Real, Vacant Lots/Tracts	5,106,784	0.76%	3,429,306	0.53%	3,341,843	0.53%
Real, Acreage	5,079,256	0.76%	5,553,551	0.86%	6,142,036	0.97%
Real, Farm & Ranch Improvements	34,368,349	5.11%	26,503,732	4.10%	26,176,006	4.15%
Real, Commercial & Industrial	24,332,950	3.62%	23,927,460	3.70%	23,488,531	3.73%
Oil & Gas	12,602,470	1.88%	15,856,660	2.45%	12,664,111	2.01%
Utilities	8,033,560	1.20%	8,024,020	1.24%	8,753,060	1.39%
Tangible Personal, Commercial & Industrial	14,548,730	2.16%	14,481,269	2.24%	15,190,670	2.41%
Tangible Personal, Mobile Homes & Other	1,516,840	0.23%	1,416,650	0.22%	1,282,210	0.20%
Tangible Personal, Residential Inventory	5,021,045	0.75%	6,976,226	1.08%	9,051,196	1.44%
Tangible Personal, Special Inventory	124,870	0.02%	6,250	0.00%	-	0.00%
Total Appraised Value	\$ 672,022,459	100.00%	\$ 646,767,927	100.00%	\$ 630,531,362	100.00%
Less:						
Homestead Cap Adjustment	\$ 1,154,937		\$ 255,957		\$ 147,462	
Productivity Loss	4,592,559		5,172,354		5,740,865	
Exemptions ⁽³⁾	130,679,181		126,926,817		123,239,132	
Total Exemptions/Deductions ⁽⁴⁾	<u>\$ 136,426,677</u>		<u>\$ 132,355,128</u>		<u>\$ 129,127,459</u>	
Net Taxable Assessed Valuation	\$ 535,595,782		\$ 514,412,799		\$ 501,403,903	

<u>Category</u>	<u>2017/18</u> ⁽²⁾	<u>% of</u> <u>Total</u>	<u>2016/17</u> ⁽²⁾	<u>% of</u> <u>Total</u>	<u>2015/16</u> ⁽²⁾	<u>% of</u> <u>Total</u>
Real, Residential, Single-Family	\$ 495,729,758	79.30%	\$ 486,245,737	80.35%	\$ 476,316,135	79.07%
Real, Residential, Multi-Family	26,943,160	4.31%	27,207,620	4.50%	26,222,850	4.35%
Real, Vacant Lots/Tracts	3,183,763	0.51%	3,238,544	0.54%	3,158,978	0.52%
Real, Acreage	6,662,747	1.07%	6,288,798	1.04%	6,876,995	1.14%
Real, Farm & Ranch Improvements	25,530,976	4.08%	25,121,884	4.15%	24,059,469	3.99%
Real, Commercial & Industrial	22,036,537	3.53%	21,583,037	3.57%	21,845,466	3.63%
Oil & Gas	10,180,891	1.63%	5,238,730	0.87%	12,535,120	2.08%
Utilities	8,724,890	1.40%	8,203,360	1.36%	8,533,160	1.42%
Tangible Personal, Commercial & Industrial	15,249,313	2.44%	15,349,143	2.54%	14,773,177	2.45%
Tangible Personal, Mobile Homes & Other	1,386,250	0.22%	1,457,890	0.24%	1,324,130	0.22%
Tangible Personal, Residential Inventory	9,485,626	1.52%	5,200,406	0.86%	6,690,786	1.11%
Tangible Personal, Special Inventory	17,490	0.00%	28,350	0.00%	28,070	0.00%
Total Appraised Value	\$ 625,131,401	100.00%	\$ 605,163,499	100.00%	\$ 602,364,336	100.00%
Less:						
Homestead Cap Adjustment	\$ 572,561		\$ 513,228		\$ 366,149	
Productivity Loss	6,268,221		5,979,545		6,562,383	
Exemptions ⁽³⁾	123,649,318		121,397,841		118,750,648	
Total Exemptions/Deductions ⁽⁴⁾	<u>\$ 130,490,100</u>		<u>\$ 127,890,614</u>		<u>\$ 125,679,180</u>	
Net Taxable Assessed Valuation	\$ 494,641,301		\$ 477,272,885		\$ 476,685,156	

(1) Source: Certified Values from Gregg County Appraisal District as of August 2020.

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

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

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

PRINCIPAL REPAYMENT SCHEDULE

Fiscal Year Ending 8/31	Outstanding Bonds ⁽¹⁾	Less: Refunded Bonds	Plus: The Bonds	Total ⁽¹⁾	Bonds Unpaid At Year End	Percent of Principal Retired
2021	\$ 1,524,000.00	\$ -	\$ 80,000.00	\$ 1,604,000.00	\$ 36,312,000.00	4.23%
2022	1,644,000.00	725,000.00	785,000.00	1,704,000.00	34,608,000.00	8.72%
2023	1,704,000.00	760,000.00	680,000.00	1,624,000.00	32,984,000.00	13.01%
2024	1,635,000.00	-	45,000.00	1,680,000.00	31,304,000.00	17.44%
2025	1,695,000.00	-	50,000.00	1,745,000.00	29,559,000.00	22.04%
2026	1,755,000.00	-	50,000.00	1,805,000.00	27,754,000.00	26.80%
2027	1,821,000.00	-	55,000.00	1,876,000.00	25,878,000.00	31.75%
2028	1,886,000.00	-	55,000.00	1,941,000.00	23,937,000.00	36.87%
2029	1,946,000.00	-	55,000.00	2,001,000.00	21,936,000.00	42.15%
2030	2,011,000.00	-	55,000.00	2,066,000.00	19,870,000.00	47.59%
2031	2,075,000.00	-	60,000.00	2,135,000.00	17,735,000.00	53.23%
2032	2,140,000.00	-	60,000.00	2,200,000.00	15,535,000.00	59.03%
2033	2,210,000.00	-	60,000.00	2,270,000.00	13,265,000.00	65.01%
2034	2,140,000.00	-	60,000.00	2,200,000.00	11,065,000.00	70.82%
2035	2,210,000.00	-	65,000.00	2,275,000.00	8,790,000.00	76.82%
2036	2,285,000.00	-	60,000.00	2,345,000.00	6,445,000.00	83.00%
2037	2,355,000.00	-	65,000.00	2,420,000.00	4,025,000.00	89.38%
2038	2,435,000.00	-	65,000.00	2,500,000.00	1,525,000.00	95.98%
2039	1,265,000.00	1,265,000.00	755,000.00	755,000.00	770,000.00	97.97%
2040	<u>1,275,000.00</u>	<u>1,275,000.00</u>	<u>770,000.00</u>	<u>770,000.00</u>	-	100.00%
Total	<u>\$ 38,011,000.00</u>	<u>\$ 4,025,000.00</u>	<u>\$ 3,930,000.00</u>	<u>\$ 37,916,000.00</u>		

(1) Excludes the accreted value of outstanding capital appreciation bonds.

DEBT SERVICE REQUIREMENTS ⁽¹⁾

Fiscal Year Ending 8/31	Outstanding Debt Service	Less:	Plus:			Combined Total ^{(2) (3)}
		Refunded Debt Service	The Bonds ⁽²⁾			
			Principal	Interest	Total	
2021	\$ 2,852,725.00	\$ 158,675.00	\$ 80,000.00	\$ 73,794.74	\$ 153,794.74	\$ 2,847,844.74
2022	2,849,450.00	869,175.00	785,000.00	80,888.76	865,888.76	2,846,163.76
2023	2,849,925.00	874,475.00	680,000.00	58,913.76	738,913.76	2,714,363.76
2024	2,720,962.50	99,275.00	45,000.00	48,038.76	93,038.76	2,714,726.26
2025	2,719,850.00	99,275.00	50,000.00	46,613.76	96,613.76	2,717,188.76
2026	2,716,362.50	99,275.00	50,000.00	45,113.76	95,113.76	2,712,201.26
2027	2,716,900.00	99,275.00	55,000.00	43,538.76	98,538.76	2,716,163.76
2028	2,719,037.50	99,275.00	55,000.00	41,888.76	96,888.76	2,716,651.26
2029	2,718,537.50	99,275.00	55,000.00	40,238.76	95,238.76	2,714,501.26
2030	2,721,150.00	99,275.00	55,000.00	38,588.76	93,588.76	2,715,463.76
2031	2,718,975.00	99,275.00	60,000.00	37,373.76	97,373.76	2,717,073.76
2032	2,717,150.00	99,275.00	60,000.00	36,593.76	96,593.76	2,714,468.76
2033	2,718,750.00	99,275.00	60,000.00	35,813.76	95,813.76	2,715,288.76
2034	2,577,650.00	99,275.00	60,000.00	35,033.76	95,033.76	2,573,408.76
2035	2,576,350.00	99,275.00	65,000.00	34,115.63	99,115.63	2,576,190.63
2036	2,580,443.75	99,275.00	60,000.00	33,100.00	93,100.00	2,574,268.75
2037	2,580,025.00	99,275.00	65,000.00	32,084.38	97,084.38	2,577,834.38
2038	2,579,281.25	99,275.00	65,000.00	31,028.13	96,028.13	2,576,034.38
2039	2,529,693.75	2,529,693.75	755,000.00	22,950.00	777,950.00	777,950.00
2040	2,530,056.25	2,530,056.25	770,000.00	7,700.00	777,700.00	777,700.00
	<u>\$ 53,693,275.00</u>	<u>\$ 8,451,200.00</u>	<u>\$ 3,930,000.00</u>	<u>\$ 823,411.76</u>	<u>\$ 4,753,411.76</u>	<u>\$ 49,995,486.76</u>

(1) Includes the accreted value of outstanding capital appreciation bonds.

(2) Includes accrued interest in the amount of \$4,489.12.

(3) Based on its wealth per student, the District expects to receive approximately \$580,000 of state financial assistance for the payment of debt service for the fiscal year 2020/21. The amount of state financial assistance for debt service, if any, may differ substantially each year depending on a variety of factors, including the amount, if any, appropriated for that purpose by the state legislature and a school district's wealth per student.

TAX ADEQUACY WITH RESPECT TO THE DISTRICT'S BONDS

Projected Maximum Debt Service Requirement ⁽¹⁾	\$ 2,847,844.74
Projected State Financial Assistance for Debt Service in 2020/21 ⁽²⁾	<u>580,000.00</u>
Projected Net Debt Service Requirement	\$ 2,267,844.74
 \$0.43207 Tax Rate @ 98% Collections Produces	 \$ 2,267,844.74
 2020/21 Net Taxable Valuation	 \$ 535,595,782

(1) Includes the Bonds and excludes the Refunded Bonds. Excludes the accreted value of outstanding capital appreciation bonds.

(2) The amount of State aid for debt service may substantially differ from year to year, depending on a number of factors, including amounts, if any, appropriated for that purpose by the Texas Legislature. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement.

AUTHORIZED BUT UNISSUED BONDS

The District currently does not have any authorized but unissued unlimited ad valorem tax bonds from any bond election. The District may issue a portion of the remaining authorized but unissued bonds within the next twelve months. The District may incur other financial obligations payable from its collection of taxes and other sources of revenue, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes.

COMPARATIVE STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES ⁽¹⁾

	Fiscal Year Ended August 31				
	2015	2016	2017	2018	2019
Beginning Fund Balance	\$ 5,416,870	\$ 6,264,489	\$ 6,364,619	\$ 7,282,915	\$ 7,628,412
Revenues:					
Local and Intermediate Sources	\$ 5,502,096	\$ 5,397,381	\$ 5,536,903	\$ 5,768,600	\$ 5,820,386
State Program Revenues	8,846,843	9,574,605	9,591,685	10,297,985	10,997,825
Federal Sources & Other	76,607	162,714	335,783	443,064	607,610
Total Revenues	\$ 14,425,546	\$ 15,134,700	\$ 15,464,371	\$ 16,509,649	\$ 17,425,821
Expenditures:					
Instruction	\$ 7,940,750	\$ 7,909,873	\$ 8,414,923	\$ 8,781,480	\$ 8,916,206
Instructional Resources & Media Services	319,118	247,683	280,432	276,860	302,917
Curriculum & Instructional Staff Development	236,173	272,418	308,174	286,186	298,055
School Leadership	949,370	1,023,846	1,012,167	1,009,435	1,012,569
Guidance, Counseling & Evaluation Services	261,738	276,032	283,261	298,219	319,925
Health Services	118,256	128,989	129,745	130,650	145,541
Student (Pupil) Transportation	263,753	567,048	327,482	408,599	419,845
Food Services	802	1,412	944	8,826	9,259
Cocurricular/Extracurricular Activities	877,656	837,666	958,923	933,148	1,079,405
General Administration	584,619	644,244	694,141	734,853	747,751
Plant Maintenance and Operations	1,518,741	1,487,768	1,503,091	1,883,432	2,090,925
Security and Monitoring Services	61,842	63,164	68,906	102,284	292,634
Data Processing Services	131,522	151,949	214,575	270,037	279,621
Community Services	1,040	6,107	5,378	24,394	23,152
Facilities Acquisition and Construction	-	-	-	560,069	-
Payments to Shared Service Agreements	204,172	196,483	233,643	342,491	246,542
Other Intergovernmental Charges	108,375	109,538	110,290	113,189	112,671
Total Expenditures	\$ 13,577,927	\$ 13,924,220	\$ 14,546,075	\$ 16,164,152	\$ 16,297,018
Excess (Deficiency) of Revenues over Expenditures	\$ 847,619	\$ 1,210,480	\$ 918,296	\$ 345,497	\$ 1,128,803
Other Resources and (Uses):					
Sale of Real and Personal Property	\$ -	\$ 6,400	\$ -	\$ -	\$ -
Operating Transfers In	125,000	163,000	163,000	150,000	-
Operating Transfers Out	(125,000)	(1,279,750)	(163,000)	(150,000)	(42,113)
Total Other Resources (Uses)	\$ -	\$ (1,110,350)	\$ -	\$ -	\$ (42,113)
Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	\$ 847,619	\$ 100,130	\$ 918,296	\$ 345,497	\$ 1,086,690
Ending Fund Balance ⁽²⁾	\$ 6,264,489	\$ 6,364,619	\$ 7,282,915	\$ 7,628,412	\$ 8,715,102

(1) See "MANAGEMENT'S DISCUSSION AND ANALYSIS - Economic Factors and Next Year's Budgets and Rates" in Appendix D hereto for a discussion of the 2019/20 budget and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Possible Effects of Wealth Transfer Provisions on the District's Financial Condition" in the Official Statement.

(2) Estimated General Fund Balance for the period ending August 31, 2020 totaled \$8,102,620.

CHANGE IN NET ASSETS ⁽¹⁾

	Fiscal Year Ended August 31				
	2015	2016	2017	2018	2019
Revenues:					
Program Revenues:					
Charges for Services	\$ 642,017	\$ 585,905	\$ 573,124	\$ 554,107	\$ 331,490
Operating Grants and Contributions	1,600,776	1,660,250	1,734,305	(1,076,590)	2,634,479
General Revenues:					
Property Taxes Levied for General Purposes	5,284,718	5,202,683	5,216,869	5,440,327	5,426,312
Property Taxes Levied for Debt Service	2,263,249	2,224,925	2,231,012	2,324,749	2,343,199
Grants and Contributions Not Restricted	8,777,929	10,125,259	9,929,939	10,590,981	11,781,549
Investment Earnings	21,456	46,412	101,124	182,226	302,132
Gain on Sale of Capital Assets	-	6,400	476,836	-	-
Loss on Deletion of Capital Assets	-	-	-	(51,163)	(5,350)
Miscellaneous	134,941	142,311	140,972	113,265	628,076
Total Revenue	\$18,725,086	\$19,994,145	\$20,404,181	\$18,077,902	\$23,441,887
Expenses:					
Instruction	\$ 9,180,114	\$ 9,554,005	\$10,060,927	\$ 7,321,284	\$11,299,517
Instruction Resources & Media Services	345,250	280,020	315,756	209,660	351,631
Curriculum & Staff Development	255,751	306,364	346,966	231,702	347,356
School Leadership	1,175,962	1,248,547	1,237,020	820,931	1,261,037
Guidance, Counseling & Evaluation Services	283,182	310,919	318,916	214,416	373,721
Health Services	127,951	145,950	146,482	97,125	169,732
Student Transportation	324,698	426,442	429,651	304,812	516,256
Food Service	698,477	826,774	848,845	703,614	905,777
Cocurricular/Extracurricular Activities	986,441	977,902	1,085,983	830,329	1,289,997
General Administration	632,803	718,226	776,050	631,386	854,671
Plant Maintenance & Operations	2,011,646	1,777,292	1,678,186	2,037,890	2,028,326
Security and Monitoring Services	66,974	68,515	75,527	77,713	129,951
Data Processing Services	142,350	170,334	241,239	221,321	322,304
Community Services	1,464	6,761	5,891	26,592	25,261
Interest on Long-term Debt	1,808,437	1,440,846	1,520,267	1,372,013	1,366,832
Bond Issuance Costs and Fees	207,025	361,800	156,399	60,606	69,199
Payments to Fiscal Agent/Member Districts of SSA	204,172	196,483	233,643	342,491	246,542
Other Intergovernmental Charges	108,375	109,538	110,290	113,189	112,671
Total Expenditures	\$18,561,072	\$18,926,718	\$19,588,038	\$15,617,074	\$21,670,781
Change in Net Assets	\$ 164,014	\$ 1,067,427	\$ 816,143	\$ 2,460,828	\$ 1,771,106
Beginning Net Assets	\$ 9,556,224	\$ 8,895,329	\$ 9,962,756	\$10,778,899	\$ 4,814,822
Prior Period Adjustment	\$ (824,909) ⁽²⁾	\$ -	\$ -	\$ (8,424,905) ⁽³⁾	\$ -
Ending Net Assets	\$ 8,895,329	\$ 9,962,756	\$10,778,899	\$ 4,814,822	\$ 6,585,928

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

(2) The 2015 Prior Period Adjustment was from the adoption of GASB Statement Number 68 (Accounting and Reporting for Pensions).

(3) The 2018 Prior Period Adjustment was the result of implementation of GASB Statement 75 (Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions).

APPENDIX B

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

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**SPRING HILL INDEPENDENT SCHOOL DISTRICT
General and Economic Information**

Spring Hill Independent School District (the "District") is located inside the City of Longview. The City of Longview is the county seat of Gregg County (the "County"), located 210 miles north of Houston and 125 miles east of Dallas on IH-20. The District's current estimated population is 9,500.

The County is a northeast Texas county traversed by Interstate Highway 20, U.S. Highways 80 and 259 and State Highways 31, 42, 135, 300 and 322. Its economy is based on oil production and manufacturing. The county seat is Longview.

Source: Texas Municipal Report for Spring Hill ISD and Gregg County.

Enrollment Statistics

<u>Year Ending 8/31</u>	<u>Enrollment</u>
2008	1,825
2009	1,855
2010	1,799
2011	1,849
2012	1,891
2013	1,870
2014	1,808
2015	1,877
2016	1,904
2017	1,964
2018	2,016
2019	2,002
2020	2,050
Current	2,005

District Staff

Teachers	147
Auxiliary Personnel	41
Teachers' Aides & Secretaries	58
Administrators	18
Other	<u>13</u>
	277

Facilities

<u>Campus</u>	<u>Grades</u>	<u>Present Enrollment</u>	<u>Capacity</u>	<u>Year Built</u>	<u>Year of Addition/ Renovation</u>
Spring Hill Primary	K-2	457	605	2001	Addition 2011
Spring Hill Intermediate	3-5	463	495	1932 & 1973	1992, 2001 & Renovation 2012
Spring Hill Junior High	6-8	514	590	1981	2001 & Renovation 2012
Spring Hill High School	9-12	571	800	2011	NA

Principal Employers within the City of Longview

<u>Name of Company</u>	<u>Type of Business</u>	<u>Number of Employees</u>
Christus Good Shepherd Medical Center	Medical Services	2,530
Eastman Chemical	Chemicals	1,518
Longview Independent School District	Education	1,263
Longview Regional Medical Center	Medical Center	1,150
Trinity Rail, LLC	Railway Cars	960
Wal-Mart	Retail Store	930
City of Longview	City Government & Services	858
Dollar General	Distribution	698
Pine Tree Independent School District	Education	694
Komatsu	Heavy Equipment	600
Gregg County	Government	538

Source: Longview Economic Development Corporation website as of August 2020

Unemployment Rates

	<u>July 2018</u>	<u>July 2019</u>	<u>July 2020</u>
Gregg County	4.2%	4.1%	8.9%
State of Texas	4.1%	3.8%	8.2%

Source: Texas Workforce Commission

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APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

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

[Delivery Date]

Tel +1 214 855 8000
Fax +1 214 855 8200
nortonrosefulbright.com

IN REGARD to the authorization and issuance of the "Spring Hill Independent School District Unlimited Tax Refunding Bonds, Series 2020", dated November 1, 2020 in the aggregate principal amount of \$3,930,000 (the "Bonds"), we have examined into their issuance by the Spring Hill Independent School District (the "District") solely to express legal opinions as to the validity of the Bonds, the defeasance and discharge of the District's outstanding obligations being refunded by the Bonds and the exclusion of the interest on the Bonds from gross income for federal income tax purposes, and for no other purpose. We have not been requested to investigate or verify, and we neither expressly nor by implication render herein any opinion concerning, the financial condition or capabilities of the District, the disclosure of any financial or statistical information or data pertaining to the District and used in the sale of the Bonds, or the sufficiency of the security for or the value or marketability of the Bonds.

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

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

Norton Rose Fulbright US LLP is a limited liability partnership registered under the laws of Texas.

Norton Rose Fulbright US LLP, Norton Rose Fulbright LLP, Norton Rose Fulbright Australia, Norton Rose Fulbright Canada LLP and Norton Rose Fulbright South Africa Inc are separate legal entities and all of them are members of Norton Rose Fulbright Verein, a Swiss verein. Norton Rose Fulbright Verein helps coordinate the activities of the members but does not itself provide legal services to clients. Details of each entity, with certain regulatory information, are available at nortonrosefulbright.com.

Page 2 of Legal Opinion of Norton Rose Fulbright US LLP
Re: "Spring Hill Independent School District Unlimited Tax Refunding Bonds,
Series 2020", dated November 1, 2020

BASED ON OUR EXAMINATION, we are of the opinion that, under applicable laws of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Bonds have been duly authorized by the District and, when issued in compliance with the provisions of the Bond Order, are valid, legally binding, and enforceable obligations of the District, payable from the proceeds of an ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity.

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

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

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

Page 3 of Legal Opinion of Norton Rose Fulbright US LLP
Re: "Spring Hill Independent School District Unlimited Tax Refunding Bonds,
Series 2020", dated November 1, 2020

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

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APPENDIX D

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

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SPRING HILL INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED
AUGUST 31, 2019

SPRING HILL INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2019

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CERTIFICATE OF BOARD

Spring Hill Independent School District
Name of School District


Gregg
County

092-907
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) approved disapproved for the year ended August 31, 2019 at a meeting of the Board of Trustees of such school district on the 9th of December, 2019.



Signature of Board Secretary



Signature of Board President

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



**UNMODIFIED OPINION ON BASIC FINANCIAL STATEMENTS
ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND OTHER
SUPPLEMENTARY INFORMATION INCLUDING THE
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Independent Auditors' Report

Board of Trustees
Spring Hill Independent School District
3101 Spring Hill Road
Longview, TX 75605

Members of the Board:

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Spring Hill Independent School District as of August 31, 2019, and the respective changes in financial position thereof 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 on pages 5-13, budgetary comparison information on page 54, schedule of the District's proportionate share of the net pension liability (TRS) on pages 55-56, schedule of District contributions to TRS Pension plan on pages 57-58, schedule of the District's proportionate share of the OPEB liability (TRS) on page 59, and schedule of District contributions to TRS OPEB plan on page 60 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 Spring Hill Independent School District's basic financial statements. The combining financial statements 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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining financial statements and 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 financial statements and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Texas Education Agency requires school districts 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. 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2019, on our consideration of the Spring Hill 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 the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Spring Hill Independent School District's internal control over financial reporting and compliance.



WILF & HENDERSON, P.C.
Certified Public Accountants
Texarkana, Texas

November 21, 2019

SPRING HILL INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the management of Spring Hill Independent School District, (the "District") discuss and analyze the District's financial performance for the fiscal year ended August 31, 2019. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the District's governmental activities exceeded its liabilities at the close of the most recent period by 6,585,928 (net position). Of this amount, (\$1,226,954) deficit unrestricted net position may be used to meet the District's ongoing obligations.
- At the end of the current fiscal year, the District's General Fund reported a fund balance this year of \$8,715,102. The fund balance increased by \$1,086,690 during the current fiscal year.

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

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

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

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

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

In the Statement of Net Position and the Statement of Activities, we presented the following kind of activity:

* Governmental activities—Most of the District's basic services are reported here, including the instruction, counseling, co-curricular activities, transportation, maintenance, community services, and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these 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 *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 funds can be divided into these two categories:

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

* Fiduciary Funds – This fund accounts for resources held for the benefit of parties outside the government. The District acts as a trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in 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.

During fiscal year 2018, the District adopted GASB Statement No. 75 for *Accounting and Financial Reporting for Postemployment Benefits other than Pensions (OPEB)*. With GASB 75, the District must assume their proportionate share of the Net OPEB Liability of the Teachers Retirement System of Texas. Adoption of GASB 75 required a prior period adjustment to report the effect of GASB 75 retroactively. The amount of the prior period adjustment was (\$8,424,905).

As of August 31, 2019, the District's assets exceeded liabilities by \$6,585,928, of which \$4,708,423 of the total net position represents the net investment in capital assets less any related debt used to acquire those assets that are still outstanding. \$3,104,459 of the total net position represents resources that are subject to restrictions on how they may be used and the remaining balance of total net position of (\$1,226,954) deficit represents the unrestricted net position, which is the part of the net position that can be used to finance day-to-day operations without constraints established by debt, or other legal requirements. Net position of the District's governmental activities increased from \$4,814,822 to \$6,585,928. The decrease in net position for the year 2018 was primarily the result of the prior period adjustment decrease of (\$8,424,905).

Table I
Spring Hill Independent School District
NET POSITION

	Governmental Activities 2019	Governmental Activities 2018	Total \$ Change	Total % Change
Current and other assets	\$ 11,927,240	\$ 12,061,955	\$ (134,715)	-1.12%
Capital assets	45,692,225	44,368,969	1,323,256	2.98%
Total assets	<u>57,619,465</u>	<u>56,430,924</u>	<u>1,188,541</u>	<u>2.11%</u>
Deferred outflows of resources	5,356,293	3,358,649	1,997,644	59.48%
Other liabilities	1,347,032	1,059,985	287,047	27.08%
Long-term liabilities outstanding	42,776,620	44,400,512	(1,623,892)	-3.66%
TRs net pension liability	4,097,644	2,288,543	1,809,101	79.05%
TRs net OPEB liability	5,970,659	4,804,639	1,166,020	24.27%
Total liabilities	<u>54,191,955</u>	<u>52,553,679</u>	<u>1,638,276</u>	<u>3.12%</u>
Deferred inflows of resources	2,197,875	2,421,072	(223,197)	-9.22%
Net investment in capital assets	4,708,423	1,969,161	2,739,262	139.11%
Restricted	3,104,459	1,143,819	1,960,640	171.41%
Unrestricted	(1,226,954)	1,701,842	(2,928,796)	-172.10%
Total net position	<u>\$ 6,585,928</u>	<u>\$ 4,814,822</u>	<u>\$ 1,771,106</u>	<u>36.78%</u>

Table II
Spring Hill Independent School District
CHANGES IN NET POSITION

	Governmental Activities 2019	Governmental Activities 2018	Total Change	Total % Change
Revenues:				
Program Revenues:				
Charges for services	\$ 331,490	\$ 554,107	\$ (222,617)	-40.18%
Operating grants and contributions	2,634,479	(1,076,590)	3,711,069	344.71%
General Revenues:				
Property taxes levied for General Purposes	5,426,312	5,440,327	(14,015)	-0.26%
Property taxes levied for Debt Service	2,343,199	2,324,749	18,450	0.79%
Grants & contributions not restricted	11,781,549	10,590,981	1,190,568	11.24%
Investments earnings	302,132	182,226	119,906	65.80%
Other general revenues	628,076	113,265	514,811	454.52%
Special Item - (Loss) on Deletion of Capital Assets	(5,350)	(51,163)	45,813	89.54%
Total Revenues	23,441,887	18,077,902	5,363,985	29.67%
Expenses:				
Instruction	11,299,517	7,321,284	3,978,233	54.34%
Instructional Resources and Media Services	351,631	209,660	141,971	67.71%
Curriculum and Staff Development	347,356	231,702	115,654	49.91%
Instructional and School Leadership	1,261,037	820,931	440,106	53.61%
Guidance, Counseling and Evaluation Services	373,721	214,416	159,305	74.30%
Health Services	169,732	97,125	72,607	74.76%
Student (Pupil) Transportation	516,256	304,812	211,444	69.37%
Food Services	905,777	703,614	202,163	28.73%
Cocurricular/Extracurricular Activities	1,289,997	830,329	459,668	55.36%
General Administration	854,671	631,386	223,285	35.36%
Facilities Maintenance and Operations	2,028,326	2,037,890	(9,564)	-0.47%
Security and Monitoring Services	129,951	77,713	52,238	67.22%
Data Processing Services	322,304	221,321	100,983	45.63%
Community Services	25,261	26,592	(1,331)	-5.01%
Debt Service	1,436,031	1,432,619	3,412	0.24%
Payments to Fiscal Agents/Member Districts of SSA	246,542	342,491	(95,949)	-28.02%
Other Intergovernmental Charges	112,671	113,189	(518)	-0.46%
Total Expenses	21,670,781	15,617,074	6,053,707	38.76%
Increase (Decrease) in Net Position	1,771,106	2,460,828	(689,722)	-28.03%
Net Position Beginning of Year	4,814,822	10,778,899	(5,964,077)	-55.33%
Prior Period Adjustment	-	(8,424,905)	8,424,905	100.00%
Net Position End of Year	\$ 6,585,928	\$ 4,814,822	\$ 1,771,106	36.78%

The District increased net position by \$1,771,106 for the 2018-2019 school year. The total cost of all governmental activities was \$21,670,781. The amount of these activities that our taxpayers paid for through property taxes was \$7,769,511 or 35.85%. This increase in net position can further be evaluated based on the Total \$ Change Column and Total % Change Column as listed above. Total revenues increased by \$5,363,985 or 29.67% while total expenses increased by \$6,053,707 or 38.76%. The prior fiscal year 2018 NECE negative on-behalf revenues and negative on-behalf expenses of (\$2,631,114) impacted the reporting of operating grants and contributions and related expenses.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, bond covenants, and segregation for particular purposes.

Governmental Funds

The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of the District's net resources available for spending at the end of a fiscal year.

As of the end of the current fiscal year, the District's total governmental funds reported combined ending fund balances of \$10,464,884, a decrease during the current year of (\$432,223). Unassigned fund balance totaled \$2,465,967. The remainder of fund balance is either nonspendable, restricted, committed or assigned. The fund balance is nonspendable for inventory of \$52,345 and prepaid items for \$109,906. The fund balance is restricted for a) federal or state fund grants of \$168,582 restricted for food services b) debt service of \$1,453,218 and c) capital projects of \$1,450,000. The fund balance is committed for a) construction \$1,000,000 b) capital expenditure for equipment \$150,000 c) self-insurance of \$43,379 d) campus activity funds \$75,637 e) budget stabilization purposes of \$3,306,359 and f) other assigned fund balance of \$189,491.

The General Fund has a total fund balance of \$8,715,102. The fund balance of the District's General Fund increased by \$1,086,690 based on total revenues of \$17,425,821, total expenditures of (\$16,297,018) and transfer out of (\$42,113). Spring Hill Independent School District board of trustees and administration follows a strict policy of fiscal conservativeness. The goal of this conservative policy is to maintain fund balance of at least sixty days for budget stabilization. This increase in fund balance is approximately 6% of current year general fund revenues.

The Debt Service Fund has a total fund balance of \$1,453,218 all of which is restricted for the payment of debt service. The net increase in fund balance during the period in the debt service fund was \$444,682.

The Capital Projects Fund has a total fund balance of \$0. The net decrease in fund balance during the period in the Capital Projects Fund was (\$2,030,623). The beginning fund balance was utilized for construction.

Other funds composed of the Special Revenue Funds have a total fund balance of \$296,564. The fund balance is restricted for food services of \$168,582, campus activity funds of \$75,637 and inventories of \$52,345. The net increase in fund balance during the current period in other funds was \$67,028.

THE DISTRICT'S FUNDS

Our analysis focuses on the net changes in fund balances (Table III) of the District's governmental funds.

As the District completed the year, its governmental funds reported a combined fund balance of \$10,464,884, which is lower than last year's total of \$10,897,107. The governmental funds reported a net decrease in fund balance of (\$432,223). This decrease in fund balance can be further evaluated based on the Total \$ Change Column and the Total % Change Column. Total revenues increased by \$1,843,491 or 8.8% while expenditures increased by \$2,331,036 or 11.1%. Total other financing sources (uses) decreased by (\$1,469,620) or -95.5%.

The Capital Projects Fund expended \$2,458,067 of facilities acquisition and construction.

Table III
Spring Hill Independent School District
NET CHANGES IN FUND BALANCES

	Governmental Funds 2019	Governmental Funds 2018	Total \$ Change	Total % Change
Revenues:				
Local and Intermediate Sources	\$ 9,013,634	\$ 8,592,498	\$ 421,136	4.9%
State Program Revenues	12,243,579	11,099,750	1,143,829	10.3%
Federal Program Revenues	1,640,947	1,362,421	278,526	20.4%
Total Revenues	<u>22,898,160</u>	<u>21,054,669</u>	<u>1,843,491</u>	<u>8.8%</u>
Expenditures:				
Instruction	9,733,992	9,386,062	347,930	3.7%
Instructional resources & media services	302,917	276,860	26,057	9.4%
Curriculum and instructional staff development	298,055	286,186	11,869	4.1%
School leadership	1,080,290	1,081,063	(773)	-0.1%
Guidance, Counseling and Evaluation services	319,925	298,219	21,706	7.3%
Health services	145,541	130,650	14,891	11.4%
Student (Pupil) Transportation	419,845	408,599	11,246	2.8%
Food services	791,505	796,219	(4,714)	-0.6%
Extracurricular activities	1,127,972	983,792	144,180	14.7%
General administration	747,751	734,853	12,898	1.8%
Facilities maintenance & operations	2,104,980	2,234,972	(129,992)	-5.8%
Security & monitoring services	292,634	102,284	190,350	186.1%
Data processing services	279,621	270,037	9,584	3.5%
Community services	23,152	24,394	(1,242)	-5.1%
Debt services	2,914,296	2,844,301	69,995	2.5%
Facilities acquisition and construction	2,458,067	754,549	1,703,518	225.8%
Payments to fiscal agent/member of SSA	246,542	342,491	(95,949)	-28.0%
Other Intergovernmental Charges	112,671	113,189	(518)	-0.5%
Total Expenditures	<u>23,399,756</u>	<u>21,068,720</u>	<u>2,331,036</u>	<u>11.1%</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>(501,596)</u>	<u>(14,051)</u>	<u>(487,545)</u>	<u>-3469.8%</u>
Capital Related Debt Issued (Regular Bonds)				
Capital Related Debt Issued (Regular Bonds)	2,860,000	1,465,000	1,395,000	95.2%
Transfers In	42,113	150,000	(107,887)	-71.9%
Premium or Discount on Issuance of Bonds	187,498	73,993	113,505	153.4%
Transfers (Out)	(42,113)	(150,000)	107,887	71.9%
Refunding of Capital Related Debt	(2,978,125)	-	(2,978,125)	-100.0%
Total Other Financing Sources (Uses)	<u>69,373</u>	<u>1,538,993</u>	<u>(1,469,620)</u>	<u>-95.5%</u>
Net Change in Fund Balances	(432,223)	1,524,942	(1,957,165)	-128.3%
Fund Balance - Beginning of Year	10,897,107	9,372,165	1,524,942	16.3%
Fund Balance - End of Year	\$ 10,464,884	\$ 10,897,107	\$ (432,223)	-4.0%

BUDGETARY HIGHLIGHTS

Over the course of the year, the District recommended and the Board approved certain revisions to budgeted appropriations as necessary. Significant budget amendments were as follows:

General Fund:

(Decrease) in revenues local and intermediate sources	(2,174)
Increase in revenues state program revenues	36,974
Decrease in expenditures Function 11 - Instruction	183,002
(Increase) in expenditures Function 12 - Instructional Resources and Media Services	(19,999)
(Increase) in expenditures Function 23 - School Leadership	(10,000)
(Increase) in expenditures Function 31 - Guidance, Counseling and Evaluation	(20,000)
(Increase) in expenditures Function 33 - Health Services	(15,000)
(Increase) in expenditures Function 34 - Student Transportation	(27,500)
(Increase) in expenditures Function 36 - Cocurricular/Extracurricular Activities	(72,300)
Decrease in expenditures Function 41 - General Administration	84,997
(Increase) in expenditures Function 51 - Plant Maintenance & Operations	(417,189)
(Increase) in expenditures Function 52 - Security and Monitoring Services	(191,000)
(Increase) in expenditures Function 53 - Data Processing Services	(20,000)
(Increase) in expenditures Function 81 - Facilities Acquisition and Construction	(2,000)
	<u>(492,189)</u>

Food Service Fund:

Increase in revenues federal program revenues	10,000
(Increase) in expenditures Function 35 - Food Services	(10,000)
	<u>-</u>

Debt Service Fund:

Increase in revenues state program revenues	75,000
(Increase) in expenditures Function 72 - Interest on Long-Term Debt	(3,000)
(Increase) in expenditures Function 73 - Bond Issuance Costs and Fees	(72,000)
Increase in other financing sources - Capital Related Debt Issued	2,860,000
Increase in other financing sources - Premium/Discount on issuance of Bonds	187,498
(Increase) in other financing uses - Payment to Escrow Agent for Refunding Bonds	(2,978,125)
	<u>69,373</u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

On May 10, 2008, the taxpayers of the District authorized total bonds of \$41,800,000 to (i) acquire, construct, renovate and equip school buildings in the District (ii) for the purchase of necessary sites for school buildings and (iii) pay costs of issuing the bonds. The District issued \$29,000,000 of Unlimited Tax School Building Bonds, Series 2008, \$4,000,000 of Unlimited Tax School Building Bonds, Series 2009, \$2,700,000 of Unlimited Tax School Building Bonds, Series 2011, \$1,100,000 of Unlimited Tax School Building Qualified School Construction Bonds, Series 2015, \$1,021,000 of Unlimited Tax Qualified School Construction Bonds, Series 2016, \$2,500,000 of Unlimited Tax Qualified School Construction Bonds, Series 2017, and \$1,465,000 of Unlimited Tax School Construction, Series 2018.

During the current year, the General Fund incurred capital outlay expenditures for HVAC units, a new roof, a new playground system, a database upgrade, a video security system and a band instrument.

The District signed a construction contract in the amount of \$3,351,127 with TCMC – Commercial, L.P. for construction of the new baseball and softball field complex. Change orders of \$13,764 increased the price to \$3,364,891. As of August 31, 2019, the District had incurred \$2,240,751 of the contract price. Additional costs of engineering, architect fees and other additions of \$217,316 were incurred during the current year. Engineering fees on this project of \$126,000 were incurred in the prior year. Total cost of the new complex recorded in the Capital Projects Fund totaled \$2,584,067 as of August 31, 2019 and is reflected as construction in progress. The project is expected to be completed in FY 2020. The District received \$365,467 in donations toward the project during the current year.

More detailed information about the District's capital assets is presented in Note H.

Debt

At year-end the District had \$39,969,945 in bonds outstanding versus \$41,483,031 last year. A successful bond election for the amount of \$41,800,000 was voted on May 12, 2008. The District issued \$29,000,000 of Unlimited Tax School Building Bonds Series 2008, \$4,000,000 of Unlimited Tax School Building Bonds Series 2009, \$2,700,000 Unlimited Tax School Building Bond Series 2011, \$1,100,000 of Unlimited Tax School Building Qualified School Construction Bonds Series 2015, \$1,021,000 of Unlimited Tax Qualified School Construction Bonds Series 2016, \$2,500,000 of Unlimited Tax Qualified Construction Bond Series 2017, and \$1,465,000 of Unlimited Tax School Construction Building Series 2018. More detailed information about the District's long-term liabilities is presented in Notes I and J to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Spring Hill School community is composed mainly of residential and small business properties. Residential property values have shown steady increases and are expected to continue a slight upward trend in the near future. Student enrollment increased during the school year resulting in an increase in refined average daily attendance of approximately 46 full time equivalent. Enrollment for the 2019-2020 school year has increased with refined average daily attendance of 1972 at the end of the second six weeks which reflects an increase of 58 full time equivalent units. Community members approved a \$41.8 million bond in May 2008 to build a new high school and to update existing facilities to meet the needs of the school district. The new high school was occupied in the fall of 2011 and houses grades nine through twelve. The former high school was updated during the summer of 2011, and it now houses the junior high students in grades six through eight. The former junior high facility was renovated during the 2011-2012 school year and was occupied in June of 2012. It houses grades three, four and five. The primary school continues to house grades pre-kindergarten through second.

The tax roll assessed/appraised values for 2019-2020 are \$514,066,980 an increase of \$12,663,077 over the values for 2018-2019. Despite this increase, the total property tax levy is expected to decrease by approximately \$200,000 due to a property tax rate reduction mandated by the state legislature. However, increases in state funding are expected to more than offset this reduction. The voters of the district approved the tax ratification election in September 2012 which resulted in a maintenance and operations tax increase from \$ 1.04 to \$ 1.17. However, this rate was reduced for 2019-2020 due to legislative action previously mentioned. An opportunity to increase the M&O rate is possible under the current school finance model via future tax ratification elections, although the District currently has no plans to pursue this option.

The District's elected officials considered many factors when setting the 2019-2020 budget and tax rate. The budget included a pay increase of approximately 8% for most positions at a cost of approximately \$992,388. Additional funds were also allocated for regular instruction, shared service arrangements, food service, security, and extracurricular. The district-wide approved budget for the 2018-2019 school year is \$20,097,527 which is an increase of \$650,940 over the original approved budget for the 2017-2018 school year. The district-wide approved budget for the 2019-2020 is \$23,502,937 which is an increase of \$3,405,410 over the original approved budget for the 2018-2019 school year. The 2019-2020 general fund approved budget is based on the approved tax rate of \$1.0683 for M&O and \$0.50 for I&S. Together, these rates give Spring Hill ISD a total rate of \$1.5683 for the 2019-2020 year and \$1.670 for the 2018-2019 year. The reduction in the M&O tax rate for the 2019-2020 year is mandated under House Bill 3. The rates mentioned are expected to maximize state funding under the school finance models for each 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 revenue it receives. If you have questions about this report or need additional financial information, contact the District's business office, at Spring Hill Independent School District, 3101 Spring Hill Road, Longview, Texas.

BASIC FINANCIAL STATEMENTS

SPRING HILL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2019

EXHIBIT A-1

Data Control Codes	Primary Government
	Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 520,542
1120 Current Investments	9,537,562
1220 Property Taxes - Delinquent	265,318
1230 Allowance for Uncollectible Taxes	(72,034)
1240 Due from Other Governments	1,451,759
1267 Due from Fiduciary Funds	48,060
1290 Other Receivables, Net	13,782
1300 Inventories	52,345
1410 Prepayments	109,906
Capital Assets:	
1510 Land	1,501,784
1520 Buildings and Improvements, Net	40,144,743
1530 Furniture and Equipment, Net	1,461,631
1580 Construction in Progress	2,584,067
1000 Total Assets	57,619,465
DEFERRED OUTFLOWS OF RESOURCES	
1701 Deferred Charge for Refunding	1,827,463
1705 Deferred Outflow Related to TRS Pension	2,527,508
1706 Deferred Outflow Related to TRS OPEB	1,001,322
1700 Total Deferred Outflows of Resources	5,356,293
LIABILITIES	
2110 Accounts Payable	262,981
2140 Accrued Interest Payable	77,960
2160 Accrued Wages Payable	963,669
2300 Unearned Revenue	42,422
Noncurrent Liabilities:	
2501 Due Within One Year	1,546,000
2502 Due in More Than One Year	41,230,620
2540 Net Pension Liability (District's Share)	4,097,644
2545 Net OPEB Liability (District's Share)	5,970,659
2000 Total Liabilities	54,191,955
DEFERRED INFLOWS OF RESOURCES	
2602 Deferred Inflow Gain for Refunding	34,645
2605 Deferred Inflow Related to TRS Pension	275,164
2606 Deferred Inflow Related to TRS OPEB	1,888,066
2600 Total Deferred Inflows of Resources	2,197,875
NET POSITION	
3200 Net Investment in Capital Assets	4,708,423
3820 Restricted for Federal and State Programs	220,927
3850 Restricted for Debt Service	1,433,532
3870 Restricted for Campus Activities	1,450,000
3900 Unrestricted	(1,226,954)
3000 Total Net Position	\$ 6,585,928

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

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

EXHIBIT B-1

Net (Expense)
Revenue and
Changes in Net
Position

Data Control Codes	1	Program Revenues		6
		3	4	
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 11,299,517	\$ -	\$ 1,588,930	\$ (9,710,587)
12 Instructional Resources and Media Services	351,631	-	29,452	(322,179)
13 Curriculum and Instructional Staff Development	347,356	-	23,320	(324,036)
23 School Leadership	1,261,037	-	98,394	(1,162,643)
31 Guidance, Counseling and Evaluation Services	373,721	-	31,119	(342,602)
33 Health Services	169,732	-	13,259	(156,473)
34 Student (Pupil) Transportation	516,256	-	35,238	(481,018)
35 Food Services	905,777	242,048	618,039	(45,690)
36 Extracurricular Activities	1,289,997	79,493	59,718	(1,150,786)
41 General Administration	854,671	-	40,227	(814,444)
51 Facilities Maintenance and Operations	2,028,326	9,949	71,726	(1,946,651)
52 Security and Monitoring Services	129,951	-	-	(129,951)
53 Data Processing Services	322,304	-	25,057	(297,247)
61 Community Services	25,261	-	-	(25,261)
72 Debt Service - Interest on Long-Term Debt	1,366,832	-	-	(1,366,832)
73 Debt Service - Bond Issuance Cost and Fees	69,199	-	-	(69,199)
93 Payments Related to Shared Services Arrangements	246,542	-	-	(246,542)
99 Other Intergovernmental Charges	112,671	-	-	(112,671)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 21,670,781	\$ 331,490	\$ 2,634,479	(18,704,812)

Data Control Codes	General Revenues:	
	Taxes:	
MT	Property Taxes, Levied for General Purposes	5,426,312
DT	Property Taxes, Levied for Debt Service	2,343,199
GC	Grants and Contributions not Restricted	11,781,549
IE	Investment Earnings	302,132
MI	Miscellaneous Local and Intermediate Revenue	628,076
S2	Special Item-Loss on Disposition of Capital Assets	(5,350)
TR	Total General Revenues & Special Items	20,475,918
CN	Change in Net Position	1,771,106
NB	Net Position - Beginning	4,814,822
NE	Net Position--Ending	\$ 6,585,928

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

Other Funds	Total Governmental Funds
\$ 196,371	\$ 520,542
-	9,537,562
-	265,318
-	(72,034)
65,269	1,451,759
48,060	90,173
8,782	13,782
52,345	52,345
-	109,906
<u>\$ 370,827</u>	<u>\$ 11,969,353</u>
\$ 96	\$ 262,981
52,285	963,669
-	42,113
21,882	42,422
<u>74,263</u>	<u>1,311,185</u>
-	193,284
<u>-</u>	<u>193,284</u>
52,345	52,345
-	109,906
168,582	168,582
-	1,450,000
-	1,453,218
-	1,000,000
-	150,000
-	43,379
75,637	3,381,996
-	189,491
-	2,465,967
<u>296,564</u>	<u>10,464,884</u>
<u>\$ 370,827</u>	<u>\$ 11,969,353</u>

SPRING HILL 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	\$	10,464,884
 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 \$64,631,778 and the accumulated depreciation was (\$20,262,809). 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. At the beginning of the year, these long term liabilities totaled (\$44,400,512). The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to (decrease) net position. Note: Beginning Balances related to TRS are NOT included in this amount.		(31,543)
 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.		4,458,596
 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. The net position related to TRS included a Deferred Resource Outflow in the amount of \$2,527,508, a Deferred Resource Inflow in the amount of \$275,164, and a net pension liability in the amount of \$4,097,644. This resulted in a (decrease) in net position.		(1,845,300)
 4 Included in the items related to debt is the recognition of the District's proportionate share of the net OPEB liability required by GASB 75. The net position related to TRS included a deferred resource outflow in the amount of \$1,001,322, a deferred resource inflow in the amount of \$1,888,066, and a net OPEB liability in the amount of \$5,970,659. This resulted in a (decrease) in net position.		(6,857,403)
 5 The 2019 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to (decrease) net position.		(1,666,340)
 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.		2,063,034
 19 Net Position of Governmental Activities	\$	<u>6,585,928</u>

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

Other Funds	Total Governmental Funds
\$ 412,729	\$ 9,013,634
338,724	12,243,579
1,033,337	1,640,947
<u>1,784,790</u>	<u>22,898,160</u>
817,786	9,733,992
-	302,917
-	298,055
67,721	1,080,290
-	319,925
-	145,541
-	419,845
782,246	791,505
48,567	1,127,972
-	747,751
1,442	2,104,980
-	292,634
-	279,621
-	23,152
-	1,469,000
-	1,376,097
-	69,199
-	2,458,067
-	246,542
-	112,671
<u>1,717,762</u>	<u>23,399,756</u>
<u>67,028</u>	<u>(501,596)</u>
-	2,860,000
-	42,113
-	187,498
-	(42,113)
-	(2,978,125)
-	69,373
<u>67,028</u>	<u>(432,223)</u>
<u>229,536</u>	<u>10,897,107</u>
<u>\$ 296,564</u>	<u>\$ 10,464,884</u>

SPRING HILL 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	\$ (432,223)
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.	4,458,596
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to (decrease) net position.	(1,666,340)
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 (decrease) net position.	(42,533)
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 \$267,083. 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 cause a decrease in net position totaling (\$250,787). 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 (\$436,468). The net result is a (decrease) in the change in net position.	(420,172)
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 \$85,310. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net OPEN liability. This cause a decrease in net position totaling (\$82,496). 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 (\$129,036). The net result is a (decrease) in the change in net position.	(126,222)
 Change in Net Position of Governmental Activities	 \$ 1,771,106

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

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

	Agency Funds
ASSETS	
Cash and Cash Equivalents	\$ 180,754
Total Assets	<u><u>\$ 180,754</u></u>
LIABILITIES	
Due to Other Funds	\$ 48,060
Due to Student Groups	132,694
Total Liabilities	<u><u>\$ 180,754</u></u>

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

**SPRING HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019**

Note A. Summary of Significant Accounting Policies

Spring Hill 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 "(GASB)" and other authoritative sources identified in *Statement on Auditing Standards No. 76* 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.

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

Other Post-Employment Benefits. 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.

1. Reporting Entity

The Board of School Trustees has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of Spring Hill Independent School District. The members of the Board of Trustees are elected by the public; 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 a financial reporting entity as defined by the GASB in its Statement No. 14, "The Financial Reporting Entity." There are no component units included within the reporting entity. The District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities.

2. Government-Wide and Fund Financial Statements

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the Spring Hill Independent School District nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues.

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 athletic event revenue, school lunch charges, etc. The "grants and contributions" column includes amounts paid by organizations outside the District to help meet the operational or capital requirements of a given function. Examples include grants under the Elementary and Secondary Education Act. If a revenue is not a program revenue, it is a general revenue used to support all of the District's functions. Taxes are always general revenues.

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

The fund financial statements provide reports on the financial condition and results of operations for two fund categories – governmental 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.

3. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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 may require the District to refund all or part of the unused amount.

The 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. Agency Funds apply the accrual basis of accounting, but do not have a measurement focus. With the flow of economic resources measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position.

4. Fund Accounting

The District's accounts are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which are comprised of each fund's assets, liabilities, equity, revenues, and expenditures or expenses.

The District reports the following major governmental funds:

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.

Debt Service Fund - This governmental fund is established to account for payment of principal and interest on long-term general obligation debt and other long-term debts for which a tax has been dedicated. This is a budgeted fund and a separate bank account is maintained for this fund. Any unused sinking fund balances are transferred to the General Fund after all of the related debt obligations have been met.

Capital Projects Fund – This fund is established to account for proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions.

Additionally, the District reports the following fund types:

Governmental Fund Type:

Special Revenue Funds - The District accounts for resources restricted or committed for specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund. Unused balances may be required to be returned to the grantor at the close of specified project periods. The Food Service fund is the only required budgeted fund. For all other funds in this fund type, project accounting is employed to maintain integrity for the various sources of funds.

Fiduciary Fund Type:

Agency Funds - The District utilizes Agency Funds to account for resources held for others in a custodial capacity. Financial resources for the Agency funds are recorded as assets and liabilities; therefore, these funds do not include revenues and expenditures and have no fund equity. The District's Agency Fund is the Student Activity Fund.

5. Cash Equivalents

The District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

6. Investments

Investments are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale

7. Inventories

All inventories are valued at cost using the first in/first out (FIFO) method. The District records purchases of supplies as expenditures. If any supplies are on hand at the end of the year, their total cost is recorded as inventory and the fund balance is reserved for the same amount.

8. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. Prepaid items are charged to expenditures when consumed.

9. Asset Capitalization and Useful Lives

Capital assets, which include land, buildings and improvements, furniture and equipment, are reported in the applicable governmental 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 one year. 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 and improvements, furniture and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Building Improvements	20
Vehicles and Equipment	5-15

10. Compensated Absences

It is the District's policy to permit employees to accumulate up to 30 days of unused leave. An employee who has accumulated the maximum 30 days of local leave is not eligible for days beyond the maximum. Employees are not paid for this leave upon retirement.

11. 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. 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 and discount. Bond issuance costs are recognized as expenses in the current period. In the fund financial statements, governmental fund types recognize the face amount of debt issued plus the net amount of premiums and discounts as other financing sources in the current period. Bond issuance costs are recognized as expenditures in the current period.

12. Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the statements of financial position (The government-wide Statement of Net Position and governmental funds Balance Sheet) will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position and/or fund balance that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one of more future periods and so will not be recognized as an inflow of resources (revenue) until that time.

13. Fund Equity

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories as following:

Nonspendable fund balance – represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaids) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted fund balance – represents amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, other governments, etc.) or imposed by enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

Committed fund balance – represents amounts that can only be used for specific purposes imposed by a formal action of the District's highest level of decision-making authority, the Board. Committed resources cannot be used for any other purposes unless the Board removes or changes the specific use by taking the same formal action that imposed the constraint originally.

Assigned fund balance – represents amount the District intends to use for specific purposes as expressed by the Board or an official delegated with the authority. The Board has delegated the authority to assign fund balances to the Superintendent or his designee.

Unassigned fund balance – represents the residual classification for the general fund or deficit balances in other funds.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, committed fund balance, assigned fund balance, and then unassigned fund balance.

- Committed Fund Balance - Construction totals \$1,000,000 for future construction, repairs and deferred maintenance.
- Committed Fund Balance - Capital expenditures for equipment totals \$150,000.
- Committed Fund Balance - Self Insurance totals \$43,379.
- Committed Fund Balance – Other Committed Fund Balance totals \$100,000 for curriculum upgrades.
- Committed Fund Balance - Other Committed Fund Balance totals \$3,206,359 for budget stabilization (60 days of operation).
- Committed Fund Balance – Campus Activity Funds totals \$75,637.
- Assigned Fund Balance - Other Assigned Fund Balance totals \$189,491.

14. Workers' Compensation Plan

Spring Hill Independent School District entered into an agreement with the Texas Educational Insurance Association to self-fund their workers' compensation plan in 1991. The agreement is administered by Claims Administrative Services, Inc. Prior to audit, the fixed cost amount for the District was \$21,441 and the loss fund maximum was \$53,934. The loss fund amount is for Spring Hill Independent School District's claims and for claims of other group members in excess of their loss fund maximum.

The Workers' Comp Plan Statement of Change in Liability is as follows:

	1991/2012	12/13	13/14	14/15	15/16	16/17	17/18	18/19	Total
Unpaid claims at 9/1/18	20,049	2,674	1	7,804	6,232	15	(1)	-	36,774
Incurred Claims:									
Provisions for insured events of the current year								27,440	27,440
Increases (decreases) in provision for insured events of the prior years	(3,248)	(1)	-	764	-	4,472	-		1,987
Total incurred claims	(3,248)	(1)	-	764	-	4,472	-	27,440	29,427
Payments:									
Claims attributable to insured events of the current year								8,203	8,203
Claims attributable to insured events of the prior years	780	-	4,451	653	12	4,469	-		10,365
Total payments	780	-	4,451	653	12	4,469	-	8,203	18,568
Total unpaid claims 8/31/19	16,021	2,673	(4,450)	7,915	6,220	18	(1)	19,237	47,633
Minimum amount to be encumbered. Calculation of this amount allows for estimated claims Incurred But Not Reported (IBNR)	4,988	1,952	3,326	2,346	3,072	11,283	9,271	7,141	43,379

The District has committed fund balance totaling \$43,379 for the estimate of unpaid claims at August 31, 2019 in the Governmental Fund Financial Statements.

15. Health Care Coverage

During the year ended August 31, 2019, employees of Spring Hill Independent School District were covered by a uniform statewide health care program for public education employees. The District contributed \$250 per month towards employee health insurance, which includes the \$75 which is reimbursed by the state, per employee. Employees, at their option, may authorize payroll withholdings to pay the remaining balance of the premium for employee coverage and/or dependents. All premiums were paid to the statewide health care program based on the coverages selected by the employee. Any remaining portion of the District contribution is retained by the District. The Plan was authorized by House Bill 3343 and is administered by the Teacher Retirement System of Texas (TRS). The TRS board approved the selection of Aetna as the health plan administrator and Caremark as the pharmacy benefits manager for TRS-ActiveCare. The minimum contribution allowed is \$225.

16. Risk Management - Claims and Judgments

In the normal course of operations, the District is exposed to risks of loss from a number of sources including fire and casualty losses, errors or omissions by board members and employees, and injuries to employees during the course of performing their duties. The District attempts to cover these losses by the purchase of insurance. Significant losses are covered by commercial insurance for property and liability programs. The District entered into an agreement with the Texas Educational Insurance Association as administered by Claims Administrative Services for their workers' compensation plan. The District participates in the State Administered Plan TRS – Active Care for employee health insurance coverage.

For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

In management's estimation, there are no current loss claims that exceed the maximum coverage or any material unfunded claim benefit obligation for the self-funded programs.

17. Restricted Assets

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.

18. Functions

School Districts are required to report all expenses by function, except certain indirect expenses. General administration, data processing service and other intergovernmental charges functions (data control codes 41, 53 and 99, respectively) include expenses that are indirect expenses of other functions. These indirect expenses are not allocated to other functions.

19. Data Control Codes

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

20. Estimates and Assumptions

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

Note B. Reconciliation of Government-Wide and Fund Financial Statement

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position - Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net position for governmental activities as reported in the government-wide statement of net position.

The details for one element are as follows:

	<u>Amount</u>	<u>Adjustments to Net Position</u>
<u>Adjustments to Revenue and Unavailable Revenue</u>		
Uncollected taxes (assumed collectible) from prior year levies	103,027	
Uncollected taxes (assumed collectible) from current year levy	<u>90,257</u>	
Total Adjustments to Net Position		193,284
<u>Adjustments Associated with Long-Term Debt</u>		
Interest accrued on bonds payable for current year	(77,960)	
Interest expense accreted on CAB bonds for current year	(60,914)	
Amortization of premium/discount for current year	250,534	
Deferred charge on refunding, beginning of year	2,000,704	
Amortization of deferred charge on refunding for current year	(173,241)	
Proceeds from refunding bonds for current year	(2,860,000)	
Proceeds from premium/discount for current year	(187,498)	
Payment to escrow agent fore refunding bonds for current year	<u>2,978,125</u>	
Total Adjustments to Net Position		<u>1,869,750</u>
Net Adjustments to Net Position - Increase		<u>2,063,034</u>

Explanation of certain differences between the governmental fund statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities - Exhibit C-4 provides a reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net position of governmental activities as reported on the government-wide statement of activities.

The details for one element are as follows:

	<u>Amount</u>	<u>Adjustments to Changes Net Position</u>
<u>Adjustments to Revenue and Unavailable Revenue</u>		
Taxes collected and adjustments from prior year levies	(72,682)	
Uncollected taxes (assumed collectible) from current year levy	<u>90,257</u>	
Total Adjustments		17,575
<u>Adjustments Associated with Long-Term Debt</u>		
Interest accrued on bonds payable for current year	(77,960)	
Interest accrued on bonds payable for prior year	70,846	
Interest expense accreted on CAB bonds for current year	(60,914)	
Amortization of premium/discount for current year	250,534	
Amortization of deferred charge on refunding for current year	(173,241)	
Proceeds from refunding bonds for current year	(2,860,000)	
Proceeds from premium/discount for current year	(187,498)	
Payment to escrow agent to refund bonds for current year	<u>2,978,125</u>	
Total Adjustments		<u>(60,108)</u>
Net Adjustments to Changes in Net Position - (Decrease)		<u>(42,533)</u>

Note C. Stewardship, Compliance and Accountability

Budgetary Data

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the Food Service Fund which is included in the Special Revenue Funds. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1 and the other two reports appear in Exhibit J-2 and J-3.

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

1. Prior to August 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. 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.

Significant budget amendments were as follows:

General Fund:

(Decrease) in revenues local and intermediate sources	(2,174)
Increase in revenues state program revenues	36,974
Decrease in expenditures Function 11 - Instruction	183,002
(Increase) in expenditures Function 12 - Instructional Resources and Media Services	(19,999)
(Increase) in expenditures Function 23 - School Leadership	(10,000)
(Increase) in expenditures Function 31 - Guidance, Counseling and Evaluation	(20,000)
(Increase) in expenditures Function 33 - Health Services	(15,000)
(Increase) in expenditures Function 34 - Student Transportation	(27,500)
(Increase) in expenditures Function 36 - Cocurricular/Extracurricular Activities	(72,300)
Decrease in expenditures Function 41 - General Administration	84,997
(Increase) in expenditures Function 51 - Plant Maintenance & Operations	(417,189)
(Increase) in expenditures Function 52 - Security and Monitoring Services	(191,000)
(Increase) in expenditures Function 53 - Data Processing Services	(20,000)
(Increase) in expenditures Function 81 - Facilities Acquisition and Construction	(2,000)
	<u>(492,189)</u>

Food Service Fund:

Increase in revenues federal program revenues	10,000
(Increase) in expenditures Function 35 - Food Services	(10,000)
	<u>-</u>

Debt Service Fund:

Increase in revenues state program revenues	75,000
(Increase) in expenditures Function 72 - Interest on Long-Term Debt	(3,000)
(Increase) in expenditures Function 73 - Bond Issuance Costs and Fees	(72,000)
Increase in other financing sources - Capital Related Debt Issued	2,860,000
Increase in other financing sources - Premium/Discount on issuance of Bonds	187,498
(Increase) in other financing uses - Payment to Escrow Agent for Refunding Bonds	(2,978,125)
	<u>69,373</u>

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.

The District's Food Service Fund is considered a special revenue fund since it meets the following criteria: (1) User fees are charged to supplement the National School Lunch Program (NSLP), (2) The General Fund subsidizes the Food Service Program for all expenditures in excess of NSLP, and (3) The District does not consider the Food Service Program completely self-supporting. Food Service fund balances are used exclusively for child nutrition program purposes. The District's goal is for the Food Service program to be self-supporting with regard to food service operations; however, the program is not charged for utilities, insurance and some maintenance items.

A reconciliation of fund balances for both appropriated budget and nonappropriated budget Nonmajor Governmental Special Revenue Funds is as follows:

	August 31, 2019
	<u>Fund Balance</u>
Appropriated Budget Funds - Food Service Special Revenue Fund	220,927
Non appropriated Budget Funds	<u>75,637</u>
All Nonmajor Governmental Special Revenue Funds	<u><u>296,564</u></u>

Note D. 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, pledged securities, or purchasing a bond in an amount equaling or exceeding the amount on deposit at the end of each business day. Since the District complies with this law, it has no custodial credit risk for deposits.

Foreign Currency Risk - The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit by not investing in foreign currency.

The captions and amounts of cash and cash equivalents on the balance sheet and statement of fiduciary net position at August 31, 2019 consist of the following:

	General Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Balance Sheet Total	Fiduciary Funds
Cash and cash equivalents	<u>303,134</u>	<u>19,059</u>	<u>1,978</u>	<u>196,371</u>	<u>520,542</u>	<u>180,754</u>

The District's cash deposits at August 31, 2019 and during the year were entirely covered by FDIC insurance or pledged securities purchased by the depository bank in the District's name.

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 the District 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 District 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 Public Funds Investment Act (PFIA) governs the District's investment policies and types of investments. The District's management believes that it complied with the requirements of the PFIA and the District's investment policies.

The captions and amounts of investments - current on the balance sheet and statement of fiduciary net assets at August 31, 2019 consist of the following:

Investment Type	Investment Maturities (in years)				
	Fair Value *	Less than 1	1 - 5	6 - 10	More than 10
Investment Pools**					
Local Government Investment Cooperative (LOGIC)	9,537,562	9,537,562			
Total	9,537,562	9,537,562	-	-	-

*Fair value is the amount at which a security could be exchanged in a current transaction between willing parties, other than in a forced liquidation. Under GASB 72, all investments are recorded at fair value.

**Local government investment pools operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Local government investment pools use amortized cost rather than market value to report net Assets to compute share prices. Accordingly, the fair value of the assets in these pools is the same as the value of the shares in each pool.

***Investments in local government pool are based upon a contract and not the security itself. Therefore, these types of investments are not categorized in Categories 1-3. The above investment pools, which are regulated by the Securities and Exchange Commission, have as one of their objectives the maintenance of a stable net position value of \$1.00.

Financial Statements for LOGIC may be obtained from LOGIC, 325 North St. Paul Street, Suite 800, Dallas, Texas 75201.

Investment Accounting Policy - The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

Public Funds Investment Pools - Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act ("the Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

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

Additional policies and contractual provisions governing deposits and investments for Spring Hill Independent School District are specified below:

Credit Risk - To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the District limits investments in Obligations of the United States or its agencies and instrumentalities; direct obligations of the State of Texas or its agencies and instrumentalities; certificates of deposits; fully collateralized repurchase agreements that have a defined termination date and secured by obligations of the United States or its agencies and instrumentalities; public funds investment pools; collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States rated not less than A or its equivalent issued by national recognized statistical rating organizations (NRSROs). As of August 31, 2019, the net asset value of the District's investments in public funds investment pools was \$1.000073 and Standard & Poor's rating was AAAM.

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

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 diversifies in terms of investment instruments, maturity scheduling, and financial institutions to reduce the risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific issuer.

Interest Rate Risk - To limit the risk of changes in interest rates will adversely affect the fair value of investments, the District requires invested instruments maturities do not exceed one year from the time of purchase except when a longer maturity may be specifically authorized by the Board for a given investment provided legal limits are not exceeded.

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

Note E. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. The assessed value of the roll on January 1, 2019 upon which the levy for the 2019 fiscal year was based was \$481,879,014. The tax rates levied for the year ended August 31, 2019, to finance General Fund operations and the payment of principal and interest on general obligations long-term debt were \$1.1700 and \$0.5000 per \$100 per valuation respectively, for a total of \$1.6700 per \$100 valuation.

Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they are collected.

Note F. Delinquent Taxes Receivable

Delinquent taxes are prorated between maintenance (General Fund) and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General and Debt Service Fund 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 G. Disaggregation of Receivables and Payables

Receivables at August 31, 2019, were as follows:

	<u>Property Taxes</u>	<u>Other Governments</u>	<u>Due from Other Funds</u>	<u>Other Receivables</u>	<u>Total Receivables</u>
Governmental Activities:					
General Fund	184,663	1,386,490	-	5,000	1,576,153
Debt Service	80,655	-	-	-	80,655
Capital Projects	-	-	42,113	-	42,113
Nonmajor Governmental Funds (Special Revenue)	-	65,269	48,060	8,782	122,111
Total - Governmental Activities	<u>265,318</u>	<u>1,451,759</u>	<u>90,173</u>	<u>13,782</u>	<u>1,821,032</u>
Amounts not scheduled for collection during the subsequent year	<u>(72,034)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(72,034)</u>

Payables at August 31, 2019, were as follows:

	<u>Accounts</u>	<u>Salaries/ Benefits</u>	<u>Due to Other Funds</u>	<u>Other Governments</u>	<u>Total Payables</u>
Governmental Activities:					
General Fund	20,014	911,384	42,113	-	973,511
Debt Service Fund	-	-	-	-	-
Capital Projects	242,871	-	-	-	242,871
Nonmajor Governmental Funds (Special Revenue)	96	52,285	-	-	52,381
Total - Governmental Activities	<u>262,981</u>	<u>963,669</u>	<u>42,113</u>	<u>-</u>	<u>1,268,763</u>

Note H. Capital Asset Activity

During the current year, the General Fund incurred capital outlay expenditures for HVAC units, a new roof, a new playground system, a database upgrade, a video security system and a band instrument.

The District signed a construction contract in the amount of \$3,351,127 with TCMC – Commercial, L.P. for construction of the new baseball and softball field complex. Change orders of \$13,764 increased the price to \$3,364,891. As of August 31, 2019, the District had incurred \$2,240,751 of the contract price. Additional costs of engineering, architect fees and other additions of \$217,316 were incurred during the current year. Engineering fees on this project of \$126,000 were incurred in the prior year. Total cost of the new complex recorded in the Capital Projects Fund totaled \$2,584,067 as of August 31, 2019 and is reflected as construction in progress. The project is expected to be completed in FY 2020. The District received \$365,467 in donations toward the project during the current year.

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

	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Governmental Activities:				
Land	1,501,784	-	-	1,501,784
Building and Improvements	59,508,375	121,487	(46,600)	59,583,262
Furniture and Equipment	3,495,619	415,392	-	3,911,011
Construction in Progress	126,000	2,458,067	-	2,584,067
Totals at Historic Cost	64,631,778	2,994,946	(46,600)	67,580,124
Less Accumulated Depreciation for:				
Buildings and Improvements	18,007,976	1,471,793	(41,250)	19,438,519
Furniture and Equipment	2,254,833	194,547	-	2,449,380
Total Accumulated Depreciation	20,262,809	1,666,340	(41,250)	21,887,899
Governmental Activities, Net:				
Land	1,501,784	-	-	1,501,784
Building and Improvements, Net	41,500,399	(1,350,306)	(5,350)	40,144,743
Furniture and Equipment, Net	1,240,786	220,845	-	1,461,631
Construction in Progress	126,000	2,458,067	-	2,584,067
Capital Assets, Net	44,368,969	1,328,606	(5,350)	45,692,225

Depreciation expense was charged to governmental functions as follows:

Governmental Activities:	
Instruction	886,654
Instructional Resources and Media Services	27,592
Curriculum Development and Instructional Staff	27,149
School Leadership	98,402
Guidance, Counseling and Evaluation Services	29,141
Health Services	13,257
Student (Pupil) Transportation	95,217
Food Services	72,097
Cocurricular/Extracurricular Activities	102,745
General Administration	68,112
Facilities Maintenance and Operations	191,739
Security and Monitoring Service	26,656
Data Processing Services	25,470
Community Services	2,109
Total Depreciation Expense - Governmental Activities	1,666,340

Note I. Bonds Payable and Debt Service Requirements

On May 12, 2008, the taxpayers of the District authorized total bonds of \$41,800,000 to (i) acquire, construct, renovate and equip school buildings in the District (ii) for the purchase of necessary sites for school buildings and (iii) pay costs of issuing the bonds. The District issued \$29,000,000 of Unlimited Tax School Building Bonds Series 2008, \$4,000,000 of Unlimited Tax School Building Bonds Series 2009, \$2,700,000 Unlimited Tax School Building Bond Series 2011, \$1,100,000 of Unlimited Tax Qualified School Construction Bonds Series 2015, \$1,021,000 of Unlimited Tax Qualified School Construction Bonds Series 2016, \$2,500,000 of Unlimited Tax Qualified School Construction Bonds Series 2017, and \$1,465,000 of Unlimited Tax School Construction Building Bonds Series 2018.

On May 21, 2019, the District issued \$2,860,000 of Unlimited Tax Refunding Bonds, Series 2019 with an interest rate ranging from 3.0% to 5.0% to advance refund \$2,965,000 the Series 2008 and Series 2009 outstanding bonds. The escrow payment funds of \$2,978,125 were deposited in a trust with an escrow agent to provide all future debt service payments on a portion of the Series 2008 and Series 2009 bond when called on May 28, 2019 and August 15, 2019, respectively. As a result, the Series 2008 and Series 2009 are considered defeased and the District has removed the liabilities from its financial statements. The advance refunding reduced total debt service payments over the next 19 years by \$32,980 per year on average for a total interest cost savings of \$632,699. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$502,585.

In the governmental fund financial statements, the current expenditures for principal and interest expenditures are accounted for in the Debt Service Fund in the Statement of Revenues, Expenditures and Changes in Fund Balance. During the year ended August 31, 2019, the District paid \$1,469,000 in principal, \$1,376,097 in interest and \$69,199 in fees. Bond Series proceeds from refunding the Unlimited Tax Refunding Bonds, Series 2019 are accounted for in the Debt Service Fund as other financing sources in the amount of \$2,860,000 capital related debt issued and \$187,498 premium/discount on issuance bonds. The escrow payment of \$2,978,125 is accounted for in the Debt Service Fund as other financing uses to refund the Series 2008 and Series 2009 Outstanding Bonds. Bond issuance costs and fees totaled \$66,000.

In the government-wide financial statements, bonded indebtedness of the District is reflected in the Statement of Net Position. Premium/discount on issuance of bonds, net of accumulated amortization, totaled \$2,806,675 at August 31, 2019. Bond premium/discount proceeds are deferred and amortized over the life of the bonds. Premium/discount proceeds on the issuance of the Bonds, Series 2019 of \$187,498 was added during the year ended August 31, 2019. The current year amortization for the premium/discount of \$250,534 is reflected in the Statement of Activities for the year ended August 31, 2019.

	Series 2008	Series 2009	Series 2011	Series 2015	Series 2015A	Series 2016	Series 2017	Series 2018	Series 2019	Total
Premium on bonds	(2,864)	(44,906)	(168,189)	(1,088,984)	(22,058)	(857,868)	(658,619)	(73,993)	(187,498)	(3,104,979)
Current year amortization	-	-	6,116	91,234	12,296	70,488	51,344	12,636	6,420	250,534
Refunding of bond	2,864	44,906	-	-	-	-	-	-	-	47,770
Premium on bonds, net	-	-	(162,073)	(997,750)	(9,762)	(787,380)	(607,275)	(61,357)	(181,078)	(2,806,675)

Interest expense accreted of \$60,914 on the CAB Bonds is reflected in the Statement of Activities for the year ended August 31, 2019.

A summary of changes in bonded indebtedness for the year ended August 31, 2019 is as follows:

	Stated Interest Rate	Amounts Original Issue	Amounts Outstanding 9/1/2018	Issuance/ Accretion	Retirements	Amounts Outstanding 8/31/2019
Series 2008, Term Current Interest Bonds maturing annually thru February 15, 2038	5.00%	19,355,000	860,000	-	(c) (10,000) (b) (850,000)	-
Unlimited Tax School Building Bonds Series 2009, Serial Current Interest Bonds maturing February 15, 2012-2038	2.00-5.00%	3,895,000	2,280,000	-	(c) (165,000) (b) (2,115,000)	-
Unlimited Tax School Building and Refunding Bonds, Series 2011, Current Interest Bonds maturing February 15, 2021-2023, 2040	4.00%	1,935,000	1,935,000	-	-	1,935,000
Unlimited Tax School Building and Refunding Bonds, Series 2011, Current Interest Bonds maturing February 15, 2039-2040	4.75%	2,090,000	2,090,000	-	-	2,090,000
Unlimited Tax School Building and Refunding Bonds, Series 2011, Capital Appreciation Bonds maturing February 15, 2012-2016, 2021, 2039-2040	-	625,000	977,031	(a) 60,914	-	1,037,945
Unlimited Tax Refunding Bonds, Series 2015 Serial Current Interest Bonds, maturing annually thru February 15, 2036	3.125%-5%	7,195,000	7,195,000	-	(c) (110,000)	7,085,000
Unlimited Tax Refunding Bonds Series 2015 Term Current Interest Bonds, maturing annually thru February 15, 2038	3.125%	1,350,000	1,350,000	-	-	1,350,000
Unlimited Tax Qualified School Construction Bonds, Series 2015, Tax Credit Bonds maturing annually thru February 15, 2030	0.00%	1,100,000	963,000	-	(c) (56,000)	907,000
Unlimited Tax Refunding Bonds, Series 2015A Term Current Interest Bonds, maturing annually thru February 15, 2020	2.00%	2,455,000	1,257,000	-	(c) (620,000)	637,000
Unlimited Tax Qualified School Construction Bonds, Series 2016, Tax Credit Bonds maturing annually thru February 15, 2030	0.00%	1,021,000	876,000	-	(c) (73,000)	803,000
Unlimited Tax Refunding Bonds, Series 2016 Serial Current Interest Bonds, maturing annually thru February 15, 2038	3.0-5.0%	8,860,000	8,860,000	-	(c) (95,000)	8,765,000
Unlimited Tax Refunding Bond, Series 2017 Serial Current Interest Bonds, maturing annually thru February 15, 2039	2.0-5.0%	9,115,000	9,065,000	-	(c) (95,000)	8,970,000
Unlimited Tax Qualified School Construction Bonds, Series 2017, Tax Credit Bonds maturing annually thru February 15, 2021	0.00%	2,500,000	2,310,000	-	(c) (165,000)	2,145,000
Unlimited Tax School Building Bonds, Series 2018 Serial Current Interest Bonds, maturing annually thru February 15, 2038	3.00%	1,465,000	1,465,000	-	(c) (80,000)	1,385,000
Unlimited Tax Refunding Bonds, Series 2019 Serial Current Interest Bonds, maturing annually thru February 15, 2030	3.0-5.0%	1,630,000	-	(b) 1,630,000	-	1,630,000
Unlimited Tax Refunding Bonds, Series 2019 Term Current Interest Bonds, maturing February 15, 2032, 2034, 2036 and 2038	3.00%	1,230,000	-	(b) 1,230,000	-	1,230,000
			41,483,031	2,920,914	(4,434,000)	39,969,945

- (a) Accretion of interest on Capital Appreciation Bonds \$60,914
- (b) Refunding bonds issued \$2,860,000; Refunded bonds retired \$2,965,000
- (c) Principal payment on outstanding bonds \$1,469,000

Bonded debt service requirements are as follows:

Year Ended August 31	General Obligation Bonds		
	Principal	Interest	Total Requirements
2020	1,546,000	1,303,595	2,849,595
2021	1,524,000	1,328,725	2,852,725
2022	1,644,000	1,205,450	2,849,450
2023	1,704,000	1,145,925	2,849,925
2024	1,635,000	1,085,963	2,720,963
2025 - 2029	9,103,000	4,487,688	13,590,688
2030 - 2034	10,576,000	2,877,675	13,453,675
2035 - 2039	10,550,000	2,295,794	12,845,794
2040	1,275,000	1,255,056	2,530,056
	39,557,000	16,985,871	56,542,871
Interest accreted on Capital Appreciation Bond through 8/31/19	412,945	(412,945)	-
	39,969,945	16,572,926	56,542,871

The deferred charge on refunding bonds, net of accumulated amortization, totaled \$1,827,463 at August 31, 2019. Current year amortization of \$173,241 is reflected in the Statement of Activities for the year ended August 31, 2019.

The following is a summary of changes in deferred outflows of resources - charges for refunding for the year ended August 31, 2019:

	Beginning Balance	Additions	Reduction	Ending Balance
Deferred charges for refundings:				
Series 2015	916,245	-	76,762	839,483
Series 2015A	17,028	-	9,492	7,536
Series 2016	733,380	-	60,946	672,434
Series 2017	334,051	-	26,041	308,010
	2,000,704	-	173,241	1,827,463

The deferred gain on refunding bonds, net of accumulated amortization, totaled \$34,645 at August 31, 2019.

The following is a summary of changes in deferred inflows of resources – gain for refunding for the year ended August 31, 2019:

	Beginning Balance	Additions	Reductions	Ending Balance
Deferred charges for refundings				
Series 2019	-	34,645	-	34,645

Note J. Changes in Long-Term Liabilities

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
General Obligation Bonds	41,483,031	2,920,914	4,434,000	39,969,945	1,546,000
Premium/Discount on Issuance of Bonds	2,917,481	187,498	298,304	2,806,675	-
Total Bonds Payable	<u>44,400,512</u>	<u>3,108,412</u>	<u>4,732,304</u>	<u>42,776,620</u>	<u>1,546,000</u>
Other Liabilities:					
TRS Net Pension Liability	2,288,543	2,059,888	250,787	4,097,644	-
TRS Net OPEB Liability	4,804,639	1,248,512	82,492	5,970,659	-
Total Other Liabilities	<u>7,093,182</u>	<u>3,308,400</u>	<u>333,279</u>	<u>10,068,303</u>	<u>-</u>
Total Governmental Activities Long-term Liabilities	<u>51,493,694</u>	<u>6,416,812</u>	<u>5,065,583</u>	<u>52,844,923</u>	<u>1,546,000</u>

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

There are a number of limitations and restriction contained in the general obligation bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2019.

Note K. Defined Benefit Pension Plan

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

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

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

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

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 85th Texas Legislature, General Appropriations Act (GAA) affirmed that the employer contribution rates for fiscal years 2018 and 2019 would remain the same.

Contribution Rates		
	<u>2018</u>	<u>2019</u>
Member (Employees)	7.7%	7.7%
Employer (District)	6.8%	6.8%
Non-Employer Contributing Entity (State)	6.8%	6.8%
SHISD Fiscal Year Member Contributions	794,845	818,634
SHISD Fiscal Year Employer Contributions	250,787	267,083
SHISD Measurement Year NECE On-Behalf Contributions	562,901	577,227

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 the State contributes to the plan in accordance with state statute and the General Appropriations Act (GAA).

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

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment
- When any part or all of an employee's salary is paid by federal funding source or a privately sponsored source, from non-educational and general, or local fund

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

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

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

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

Valuation Date	August 31, 2017, rolled forward to August 31, 2018
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	6.907%
Long-term Expected Rate	7.25%
Municipal Bond Rate as of August 2018	3.69%. Source for the rate is the Fixed Income Market Data/Yield Curve/Data Municipal Bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index"
Last year ending August 31 in Projection Period (100 years)	2116
Inflation	2.30%
Salary Increases	3.05% to 9.05% including inflation
Ad hoc post-employment benefit changes	None

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

Discount Rate. The single discount rate used to measure the total pension liability was 6.5%. The single discount rate was based on the expected rate of return on pension plan investments of 7.25 percent and a municipal bond rate of 3.69 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates.

Based on those assumptions, the pension plan's fiduciary net position was sufficient to finance the benefit payments until the year 2069. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments after that date. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of 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 ¹	Long-Term Expected Arithmetic Real Rate of Return ²	Expected Contribution to Long-Term Portfolio Returns
Global Equity			
U.S.	18%	5.7%	1.0%
Non-U.S. Developed	13%	6.9%	0.9%
Emerging Markets	9%	8.9%	0.8%
Directional Hedge Funds	4%	3.5%	0.1%
Private Equity	13%	10.2%	1.3%
Stable Value			
U.S. Treasuries	11%	1.1%	0.1%
Absolute Return	0%	0.0%	0.0%
Stable Value Hedge Funds	4%	3.1%	0.1%
Cash	1%	-0.3%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	0.7%	0.0%
Real Assets	14%	5.2%	0.7%
Energy and Natural Resources	5%	7.5%	0.4%
Commodities	0%	0.0%	0.0%
Risk Parity			
Risk Parity	5%	3.7%	0.2%
Inflation Expectations			2.3%
Volatility Drag ³			-0.7%
Total	100%		7.2%

¹Target allocations are based on the FY 2016 policy model

²Capital market assumptions come from Aon Hewitt (2017 Q4)

³The volatility drag results 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 (6.907%) in measuring the 2018 Net Pension Liability.

	1% Decrease in Discount Rate (5.907%)	Discount Rate (6.907%)	1% Increase in Discount Rate (7.907%)
SHISD's proportionate share of the net pension liability	6,184,327	4,097,644	2,408,350

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2019, Spring Hill ISD reported a liability of \$4,097,644 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to Spring Hill ISD. The amount recognized by Spring Hill ISD 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 Spring Hill ISD were as follows:

District's proportionate share of the collective net pension liability	4,097,644
State's proportionate share that is associated with the District	9,437,274
Total	13,534,918

The net pension liability was measured as of August 31, 2017 and rolled forward to August 31, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of 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 thru August 31, 2018.

At August 31, 2018 the employer's proportion of the collective net pension liability was 0.007444519%, which was an increase of 0.0002871432% from its proportion measured as of August 31, 2017.

Changes Since the Prior Actuarial Valuation – The following were changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

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

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

For the year ended August 31, 2019 Spring Hill ISD recognized pension expense of \$1,621,294 and revenue of \$934,039 for support provided by the State in the Government Wide Statement of Activities.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 25,541	\$ 100,540
Changes in actuarial assumptions	1,477,398	46,169
Difference between projected and actual investment earnings	-	77,749
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	757,486	50,706
Total as of August 31, 2018 measurement date	\$ 2,260,425	\$ 275,164
Contributions paid to TRS subsequent to the measurement date (to be calculated by employer)	267,083	-
Total as of August 31, 2019 fiscal year-end	\$ 2,527,508	\$ 275,164

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

Year ended August 31:	Pension Expense Amount
2020	544,138
2021	380,517
2022	329,970
2023	306,890
2024	251,938
Thereafter	171,808
	<u>\$ 1,985,261</u>

Note L. Defined Other Post-Employment Benefit Plan

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

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

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

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

The premium rates for the optional health insurance are based on years of service of the member. The schedule below shows the monthly rates for a retiree with and without Medicare coverage.

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

	Medicare	Non-Medicare
Retiree*	\$ 135	\$ 200
Retiree and Spouse	529	689
Retiree* and Children	468	408
Retiree and Family	1020	999

*or surviving spouse

Contributions. Contribution rates for the TRS-Care plan are established in state statute by the Texas Legislature, and there is no continuing obligation to provide benefits beyond each fiscal year. The TRS-Care plan is currently funded on a pay-as-you-go basis and is subject to 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 1575.202 establishes the state's contribution rate which is 1.25% of the employee's salary. Section 1575.203 establishes the active employee's rate which is .75% 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%
SHISD 2019 FY Member Contributions	67,098	69,107
SHISD 2019 FY Employer Contributions	82,496	85,310
Measurement Year NECE On-behalf Contributions	94,004	124,553

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

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$182.6 million in fiscal year 2018. The 85th Texas Legislature, House Bill 30 provided an additional 212 million in one-time, supplemental funding for the FY 2018-19 biennium to continue to support the program. This was also received in FY 2018 bringing the total appropriations received in fiscal year 2018 to \$394.6 million.

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

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

Rates of Mortality	General Inflation
Rates of Retirement	Wage Inflation
Rates of Termination	Expected Payroll Growth
Rates of Disability Incidence	
Additional Actuarial Methods and Assumptions	
Valuation Date	August 31, 2017, rolled forward to August 31, 2018
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Single Discount Rate	3.69%. Sourced from fixed Income municipal bonds with 20 years to maturity that include only federal tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of August 31, 2018
Aging Factors	Based on plan specific experience
Election Rates	Normal Retirement: 70% participation prior to age 65 and 75% participation after age 65
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims cost.
Projected Salary Increases **	3.05% to 9.05%, including inflation
Healthcare Trend Rates	8.50%
Ad-hoc post-employment benefit changes	None

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

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

	1% Decrease in Discount Rate (2.69%)	Current Single Discount Rate (3.69%)	1% Increase in Discount Rate (4.69%)
SHISD's proportionate share of the Net OPEB Liability	7,107,135	5,970,659	5,071,632

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

At August 31, 2019, the District reported a liability of \$5,970,659 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	\$ 5,970,659
State's proportionate share that is associated with the District	<u>9,027,858</u>
Total	<u>\$ 14,998,517</u>

The Net OPEB Liability was measured as of August 31, 2017 and rolled forward to August 31, 2018 and the Total OPEB Liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of that date. The 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 0.011957839% which an increase (decrease) of 0.0009091999% from its proportion measured as of August 31, 2017.

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

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Proportionate share of Net OPEB Liability	4,958,729	5,970,659	7,303,392

Changes Since the Prior Actuarial Valuation. The following were changes to the actuarial assumptions or other inputs that affected measurement of the Total OPEB liability since the prior measurement period:

- Adjustments were made for retirees that were known to have discontinued their health care coverage in fiscal year 2018. This change increased the Total OPEB Liability.
- The health care trend rate assumption was updated to reflect the anticipated return of the Health Insurer Fee (HIF) in 2020. This change increased the Total OPEB Liability.
- Demographic and economic assumptions were updated based on the experience study performed for TRS for the period ending August 31, 2017. This change increased the Total OPEB Liability.
- The discount rate was changed from 3.42 percent as of August 31, 2017 to 3.69 percent as of August 31, 2018. This change lowered the Total OPEB Liability \$2.3 billion.
- Change of Benefit Terms Since the Prior Measurement Date – Please see the 2018 TRS CAFR, page 68, section B. for a list of changes made effective September 1, 2017 by the 85th Texas Legislature.

For the year ended August 31, 2019, the District recognized OPEB expense of \$539,911 and revenue of \$328,379 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 316,841	\$ 94,226
Changes in actuarial assumptions	99,634	1,793,840
Net Difference between projected and actual investment earnings	1,044	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	498,493	-
Total as of August 31, 2018 measurement date	916,012	1,888,066
Contributions paid to TRS subsequent to the measurement date (to be calculated by employer)	85,310	-
Total as of August 31, 2019 fiscal year-end	\$ 1,001,322	\$ 1,888,066

The net amounts of the employer's balances of deferred outflows and inflows (not including the deferred contribution paid subsequent to the measurement date) of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended August 31:	OPEB Expense Amount
2020	\$ (172,978)
2021	(172,978)
2022	(172,978)
2023	(173,176)
2024	(173,289)
Thereafter	(106,655)
	<u>\$ (972,054)</u>

Note M. School District Retiree Health Plan (TRS)

Plan Description – The Spring Hill Independent School District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined post-employment health care plan administered by the Teacher Retirement System of Texas. TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The TRS issued a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8778, or by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701.

Funding Policy – Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage.

Contribution rates and amounts are shown in the table below for fiscal years 2019-2017.

Contribution Rates and Contribution Amounts

Active Member			State		School District	
Year	Rate	Amount	Rate	Amount	Rate	Amount
2019	0.65%	\$69,106	1.25%	\$132,895	0.75%	\$79,737
2018	0.65%	\$67,098	1.25%	\$129,033	0.75%	\$77,421
2017	0.65%	\$63,725	1.00%	\$94,518	0.55%	\$53,921

Note N. Medicare Part D (TRS)

Federal Government Retiree Drug Subsidy - The Medicare Modernization Act of 2003 (MMA) created an outpatient prescription drug benefit program (known as Medicare Part D) and a Retiree Drug Subsidy (RDS) program which were made available in 2006. The Texas Public School Retired Employee Group Insurance Program (TRS-Care) is offering a Medicare Part D Plan and is participating in the Retiree Drug Subsidy plan for eligible TRS-Care participants. Under Medicare Part D and the RDS program, TRS-Care receives payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. On-behalf payments must be recognized as equal revenues and expenditures/expenses by each reporting entity.

The allocation of these on-behalf payments is based on the ratio of a reporting entity's covered payroll to the entire covered payroll reported by all participating reporting entities. TRS based this allocation percentage on the "completed" report submission by reporting entities for the month of May. Any questions about payroll amounts should be directed to a reporting entity's payroll contact.

Contribution amounts are as follows: State Contributions for Medicare Part D made on behalf of Spring Hill Independent School District's employees were \$33,076 for the year ended August 31, 2019. State Contributions for Medicare Part D made on behalf of Spring Hill Independent School District's employees were \$39,295 for the year ended August 31, 2018. State Contributions for Medicare Part D made on behalf of Spring Hill Independent School District's employees were \$47,079 for the year ended August 31, 2017.

Note O. Due From/To 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/to 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/to Other Governments.

Fund	State Entitlements	Federal Grants	Total
Governmental Activities:			
Due From Other Governments:			
General Fund	1,386,490	-	1,386,490
Nonmajor Governmental Funds (Special Revenue)	-	65,269	65,269
Total	1,386,490	65,269	1,451,759

Note P. Unearned Revenues

Unearned revenue at August 31, 2019 consisted of the following:

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Athletic Fund	20,540	-	20,540
Food Service Student Accounts	-	21,882	21,882
	<u>20,540</u>	<u>21,882</u>	<u>42,422</u>

Note Q. Deferred Inflows of Resources (Governmental Funds)

Unavailable revenue – property taxes at August 31, 2019 consisted of the following:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Net uncollected tax revenue	135,010	58,274	193,284
	<u>135,010</u>	<u>58,274</u>	<u>193,284</u>

Note R. Commitments and Contingencies

Litigation - The District may be subjected to loss contingencies arising principally in the normal course of operations. In the opinion of the administration, the outcome of these lawsuits will not have a material adverse effect on the accompanying financial statements and accordingly, no provision for losses has been recorded.

Grant Programs - The District participates in numerous state and federal 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 the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at August 31, 2019 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Note S. Interfund Transfers

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund:		
Operating transfer (out) to Debt Service Fund	-	42,113
Debt Service Fund		
Operating transfer in from General Fund	42,113	-
	<u>42,113</u>	<u>42,113</u>

The General fund transferred funds to the Capital Projects Fund for the construction of the ballfield project.

Note T. Interfund Receivables and Payables

Interfund balances at August 31, 2019 consisted of the following individual fund balances:

	<u>Receivables (Due From)</u>	<u>Payables (Due To)</u>
General Fund:		
Due to Capital Projects Fund	-	42,113
Capital Projects Fund:		
Due from General Fund	42,113	-
Nonmajor Governmental Fund - Special Revenue:		
Due from Fiduciary Fund - Student Activity Fund	48,060	-
Fiduciary Fund - Student Activity Fund:		
Due to Nonmajor Governmental Fund - Special Revenue	-	48,060
	<u>90,173</u>	<u>90,173</u>

Note U. Revenue from Local and Intermediate Sources

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

<u>Revenue Sources</u>	General Fund	Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Funds	Governmental Funds Total
Property taxes & related income	5,458,028	2,333,589	-	-	7,791,617
Investment income	219,638	48,986	32,477	958	302,059
Rent	9,949	-	-	-	9,949
Food service revenue	-	-	-	242,048	242,048
Gifts and contributions	-	-	365,467	-	365,467
Athletics/Cocurricular	79,493	-	-	-	79,493
Campus activity fund	-	-	-	169,723	169,723
Other local and intermediate sources	53,278	-	-	-	53,278
	<u>5,820,386</u>	<u>2,382,575</u>	<u>397,944</u>	<u>412,729</u>	<u>9,013,634</u>

Note V. General Fund Federal Source Revenues

<u>Program or Source</u>	<u>Amount</u>
School Health and Related Services (SHARS)	<u>607,610</u>
	<u>607,610</u>

Note W. Shared Service Arrangements

The District participates in a state/locally funded and federally funded Shared Service Arrangement (“SSA”) for special education services with the following member school districts: Sabine Independent School District (Fiscal Agent), Gladewater Independent School District and White Oak Independent School District.

State/Locally Funded: The fiscal agent provides services paid for using the payments remitted to the fiscal agent. The District has accounted for the payment of the activities of the SSA in the General Fund, Function 93 Shared Services Arrangements and has accounted for using the Model 3 in the SSA section of the Resource Guide. Spring Hill ISD remits funds to the fiscal agent for the director, counselors, diagnosticians, and shared teachers. These payments totaled \$246,542 for the year ended August 31, 2019. The fiscal agent is responsible for the reporting information through PEIMS.

Federally Funded: The fiscal agent receives the federal IDEA-B Preschool Program grant funds and passes the grant funds on to the member districts. According to guidance provided in TEA’s Resource Guide, the District has accounted for the revenues and expenditures of the SSA in the appropriate Special Revenue Funds and accounted for using Model 1 in the SSA section of the Resource Guide. Spring Hill ISD has reported the grant funds received of \$12,945 as revenues and expenditures in the Special Revenue Fund, IDEA-B, Preschool.

Federally Funded: The fiscal agent receives the federal IDEA-B Formula Program grant funds. The fiscal agent provides all services. Although a portion of the activity is attributable to the District’s participation the District does not account for the revenue or expenditures of this program. The fiscal agent is responsible for all financial activities of the SSA.

Note X. Subsequent Events

In reviewing its financial statements, management has evaluated events subsequent to the balance sheet date through November 21, 2019, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

SPRING HILL 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	\$ 5,732,424	\$ 5,730,250	\$ 5,820,386	\$ 90,136
5800 State Program Revenues	10,326,429	10,363,403	10,997,825	634,422
5900 Federal Program Revenues	390,000	390,000	607,610	217,610
5020 Total Revenues	16,448,853	16,483,653	17,425,821	942,168
EXPENDITURES:				
Current:				
0011 Instruction	9,237,725	9,054,723	8,916,206	138,517
0012 Instructional Resources and Media Services	295,673	315,672	302,917	12,755
0013 Curriculum and Instructional Staff Development	322,646	322,646	298,055	24,591
0023 School Leadership	1,040,855	1,050,855	1,012,569	38,286
0031 Guidance, Counseling and Evaluation Services	320,796	340,796	319,925	20,871
0033 Health Services	144,063	159,063	145,541	13,522
0034 Student (Pupil) Transportation	417,329	444,829	419,845	24,984
0035 Food Services	10,752	10,752	9,259	1,493
0036 Extracurricular Activities	1,069,746	1,142,046	1,079,405	62,641
0041 General Administration	923,587	838,590	747,751	90,839
0051 Facilities Maintenance and Operations	1,830,670	2,247,859	2,090,925	156,934
0052 Security and Monitoring Services	132,911	323,911	292,634	31,277
0053 Data Processing Services	293,297	313,297	279,621	33,676
0061 Community Services	25,803	27,803	23,152	4,651
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of	266,000	266,000	246,542	19,458
0099 Other Intergovernmental Charges	117,000	117,000	112,671	4,329
6030 Total Expenditures	16,448,853	16,975,842	16,297,018	678,824
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(492,189)	1,128,803	1,620,992
OTHER FINANCING SOURCES (USES):				
8911 Transfers Out (Use)	-	-	(42,113)	(42,113)
1200 Net Change in Fund Balances	-	(492,189)	1,086,690	1,578,879
0100 Fund Balance - September 1 (Beginning)	7,628,412	7,628,412	7,628,412	-
3000 Fund Balance - August 31 (Ending)	\$ 7,628,412	\$ 7,136,223	\$ 8,715,102	\$ 1,578,879

	<u>FY 2016</u>	<u>FY 2015</u>
	<u>Plan Year 2015</u>	<u>Plan Year 2014</u>
	0.0065702%	0.0027257%
\$	2,322,478	\$ 728,072
	6,822,710	5,855,028
\$	<u>9,145,188</u>	<u>\$ 6,583,100</u>
\$	9,222,926	\$ 9,032,137
	25.18%	8.06%
	78.43%	83.25%

<u>2016</u>		<u>2015</u>	
\$	219,390	\$	194,546
	(219,390)		(194,546)
<u>\$</u>	<u>-</u>	<u>\$</u>	<u>-</u>
<hr/>			
\$	9,344,168	\$	9,222,926
	2.35%		2.11%

SPRING HILL 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

	FY 2019 Plan Year 2018	FY 2018 Plan Year 2017
District's Proportion of the Net Liability (Asset) for Other Postemployment Benefits	0.011957839%	0.01104864%
District's Proportionate Share of Net OPEB Liability (Asset)	\$ 5,970,659	\$ 4,804,639
State's Proportionate Share of the Net OPEB Liability (Asset) Associated with the District	9,027,858	7,862,837
Total	<u>\$ 14,998,517</u>	<u>\$ 12,667,476</u>
District's Covered Payroll	\$ 10,322,664	\$ 9,803,834
District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	57.84%	49.01%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	1.57%	0.91%

Note: GASB Codification, Vol. 2, P50.238 states that the information on this schedule should be determined as of the measurement date. Therefore the amounts reported for FY 2019 are for the measurement date August 31, 2018. The amounts for FY 2018 are based on the August 31, 2017 measurement date.

This schedule shows only the years for which this information is available. Additional information will be added until 10 years of data are available and reported.

SPRING HILL INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR OTHER POSTEMPLOYMENT BENEFITS (OPEB)
 TEACHER RETIREMENT SYSTEM OF TEXAS
 FOR FISCAL YEAR 2019

	2019	2018
Contractually Required Contribution	\$ 85,310	\$ 82,496
Contribution in Relation to the Contractually Required Contribution	(85,310)	(82,496)
Contribution Deficiency (Excess)	\$ -0-	\$ -0-
District's Covered Payroll	\$ 10,631,614	\$ 10,322,664
Contributions as a Percentage of Covered Payroll	0.80%	0.80%

Note: GASB Codification, Vol. 2, P50.238 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31 of the preceding year.

Information in this schedule should be provided only for the years where data is available. Eventually 10 years of data should be presented.

SPRING HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED AUGUST 31, 2019

A. Notes to Schedules for the TRS Pension Plan

Changes of benefit terms

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

Changes of assumptions

Assumptions, methods, and plan changes which are specific to the Pension Trust Fund were updated from the prior year's report. The Net Pension Liability increased significantly since the prior measurement date due to a change in the following actuarial assumptions:

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

B. Notes to Schedules for the TRS OPEB Plan

Changes of benefit

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

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

Changes in Assumptions

The following were changes to the actuarial assumptions or other inputs that affected measurement of the Total OPEB Liability since the prior measurement period.

- Adjustments were made for retirees that were known to have discontinued health care coverage in fiscal year 2018. This change increased the Total OPEB Liability.
- The health care trend rate assumption was updated to reflect the anticipated return of the Health Insurer Fee (HIF) in 2020. This change increased the Total OPEB Liability.
- Demographic and economic assumptions were updated based on the experience study performed for TRS for the period ending August 31, 2017. This change increased the Total OPEB Liability.
- The discount rate changed from 3.42 percent as of August 31, 2017 to 3.69 percent, as of August 31, 2018. This change lowered the Total OPEB Liability \$2.3 billion.

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

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

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

COMBINING SCHEDULES

255 ESEA II,A Training and Recruiting	289 Other Federal Special Revenue Funds	410 State Instructional Materials	461 Campus Activity Funds	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 27,577	\$ 196,371
-	-	-	-	65,269
-	-	-	48,060	48,060
-	-	-	-	8,782
-	-	-	-	52,345
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 75,637</u>	<u>\$ 370,827</u>
\$ -	\$ -	\$ -	\$ -	\$ 96
-	-	-	-	52,285
-	-	-	-	21,882
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>74,263</u>
-	-	-	-	52,345
-	-	-	-	168,582
-	-	-	75,637	75,637
-	-	-	75,637	296,564
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 75,637</u>	<u>\$ 370,827</u>

255 ESEA II,A Training and Recruiting	289 Other Federal Special Revenue Funds	410 State Instructional Materials	461 Campus Activity Funds	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 169,723	\$ 412,729
-	-	328,098	-	338,724
54,607	21,184	-	-	1,033,337
54,607	21,184	328,098	169,723	1,784,790
54,607	21,184	328,098	52,835	817,786
-	-	-	67,721	67,721
-	-	-	-	782,246
-	-	-	48,567	48,567
-	-	-	1,442	1,442
54,607	21,184	328,098	170,565	1,717,762
-	-	-	(842)	67,028
-	-	-	76,479	229,536
\$ -	\$ -	\$ -	\$ 75,637	\$ 296,564

REQUIRED T.E.A. SCHEDULES

(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
\$ 50,319	\$ -	\$ 107	\$ 51	\$ (9,306)	\$ 40,855
5,396	-	32	15	(12)	5,337
3,098	-	28	14	(12)	3,044
12,628	-	504	215	(4,326)	7,583
11,242	-	(849)	(362)	(4,229)	8,224
21,735	-	(5,452)	(2,329)	(13,056)	16,460
27,157	-	(4,776)	(2,041)	(12,367)	21,607
34,983	-	654	280	(15,158)	18,891
87,781	-	20,867	8,922	(14,959)	43,033
-	8,047,380	5,419,881	2,316,175	(211,038)	100,286
<u>\$ 254,338</u>	<u>\$ 8,047,380</u>	<u>\$ 5,430,996</u>	<u>\$ 2,320,940</u>	<u>\$ (284,463)</u>	<u>\$ 265,318</u>

SPRING HILL INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - FOOD 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	\$ 256,500	\$ 256,500	\$ 243,006	\$ (13,494)
5800 State Program Revenues	4,300	4,300	10,626	6,326
5900 Federal Program Revenues	536,693	546,693	596,484	49,791
5020 Total Revenues	797,493	807,493	850,116	42,623
EXPENDITURES:				
Current:				
0035 Food Services	797,493	807,493	782,246	25,247
6030 Total Expenditures	797,493	807,493	782,246	25,247
1200 Net Change in Fund Balances	-	-	67,870	67,870
0100 Fund Balance - September 1 (Beginning)	153,057	153,057	153,057	-
3000 Fund Balance - August 31 (Ending)	\$ 153,057	\$ 153,057	\$ 220,927	\$ 67,870

SPRING HILL 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	\$ 2,313,537	\$ 2,313,537	\$ 2,382,575	\$ 69,038
5800 State Program Revenues	537,644	612,644	907,030	294,386
5020 Total Revenues	2,851,181	2,926,181	3,289,605	363,424
EXPENDITURES:				
Debt Service:				
0071 Principal on Long-Term Debt	1,469,000	1,469,000	1,469,000	-
0072 Interest on Long-Term Debt	1,379,781	1,382,781	1,376,097	6,684
0073 Bond Issuance Cost and Fees	2,400	74,400	69,199	5,201
6030 Total Expenditures	2,851,181	2,926,181	2,914,296	11,885
1100 Excess of Revenues Over Expenditures	-	-	375,309	375,309
OTHER FINANCING SOURCES (USES):				
7911 Capital Related Debt Issued (Regular Bonds)	-	2,860,000	2,860,000	-
7916 Premium or Discount on Issuance of Bonds	-	187,498	187,498	-
8949 Other (Uses)	-	(2,978,125)	(2,978,125)	-
7080 Total Other Financing Sources (Uses)	-	69,373	69,373	-
1200 Net Change in Fund Balances	-	69,373	444,682	375,309
0100 Fund Balance - September 1 (Beginning)	1,008,536	1,008,536	1,008,536	-
3000 Fund Balance - August 31 (Ending)	\$ 1,008,536	\$ 1,077,909	\$ 1,453,218	\$ 375,309

**COMPLIANCE, INTERNAL CONTROL, AND
FEDERAL AWARDS SECTION**



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENTAL AUDITING STANDARDS***

Independent Auditor's Report

Board of Trustees
Spring Hill Independent School District
3101 Spring Hill Road
Longview, TX 75605

Members of the Board:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Spring Hill 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, and have issued our report thereon dated November 21, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



WILF & HENDERSON, P.C.
Certified Public Accountants
Texarkana, Texas

November 21, 2019



**REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY UNIFORM GUIDANCE**

Independent Auditor's Report

Board of Trustees
Spring Hill Independent School District
3101 Spring Hill Road
Longview, TX 75605

Members of the Board:

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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



WILF & HENDERSON, P.C.
Certified Public Accountants
Texarkana, Texas

November 21, 2019

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

I. Summary of the Auditor's Results:

- a. The type of report issued on the financial statements of the Spring Hill Independent School District was an unmodified opinion.
- b. No significant deficiencies or material weaknesses relating to the audit of the financial statements are reported in the report on internal control over financial reporting and on compliance and other matters required by the GAO's *Government Auditing Standards*.
- c. No instance of noncompliance material to the financial statements of the Spring Hill Independent School District was disclosed during the audit.
- d. No significant deficiency or material weakness relating to the audit of the major federal award programs are reported in the report on internal control over compliance required by Uniform Guidance.
- e. The type of report the auditor issued on compliance for major programs was an unmodified opinion.
- f. No audit findings relative to the major federal awards programs were disclosed by the audit that were required to be reported under 2 CFR 200.516(a).
- g. The program tested as major programs was:

ESEA, Title I, Part A - Improving Basic Program CFDA # 84.00A
- h. The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- i. Spring Hill Independent School District was determined to be a low-risk auditee.

II. Findings Relating to the Financial Statements Which Are Required To Be Reported in Accordance with *Generally Accepted Government Auditing Standards*.

No findings were required to be reported.

III. Findings and Responses for Federal Awards Including Audit Findings as Described in I.f above.

No findings were required to be reported.

**SPRING HILL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2019**

There were no prior year audit findings or questioned costs.

**SPRING HILL INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2019**

There were no current year audit findings or questioned costs.

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

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	20-610101092907	\$ 324,517
*IDEA - Part B, Preschool	84.173	20-661000929066610	12,945
Career and Technical - Basic Grant	84.048	20-420006092907	23,600
ESEA, Title II, Part A, Teacher Principal Training	84.367A	20-694501092907	54,607
Title IV, Part A, Subpart 1	84.424A	20-68010101092907	21,184
Total Passed Through State Department of Education			436,853
TOTAL U.S. DEPARTMENT OF EDUCATION			436,853
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
*School Breakfast Program	10.553		116,162
*School Breakfast Program - Non Cash Assistance	10.553		16,462
Total CFDA Number 10.553			132,624
*National School Lunch Program - Cash Assistance	10.555		406,286
*National School Lunch Prog. - Non-Cash Assistance	10.555		57,574
Total CFDA Number 10.555			463,860
Total Child Nutrition Cluster			596,484
Total Passed Through the State Department of Agriculture			596,484
TOTAL U.S. DEPARTMENT OF AGRICULTURE			596,484
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,033,337

*Clustered Programs Required by Compliance Supplement 2019

**SPRING HILL INDEPENDENT SCHOOL DISTRICT
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2019**

1. For all Federal programs, the District uses the fund types specified in Texas Education Agency's *Financial Accountability System Resource Guide*. Special revenue funds are used to account for resources restricted or committed to specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund.
2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types and Expendable Trust Funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting is used for the Governmental Fund types, the Expendable Trust Funds, and Agency Funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred revenues until earned.

The District has elected to not use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

3. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions in Section H, Period of Availability of Federal Funds, Part 3, OMB Uniform Guidance Supplement.
4. Nonmonetary assistance received from the Commodity Supplemental Food Program is recorded in fair market value of the commodities received and disbursed. The revenue and expense are reported in the Food Service Special Revenue Fund.

A reconciliation of federal program revenues and expenditures is as follows:

General Fund	607,610
Other Special Revenue Funds	<u>1,033,337</u>
Sub -total	1,640,947
Less Medicaid Arrangements Payments:	
SSA - School Health & Related Services (SHARS)	<u>(607,610)</u>
Total Federal Program Expenditures	<u>1,033,337</u>

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Financial Advisory Services
Provided By:

