

Ratings: Moody's: "Aaa"
S&P: "AAA"
(See "RATINGS" and "THE PERMANENT
SCHOOL FUND GUARANTEE PROGRAM" herein)

PRELIMINARY OFFICIAL STATEMENT

Dated: November 17, 2020

NEW ISSUE: BOOK-ENTRY-ONLY

Interest on the Bonds (defined below) is not excludable for federal tax purposes. "TAX MATTERS" herein.

\$67,020,000*

CROSBY INDEPENDENT SCHOOL DISTRICT

(A political subdivision of the State of Texas located in Harris County, Texas)

Unlimited Tax Refunding Bonds, Taxable Series 2020

Interest Accrual/Accretion Date: Date of Delivery

Dated Date: December 1, 2020

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

The Crosby Independent School District Unlimited Tax Refunding Bonds, Taxable Series 2020 (the "Bonds") which are issued in part as Current Interest Bonds ("CIBs") and in part as Premium Capital Appreciation Bonds ("CABs"), as shown on the inside cover page hereof, are being issued pursuant to the Constitution and general laws of the State of Texas, including Chapters 1207 and 1371, Texas Government Code, as amended (together, the "Act"), and an order (the "Bond Order") authorizing the issuance of the Bonds adopted on October 19, 2020 by the Board of Trustees (the "Board") of the Crosby Independent School District (the "District"). As permitted by the provisions of the Act, the Board, in the Bond Order, delegated the authority to certain District officials (each, a "Pricing Officer") to execute approval of a pricing certificate establishing the pricing terms for the Bonds (the "Pricing Certificate" and together with the Bond Order, the "Order"). The Bonds are payable as to principal and interest from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, against all taxable property located within the District. 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 will automatically become effective when the Attorney General of Texas approves the Bonds. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

Interest on the CIBs will accrue from the Date of Delivery and will be payable on February 15 and August 15 of each year, commencing February 15, 2021, until stated maturity or prior redemption. Interest on the CABs will accrete from the Date of Delivery, compound semiannually on each February 15 and August 15, commencing February 15, 2021, and will be payable only upon stated maturity. The CIBs will be issued in fully registered form in principal denominations of \$5,000 or any integral multiple thereof within a stated maturity, and the CABs will be issued as fully registered bonds in denominations of \$5,000, representing the total amount of principal, plus the initial premium, if any, paid therefor, and accreted interest payable upon stated maturity (the "Maturity Value"), or any integral multiple thereof. Principal of the CIBs and Maturity Value of the CABs 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; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under "BOOK-ENTRY-ONLY SYSTEM" herein. Interest on the CIBs 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 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 "THE BONDS - Authorization and Purpose" and "SCHEDULE I - Schedule of Refunded Bonds").

The CIBs maturing on and after February 15, 2031 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. The CABs are not subject to redemption prior to stated maturity. (See "THE BONDS - Redemption Provisions"). If two or more serial CIBs of consecutive maturities are combined into one or more "Term Bonds" by the Underwriters, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order (see "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 Underwriters subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, Bond Counsel. Certain legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe LLP, Austin, Texas, Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Locke Lord LLP, Houston, Texas. The Bonds are expected to be available for initial delivery through the facilities of DTC on or about December 17, 2020.

FROST BANK

J.P. MORGAN

CITIGROUP

**Preliminary, subject to change.*

\$67,020,000*
CROSBY INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Harris County, Texas)
UNLIMITED TAX REFUNDING BONDS, TAXABLE SERIES 2020

MATURITY SCHEDULE*
Base CUSIP No: 227381⁽¹⁾

\$66,745,000* Current Interest Bonds

Maturity Date 2/15	Principal Amount*	Interest Rate	Initial Yield	CUSIP No. Suffix⁽¹⁾
2021	\$1,970,000			
2022	1,580,000			
2023	1,585,000			
**	**			
2031	4,115,000			
2032	4,195,000			
2033	4,280,000			
2034	4,375,000			
2035	4,475,000			
2036	4,585,000			
2037	4,700,000			
2038	4,820,000			
2039	4,945,000			
2040	5,070,000			
2041	5,210,000			
2042	5,345,000			
2043	5,495,000			

(Interest to accrue from the Date of Delivery)

\$275,000* Capital Appreciation Bonds

Maturity Date 2/15	Principal* Amount	Initial Yield to Maturity	Maturity* Value	Initial Offering Price per \$5,000 in Maturity Value	CUSIP Suffix No.⁽¹⁾
2024	\$160,000		\$1,595,000		
2025	55,000		1,115,000		
2026	25,000		1,115,000		
2027	15,000		1,115,000		
2028	5,000		1,115,000		
2029	5,000		1,595,000		
2030	10,000		4,070,000		

(Interest to accrete from the Date of Delivery)

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

*Preliminary, subject to change.

CROSBY INDEPENDENT SCHOOL DISTRICT

BOARD OF TRUSTEES

<u>Name</u>	<u>Date Initially Elected</u>	<u>Current Term Expires</u>	<u>Occupation</u>
Randy Condra, President	2016	2020	Refinery Worker
JR Humphries, Vice President	2018	2022	Piping Designer
Tanya Eagleton, Secretary	2008	2022	Small Business Owner
KeaLynn Lewis, Assistant Secretary	2018	2022	Small Business Owner
David Porter, Member	2012	2020	Pharmacist
John Swinney, Member	2014	2022	Refinery Worker
Carla Mills Windfont, Member	2002	2020	Teacher

APPOINTED OFFICIALS

<u>Name</u>	<u>Position</u>	<u>Length of Education Service</u>	<u>Length of Service with the District</u>
Dr. Scott Davis*	Superintendent	27 Years	2 Years
Lesa Jones*	Chief Financial Officer	28.5 Years	2 Years

**The Superintendent and Chief Financial Officer have both announced their retirement in June 2021. The District intends to hire replacements for both officials by the spring of 2021.*

CONSULTANTS AND ADVISORS

McCall, Parkhurst & Horton L.L.P., San Antonio, Texas	Bond Counsel
SAMCO Capital Markets, Inc., Plano, Texas	Financial Advisor
Pattillo, Brown & Hill, L.L.P., Waco, Texas	Certified Public Accountants

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USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

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

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

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

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

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

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

NONE OF THE DISTRICT, ITS FINANCIAL ADVISOR, OR THE UNDERWRITERS MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY ("DTC") OR ITS BOOK-ENTRY-ONLY SYSTEM DESCRIBED UNDER "BOOK-ENTRY-ONLY SYSTEM" OR THE AFFAIRS OF THE TEA DESCRIBED UNDER "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM", AS SUCH INFORMATION WAS PROVIDED BY THE DTC AND THE TEA, 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 SCHEDULES I AND II 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 the entire Official Statement.

The District	The Crosby Independent School District (the "District") is a political subdivision of the State of Texas located in Harris 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 \$67,020,000 (preliminary, subject to change) pursuant to the Constitution and general laws of the State of Texas, including Chapters 1207 and 1371, Texas Government Code, as amended (together, the "Act"), and an order adopted by the Board of Trustees on October 19, 2020 (the "Bond Order"). As permitted by the provisions of the Act, the Board, in the Bond Order, delegated the authority to certain District officials (each, a "Pricing Officer") to execute a pricing certificate establishing the pricing terms for the Bonds (the "Pricing Certificate" and together with the Bond Order, the "Order"). The Bonds are being issued in part as Current Interest Bonds ("CIBs") and in part as Premium Capital Appreciate Bonds ("CABs"). 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 "THE BONDS - Authorization and Purpose" 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 DTC. (See "BOOK-ENTRY-ONLY SYSTEM" herein).
Security	The Bonds will constitute direct obligations of the District, payable as to principal and interest from ad valorem taxes levied annually against all taxable property located within the District, without legal limitation as to rate or amount. Payments of principal and interest on the Bonds will be guaranteed by the corpus of the Permanent School Fund of Texas. (See "THE BONDS – Security" and "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein).
Redemption Provisions	The CIBs maturing on and after February 15, 2031 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. The CABs are not subject to redemption prior to stated maturity. (See "THE BONDS – Redemption Provisions"). If two or more serial CIBs of consecutive maturities are combined into one or more "Term Bonds" by the Underwriter, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order (see "THE BONDS Redemption Provisions – Mandatory Sinking Fund Redemption").
Permanent School Fund Guarantee	The District has received conditional approval from the Texas Education Agency for the payment of the Bonds to be guaranteed under the Permanent School Fund Guarantee Program, which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").
Ratings	The Bonds are rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") and "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 unenhanced underlying ratings, which apply to the Bonds, are "A3" by Moody's and "A-" by S&P. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "RATING" herein.)
Tax Matters	Interest on the Bonds is not excludable from gross income for federal income tax purposes. (See "TAX MATTERS" herein).
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 McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, Bond Counsel.
Delivery	When issued, anticipated to be on or about December 17, 2020.

INTRODUCTORY STATEMENT

This Official Statement (the "Official Statement"), which includes the cover page, Schedule I and II and the Appendices attached hereto, has been prepared by the Crosby Independent School District (the "District"), a political subdivision of the State of Texas (the "State") located in Harris County, Texas, in connection with the offering by the District of its Unlimited Tax Refunding Bonds, Taxable 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, the Order (as defined below) 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 by writing the Crosby Independent School District, 14670 FM 2100, Crosby, Texas 77532 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 to its date, and the information contained herein is subject to change. A copy of this Final Official Statement and the hereinafter defined Escrow Agreement pertaining to the Bonds will be deposited with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) system. See "CONTINUING DISCLOSURE OF INFORMATION" herein 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 October 7, 2020 of Executive Order GA-32, 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-32 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-32 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 November 5, 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.

THE BONDS

Authorization and Purpose

The Bonds are being issued in the principal amount of \$67,020,000 (preliminary, subject to change) pursuant to the Constitution and general laws of the State, including Chapters 1207 and 1371, Texas Government Code, as amended (together, the "Act"), and an order adopted on October 19, 2020 (the "Bond Order") by the Board of Trustees of the District (the "Board") authorizing the issuance of the Bonds. As permitted by the provisions of the Act, the Board, in the Bond Order, delegated the authority to certain District officials (each, a "Pricing Officer") to execute a pricing certificate establishing the pricing terms for the Bonds (the "Pricing Certificate") and together with the Bond Order, the "Order". Proceeds from the sale of the Bonds will be used to (i) refund a portion of the District's outstanding bonds (the "Refunded Bonds") for debt service savings and (ii) pay the costs of issuing the Bonds. (See "Schedule I – Schedule of Refunded 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 and Trust Agreement dated as of October 19, 2020 (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 with the Escrow Agent in the amount necessary and sufficient to accomplish the discharge and final payment of the Refunded Bonds at their scheduled redemption date (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 be invested in certain direct, noncallable obligations of the United States of America (including obligations unconditionally guaranteed by the United States of America) that were, on the date the Order was adopted, rated as to investment quality by a nationally recognized rating firm of not less than "AAA" (the "Escrowed Securities").

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 Underwriters 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 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 Escrowed Securities and cash, 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.

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

General Description

The Bonds will be dated December 1, 2020 and are issued as (i) obligations on which interest accrues and is payable semiannually and at stated maturity or prior redemption (the "Current Interest Bonds" or the "CIBs") and (ii) obligations on which interest accretes and is payable only at stated maturity (the "Premium Capital Appreciation Bonds" or "CABs"). Interest on the CIBs will accrue from the date of their initial delivery (the "Date of Delivery") to the initial purchasers thereof set forth on the cover page of this Official Statement (the "Underwriters"); interest on the CABs will accrete from the Date of Delivery to their respective dates of stated maturity (the principal amount of each CAB, plus the initial premium (if any) paid therefor, and accreted interest on such CAB payable at stated maturity is referred to herein as the "Maturity Value"). The CIBs will mature on the dates and in the principal amounts set forth on the inside cover page of this Official Statement. The CABs will mature on the dates and in the Maturity Values set forth on the inside cover page, and will accrete interest at the stated interest rates, but the yields to the Underwriters will be the approximate yields shown on the inside cover page resulting from the initial offering prices to the public.

Interest on the CIBs will be computed on the basis of a 360-day year of twelve 30-day months, and is payable on February 15 and August 15 of each year, commencing February 15, 2021, until stated maturity or prior redemption. Interest on the CABs will compound on each February 15 and August 15, commencing February 15, 2021, until stated maturity. The sum of the principal of, interest accreted on and the initial premium, if any, on the CABs per \$5,000 Maturity Value as of each February 15 and August 15 is computed on the basis of the initial offering price to the public as adjusted by semiannual compounding at the initial offering yield set forth on the inside cover page of this Official Statement (the "Accreted Value"). A table of Accreted Values based on such initial offering price is set forth herein under Schedule II. Such Accreted Value table is provided for informational purposes only and may not reflect prices for the CABs in the secondary market.

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

Interest on the CIBs 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 CIBs and the Maturity Value of the CABs will be payable only upon presentation of such Bonds at the corporate trust office of the Paying Agent/Registrar at stated maturity or, with respect to the CIBs, 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 and interest or Maturity Value, as applicable, of the Bonds will be made as described in "BOOK-ENTRY-ONLY SYSTEM" herein.

If the date for any payment due on any Bond shall be a Saturday, Sunday, legal holiday, or day on which banking institutions in the city in which the designated office of 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 such a day. The payment on such date shall have the same force and effect as if made on the original date payment was due.

Redemption Provisions

Optional Redemption of CIBs: The CIBs maturing on and after February 15, 2031 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 CIBs 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 CIBs, or portions thereof, to be redeemed.

No Redemption of CABs: The CABs are not subject to redemption prior to stated maturity.

Mandatory Sinking Fund Redemption

If two or more serial CIBs of consecutive maturities are combined into one or more "Term Bonds" by the Underwriters, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order and as further set forth in the final Official Statement.

Notice of Redemption and DTC Notices

Not less than 30 days prior to a redemption date for the CIBs, 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 CIB 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 CIBS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY CIB OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH CIB 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 of a CIB, 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 CIBs called for redemption or any other action premised on such notice or any such notice. Redemption of portions of the CIBs by the District will reduce the outstanding principal amount of such CIBs held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such CIBs 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 CIBs from the Beneficial Owners. Any such selection of CIBs 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 CIBs for redemption. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Yield on Premium Capital Appreciation Bonds

The yields of the CABs as set forth on the inside cover page of this Official Statement are the approximate yields based upon the initial offering price therefor set forth on the inside cover page of this Official Statement. Such offering price includes the principal amount of such CABs plus premium equal to the amount by which such offering price exceeds the principal amount of such CABs. Because of such premium, the approximate offering yield on the CABs is lower than the bond interest rates thereon. The yield on the CABs to a particular purchaser may differ depending upon the price paid by that purchaser. For various reasons, securities that do not pay interest periodically, such as the CABs, have traditionally experienced greater price fluctuations in the secondary market than securities that pay interest on a periodic basis.

Security

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

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

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

Legality

The Bonds are offered when, as and if issued, subject to the approval of legality by the Attorney General of the State and McCall, Parkhurst & Horton L.L.P., San Antonio, 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

In the Order, the District has reserved the right to amend the Order without the consent of any holder of the Bonds for the purpose of amending or supplementing the Order to (i) cure any ambiguity, defect or omission therein that does not materially adversely affect the interests of the holders, (ii) grant additional rights or security for the benefit of the holders, (iii) add events of default as shall not be inconsistent with the provisions of the Order that do not materially adversely affect the interests of the holders, (iv) qualify the Order under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect or (v) make such other provisions in regard to matters or questions arising under the Order that are not inconsistent with the provisions thereof and which, in the opinion of Bond Counsel for the District, do not materially adversely affect the interests of the holders.

The Order further provides that the holders of the Bonds in majority principal amount and Maturity Value, as applicable, of the outstanding Bonds shall have the right from time to time to approve any amendment not described above to the Order if it is deemed necessary or desirable by the District; provided, however, that without the consent of 100% of the holders in principal amount or Maturity Value, as applicable, of the then outstanding Bonds so affected, no amendment may be made for the purpose of: (i) making any change in the maturity of any of the outstanding Bonds; (ii) reducing the rate of interest borne by any of the outstanding CIBs; (iii) reducing the amount of the principal or redemption premium (CIBs only), if any, or Maturity Value of outstanding Bonds; (iv) modifying the terms of payment of principal or interest or redemption premium (CIBs only) or Maturity Value on outstanding Bonds or imposing any condition with respect to such payment; or (v) changing the minimum percentage of the principal amount and Maturity Value of the Bonds necessary for consent to such amendment. Reference is made to the Order for further provisions relating to the amendment thereof.

Defeasance

The Order provides for the defeasance of the Bonds when payment of the principal of and premium, if any, on the CIBs and Maturity Value of the CABs, as applicable, plus interest on the CIBs to the due date thereof (whether such due date be by reason of maturity, redemption or otherwise), is provided by irrevocably depositing with a paying agent or other authorized escrow agent, in trust (1) money in an amount sufficient to make such payment and/or (2) Defeasance Securities, that will 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, and thereafter the District will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased Bonds, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The District has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance 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. The Order provides that "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Bonds. Current State law permits defeasance with the following types of securities: (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 the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, 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 the governing body of the District adopts or approves the proceedings authorizing the issuance of the refunding bonds are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (d) any additional securities and obligations hereafter authorized by Texas law as eligible for use to accomplish the discharge of obligations such as the Bonds. A Pricing Officer may restrict such eligible securities and obligations as deemed appropriate in connection with the sale of the Bonds. There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Order does not contractually limit such investments, registered owners 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 for defeasance purposes or that for any other Defeasance 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. After firm banking and financial arrangements for the discharge and final payment of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the CIBs for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, the District has the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption at an earlier date those CIBs which have been defeased to their maturity date, if the District (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the CIBs for redemption, (ii) gives notice of the reservation of that right to the owners of the CIBs immediately following the making of the firm banking and financial arrangements, and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Defeasance of the Bonds cancels the Permanent School Fund guarantee with respect to such defeased Bonds.

Sources and Uses of Funds

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

Sources

Par Amount of the CIBs	\$
Par Amount of CABs	
[Net] Original Issue Premium	
Total Sources of Funds	\$

Uses

Deposit to Escrow Fund	\$
Costs of Issuance	
Underwriters' Discount	
Total Uses of Funds	\$

REGISTERED OWNERS' REMEDIES

The Order establishes specific events of default with respect to the Bonds and provides that if the District defaults in the payment of principal or interest on or Maturity Value of the Bonds when due, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, and the continuation thereof for a period of 60 days after notice of default is given by the District by any registered owner, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or the Order covenants and the District's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Chapter 1371, as amended, Texas Government Code ("Chapter 1371"), which pertains to the issuance of public securities by issuers such as the District, permits the District to waive sovereign immunity in the proceedings authorizing the issuance of the Bonds. Notwithstanding its reliance upon the provisions of Chapter 1371 in connection with the issuance of the Bonds (see "THE BONDS – Authorization and Purpose" herein), the District has not waived the defense of sovereign immunity with respect thereto. Because it is unclear whether the Texas Legislature has effectively waived the District's sovereign immunity from a suit for money damages outside of Chapter 1371, bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, by general principles of equity which permit the exercise of judicial discretion and by governmental immunity.

BOOK-ENTRY-ONLY SYSTEM

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

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

DTC, New York, New York, 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 stated maturity of the Bonds, each in the aggregate principal amount or Maturity Value 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 an 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 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 (CIBs only), 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 (CIBs only) shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

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

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

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from DTC and the District and the Underwriters believe such information to be reliable, but none of the District, the Financial Advisor or the Underwriters take any responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of this Official Statement

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

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

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

Successor Paying Agent/Registrar

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

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

Initial Registration

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

Future Registration

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

Record Date For Interest Payment

The record date ("Record Date") for determining the person to whom the interest on the CIBs 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, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest (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 CIB appearing on the books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing of such notice.

Limitation on Transfer of Bonds

The Paying Agent/Registrar shall not be required to make any such transfer, conversion or exchange (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal, interest or Maturity Value payment date or (ii) with respect to any CIB or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date; provided, however, that such limitation shall not apply to uncalled portions of a CIB redeemed in part.

Replacement Bonds

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

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

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

History and Purpose

The PSF was created with a \$2,000,000 appropriation by the Texas Legislature (the "Legislature") in 1854 expressly for the benefit of the public schools of Texas. The Constitution of 1876 stipulated that certain lands and all proceeds from the sale of these lands should also constitute the PSF. Additional acts later gave more public domain land and rights to the PSF. In 1953, the U.S. Congress passed the Submerged Lands Act that relinquished to coastal states all rights of the U.S. navigable waters within state boundaries. If the state, by law, had set a larger boundary prior to or at the time of admission to the Union, or if the boundary had been approved by Congress, then the larger boundary applied. After three years of litigation (1957-1960), the U. S. Supreme Court on May 31, 1960, affirmed Texas' historic three marine leagues (10.35 miles) seaward boundary. Texas proved its submerged lands property rights to three leagues into the Gulf of Mexico by citing historic laws and treaties dating back to 1836. All lands lying within that limit belong to the PSF. The proceeds from the sale and the mineral-related rental of these lands, including bonuses, delay rentals and royalty payments, become the corpus of the Fund. Prior to the approval by the voters of the State of an amendment to the constitutional

provision under which the Fund is established and administered, which occurred on September 13, 2003 (the "Total Return Constitutional Amendment"), and which is further described below, the PSF had as its main sources of revenues capital gains from securities transactions and royalties from the sale of oil and natural gas. The Total Return Constitutional Amendment provides that interest and dividends produced by Fund investments will be additional revenue to the PSF. The State School Land Board ("SLB") maintains the land endowment of the Fund on behalf of the Fund and is generally authorized to manage the investments of the capital gains, royalties and other investment income relating to the land endowment. The SLB is a five member board, the membership of which consists of the Commissioner of the Texas General Land Office (the "Land Commissioner") and four citizen members appointed by the Governor. (See "2019 Texas Legislative Session" for a description of legislation that changed the composition of the SLB). As of August 31, 2019, the General Land Office (the "GLO") managed approximately 26% of the PSF, as reflected in the fund balance of the PSF at that date.

The Texas Constitution describes the PSF as "permanent." Prior to the approval by Texas voters of the Total Return Constitutional Amendment, only the income produced by the PSF was to be used to complement taxes in financing public education.

On November 8, 1983, the voters of the State approved a constitutional amendment that provides for the guarantee by the PSF of bonds issued by school districts. On approval by the State Commissioner of Education (the "Commissioner"), bonds properly issued by a school district are fully guaranteed by the corpus of the PSF. See "The School District Bond Guarantee Program."

In 2011, legislation was enacted that established the Charter District Bond Guarantee Program as a new component of the Guarantee Program. That legislation authorized the use of the PSF to guarantee revenue bonds issued by or for the benefit of certain open-enrollment charter schools that are designated as "charter districts" by the Commissioner. On approval by the Commissioner, bonds properly issued by a charter district participating in the Program are fully guaranteed by the corpus of the PSF. As described below, the implementation of the Charter District Bond Guarantee Program was deferred pending receipt of guidance from the Internal Revenue Service (the "IRS") which was received in September 2013, and the establishment of regulations to govern the program, which regulations became effective on March 3, 2014. See "The Charter District Bond Guarantee Program."

State law also permits charter schools to be chartered and operated by school districts and other political subdivisions, but bond financing of facilities for school district-operated charter schools is subject to the School District Bond Guarantee Program, not the Charter District Bond Guarantee Program.

While the School District Bond Guarantee Program and the Charter District Bond Guarantee Program relate to different types of bonds issued for different types of Texas public schools, and have different program regulations and requirements, a bond guaranteed under either part of the Guarantee Program has the same effect with respect to the guarantee obligation of the Fund thereto, and all guaranteed bonds are aggregated for purposes of determining the capacity of the Guarantee Program (see "Capacity Limits for the Guarantee Program"). The Charter District Bond Guarantee Program as enacted by State law has not been reviewed by any court, nor has the Texas Attorney General been requested to issue an opinion, with respect to its constitutional validity.

The sole purpose of the PSF is to assist in the funding of public education for present and future generations. Prior to the adoption of the Total Return Constitutional Amendment, all interest and dividends produced by Fund investments flowed into the Available School Fund (the "ASF"), where they are distributed to local school districts and open-enrollment charter schools based on average daily attendance. Any net gains from investments of the Fund accrue to the corpus of the PSF. Prior to the approval by the voters of the State of the Total Return Constitutional Amendment, costs of administering the PSF were allocated to the ASF. With the approval of the Total Return Constitutional Amendment, the administrative costs of the Fund have shifted from the ASF to the PSF. In fiscal year 2019, distributions to the ASF amounted to an estimated \$306 per student and the total amount distributed to the ASF was \$1,535.8 million.

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

2019 Texas Legislative Session

During the 86th Regular Session of the Texas Legislature, which concluded on May 27, 2019 (the "86th Session"), various bills were enacted that relate to the PSF. Among such enacted legislation are bills that relate to the composition of the SLB and its relationship to the SBOE with respect to the management of the PSF. Legislation was approved that 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 of deposit of such reclaimed funds to the Charter District Reserve Fund.

No assessment has been made by the TEA or PSF staff as to the potential financial impact of any legislation enacted during the 86th Session, including the increase in the permissible amount that may be transferred from the PSF to the ASF, as approved by State voters at the November 5, 2019 referendum.

The Total Return Constitutional Amendment

The Total Return Constitutional Amendment approved a fundamental change in the way that distributions are made to the ASF from the PSF. The Total Return Constitutional Amendment requires that PSF distributions to the ASF be determined using a total-return-based formula instead of the current-income-based formula, which was used from 1964 to the end of the 2003 fiscal year. The Total Return Constitutional Amendment provides that the total amount distributed from the Fund to the ASF: (1) in each year of a State fiscal biennium must be an amount that is not more than 6% of the average of the market value of the Fund, excluding real property (the “Distribution Rate”), on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium (the “Distribution Measurement Period”), in accordance with the rate adopted by: (a) a vote of two-thirds of the total membership of the State Board of Education (“SBOE”), taken before the Regular Session of the Legislature convenes or (b) the Legislature by general law or appropriation, if the SBOE does not adopt a rate as provided by clause (a); and (2) over the ten-year period consisting of the current State fiscal year and the nine preceding state fiscal years may not exceed the total return on all investment assets of the Fund over the same ten-year period (the “Ten Year Total Return”). In April 2009, the Attorney General issued a legal opinion, Op. Tex. Att’y Gen. No. GA-0707 (2009) (“GA-0707”), at the request of the Chairman of the SBOE with regard to certain matters pertaining to the Distribution Rate and the determination of the Ten Year Total Return. In GA-0707 the Attorney General opined, among other advice, that (i) the Ten Year Total Return should be calculated on an annual basis, (ii) a contingency plan adopted by the SBOE, to permit monthly transfers equal in aggregate to the annual Distribution Rate to be halted and subsequently made up if such transfers temporarily exceed the Ten Year Total Return, is not prohibited by State law, provided that such contingency plan applies only within a fiscal year time basis, not on a biennium basis, and (iii) that the amount distributed from the Fund in a fiscal year may not exceed 6% of the average of the market value of the Fund or the Ten Year Total Return. In accordance with GA-0707, in the event that the Ten Year Total Return is exceeded during a fiscal year, transfers to the ASF will be halted. However, if the Ten Year Total Return subsequently increases during that biennium, transfers may be resumed, if the SBOE has provided for that contingency, and made in full during the remaining period of the biennium, subject to the limit of 6% in any one fiscal year. Any shortfall in the transfer that results from such events from one biennium may not be paid over to the ASF in a subsequent biennium as the SBOE would make a separate payout determination for that subsequent biennium.

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

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

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

With respect to the management of the Fund’s financial assets portfolio, the single most significant change made to date as a result of the Total Return Constitutional Amendment has been new asset allocation policies adopted from time to time by the SBOE. The SBOE generally reviews the asset allocations during its summer meeting in even numbered years. The first asset allocation policy adopted by the SBOE following the Total Return Constitutional Amendment was in February 2004, and the policy was reviewed and modified or reaffirmed in the summers of each even-numbered year, most recently in 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 "CDBG Rules"). The CDBG Rules are codified at 19 TAC section 33.67, and are available at <http://ritter.tea.state.tx.us/rules/tac/chapter033/ch033a.html#33.67>.

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

As of March 20, 2020 (the most recent date for which data is available), the percentage of students enrolled in open-enrollment charter schools (excluding charter schools authorized by school districts) to the total State scholastic census was approximately 6.15%. At 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 CDBG Rules provide that the PSF may be used to guarantee bonds issued for the acquisition, construction, repair, or renovation of an educational facility for an open-enrollment charter holder and equipping real property of an open-enrollment charter school and/or to refinance promissory notes executed by an open-enrollment charter school, each in an amount in excess of \$500,000 the proceeds of which loans were used for a purpose described above (so-called new money bonds) or for refinancing bonds previously issued for the charter school that were approved by the attorney general (so-called refunding bonds). Refunding bonds may not be guaranteed under the Charter District Bond Guarantee Program if they do not result in a present value savings to the charter holder.

The CDBG Rules provide that an open-enrollment charter holder applying for charter district designation and a guarantee of its bonds under the Charter District Bond Guarantee Program satisfy various provisions of the regulations, including the following: It must (i) have operated at least one open-enrollment charter school with enrolled students in the State for at least three years; (ii) agree that the bonded indebtedness for which the guarantee is sought will be undertaken as an obligation of all entities under common control of the open-enrollment charter holder, and that all such entities will be liable for the obligation if the open-enrollment charter holder defaults on the bonded indebtedness, provided, however, that an entity that does not operate a charter school in Texas is subject to this provision only to the extent it has received state funds from the open-enrollment charter holder; (iii) have had completed for the past three years an audit for each such year that included unqualified or unmodified audit opinions; and (iv) have received an investment grade credit rating within the last year. Upon receipt of an application for guarantee under the Charter District Bond Guarantee Program, the Commissioner is required to conduct an investigation into the financial status of the applicant charter district and of the accreditation status of all open-enrollment charter schools operated under the charter, within the scope set forth in the CDBG 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 "CDBG Capacity"), which further increased the amount of the CDBG 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 CDBG Capacity include Fund investment performance, future increases in the Guarantee Program multiplier, changes in State law that govern the calculation of the CDBG 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 CDBG 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 CDBG 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 CDBG 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 CDBG 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 CDBG 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 CDBG 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 CDBG 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	
<u>At 8/31</u>	<u>Principal Amount⁽¹⁾</u>
2015	\$63,955,449,047
2016	68,303,328,445
2017	74,266,090,023
2018	79,080,901,069
2019	84,397,900,203 ⁽²⁾

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

⁽²⁾ As of August 31, 2019 (the most recent date for which such data is available), the TEA expected that the principal and interest to be paid by school districts and charter districts over the remaining life of the bonds guaranteed by the Guarantee Program was \$133,188,149,265, of which \$48,790,249,062 represents interest to be paid. As shown in the table above, at August 31, 2019, there were \$84,397,900,203 in principal amount of bonds guaranteed under the Guarantee Program. 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⁾						
<u>School District Bonds</u>			<u>Charter District Bonds</u>			<u>Totals</u>
<u>Fiscal Year Ended 8/31</u>	<u>No. of Issues</u>	<u>Principal Amount</u>	<u>No. of Issues</u>	<u>Principal Amount</u>	<u>No. of Issues</u>	<u>Principal Amount</u>
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 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.

CURRENT PUBLIC SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

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

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

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

RECENT DEVELOPMENTS IMPACTING THE DISTRICT'S FINANCIAL CONDITION

During the District's fiscal years ended June 30, 2017 ("FY 2017") and June 30, 2018 ("FY 2018"), the District experienced recurring deficits, as discussed in the Official Statement dated January 18, 2018 (the "2018 Official Statement") for the District's Unlimited Tax School Building Bonds, Series 2018 (the "Series 2018 Bonds"), a voluntary notice filed on EMMA by the District on September 5, 2018 (the "September 2018 Notice"), and in the District's Audited Annual Financial Reports for the Fiscal Years Ended June 30, 2018 (the "2018 Audit") and June 30, 2019 (the "2019 Audit" and, together with the 2018 Audit, the "Audits"). Copies of the 2018 Official Statement, the September 2018 Notice, and the Audits are available on the MSRB's EMMA website, but such documents are not incorporated by reference, either expressly or by implication, into this Official Statement.

In January 2018, the District's former Superintendent resigned, citing personal reasons. An interim Superintendent was hired and served until the current Superintendent joined the District on July 2, 2018. The District's former Chief Financial Officer resigned in May 2018 and the current Chief Financial Officer joined the District on July 2, 2018.

Soon after joining the District, the current Superintendent and the current Chief Financial Officer identified certain accounting anomalies that occurred during FY 2017 and FY 2018 and took action for further review. The new District management determined that a payroll accrual of approximately \$3.9 million was omitted from the financial records for FY 2017 and questioned construction expenses during FY 2017 and construction payables at June 30, 2017. Both of these topics were further reviewed in the course of the 2018 Audit. The District's former independent auditor found in the 2018 Audit that there were material weaknesses in internal control over financial reporting, and that there was substantial doubt about the District's ability to continue as a going concern for a reasonable period of time. The 2018 Audit stated that information obtained by the former independent auditor indicated that fraudulent financial reporting may have occurred in connection with the District's FY 2017 financial statements. Prior period adjustments were recorded during preparation of the 2018 Audit to address the following errors: (1) the omission of an accrual of approximately \$7.8 million for certain capital expenses related to construction projects that had been substantially completed during FY 2017, and (2) the omission of an accrual of approximately \$3.9 million for certain payroll expenses for FY 2017. As discussed in the 2018 Audit, such errors were corrected through a restatement of net position and beginning fund balance in the District's FY 2018 financial statements. Due to such errors, the 2018 Official Statement, including the caption "2016-2017 FISCAL YEAR DEFICIT" therein and the District's FY 2017 financial statements attached as Appendix D thereto, contained information that was later identified in the 2018 Audit as misstated. In April 2019, following the completion of the term of its engagement with its former independent auditor, the District initiated an RFQ process to select a new independent auditor. In May 2019, after reviewing responses, the District engaged a new independent auditor to prepare the 2019 Audit.

As discussed in the 2018 Audit, the District implemented a financial recovery plan during its fiscal year ending June 30, 2019 to address the District's then-anticipated shortage of financial resources and improve the District's financial condition by balancing the District's budget and reversing a trend of expenditures exceeding revenues. Such plan included the Board's declaration of financial exigency on October 8, 2018 pursuant to Section 44.011 of the Texas Education Code, which allowed the District to implement cost saving measures, including a mid-year reduction in force. The District also entered into a taxable loan agreement (the "Taxable Loan Agreement") to provide up to \$9 million in funds for the purpose of managing cash flow imbalances in the General Fund. The District drew down a total of \$2 million under the Taxable Loan Agreement, which the District has since repaid.

Since the declaration of financial exigency and other measures taken by the District's current administration, the District's financial condition has improved, as further discussed in the 2019 Audit. As of June 30, 2019, the District had a \$5,142,439 positive unassigned fund balance in its general fund, an increase of \$7,658,888 as compared to June 30, 2018. The Board took action to terminate the declaration of financial exigency on March 25, 2019 and to terminate the Taxable Loan Agreement on October 19, 2020.

Although the District has taken the affirmative actions described above and further described in the 2018 Official Statement, the September 2018 Notice, and the Audits, the District cannot predict its future financial condition. Investors are directed to the District's Audited Annual Financial Report for the Fiscal Year Ended June 30, 2020 (the "2020 Audit") attached as Appendix D to this Official Statement for a detailed description of the District's financial performance and results for the most recently completed fiscal year. The narrative provided above is intended to be read in conjunction with the 2020 Audit and is not to be interpreted as comprehensive of, conclusory regarding, or a recommendation concerning the District's financial condition.

SEC Investigation

On May 7, 2019, the SEC's Division of Enforcement issued a non-public letter to the District advising it of the SEC's investigation into certain matters relating to transactions and activities that occurred in FY 2017 and FY 2018 to determine if there have been any violations of federal securities laws. Additionally, the SEC has issued subpoenas for certain documents and information relating to such investigation. See "LITIGATION – SEC Investigation" herein.

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. Prospective investors are encouraged to review Title I of the Texas Tax Code, as amended (the "Property Tax Code"), for identification of property subject to ad valorem taxation, property exempt or which may be exempted from ad valorem taxation if claimed, the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Valuation of Taxable Property

The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the "Appraisal Review Board") responsible for appraising property for all taxing units within the county. The appraisal of property within the District is the responsibility of the Harris Central 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 exemption described in (2), above, may also be created, increased, decreased or repealed at an election called by the governing body of a taxing unit upon presentment of a petition for such creation, increase, decrease, or repeal of at least 20% of the number of qualified voters who voted in the preceding election of the taxing unit. See "Appendix A – Financial Information – 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 – 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 – Assessed Valuation" for the reduction in taxable valuation, if any, attributable to Goods-in-Transit or Freeport Property exemptions.

Other Exempt Property

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

Temporary Exemption for Qualified Property Damaged by a Disaster

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

Tax Increment Reinvestment Zones

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

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

Tax Limitation Agreements

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

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

District and Taxpayer Remedies

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

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

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

Levy and Collection of Taxes

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

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

District’s Rights in the Event of Tax Delinquencies

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

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

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

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

TAX RATE LIMITATIONS

M&O Tax Rate Limitations

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 January 30, 1960, pursuant to Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended.

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

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

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

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

I&S Tax Rate Limitations

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

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

Public Hearing and Voter-Approval Tax Rate

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

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 Harris 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 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 Goose Creek CISD Tax Office.

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

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

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

The District has not taken action to tax freeport property. The District has not taken action to continue to tax goods-in-transit.

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 June 30, 2020, 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 "Defined Benefit Pension Plan" to the audited financial statements of the District that are attached hereto as Appendix D (the "Financial Statements").

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

During the fiscal year ended June 30, 2020, employees of the District were covered by a fully-insured health insurance plan (the "Health Care Plan"). The District contributed \$150 per month per employee to the Health Care Plan. Employees, at their option, authorize payroll withholdings to pay premiums for dependents. See "RISK MANAGEMENT – Health Insurance" of the Financial Statements.

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

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

RATINGS

The Bonds are rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") and "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 (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein). The District's unenhanced, underlying ratings, which apply to the Bonds, are "A3" by Moody's and "A-" by S&P.

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

The above ratings are not a recommendation to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by Moody's and S&P. Any downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

LEGAL MATTERS

The delivery of the Bonds is subject to the approval of the Attorney General of Texas who will deliver its opinion to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property in the District, and based upon examination of such transcript of proceedings, the approving legal opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel to the District ("Bond Counsel"), to like effect. The form of Bond Counsel's opinion is attached hereto as Appendix C. The legal fee to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe LLP, Austin, Texas, Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Locke Lorde LLP, Houston, Texas. The legal fee to be paid to counsel to the Underwriters for services rendered in connection with the issuance of the Bonds is contingent upon the sale of the delivery of the Bonds.

Though it represents the Financial Advisor and the Underwriters from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the District in the issuance of the Bonds. McCall, Parkhurst & Horton L.L.P. also advises the TEA in connection with its disclosure obligations under the federal securities laws, but such firm has not passed upon any TEA disclosures contained in this Official Statement. 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 "THE BONDS" (except under the subcaptions "Permanent School Fund Guarantee", "Payment Record", "Sources and Uses of Funds", "Yield on Premium Capital Appreciation Bonds" and the second paragraph under "Notice of Redemption and DTC Notices", as to which no opinion is expressed) "REGISTRATION, TRANSFER AND EXCHANGE", "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM", "TAX RATE LIMITATIONS – M&O Tax Rate Limitations" (first paragraph only) "LEGAL MATTERS" (except for the last two sentences of the first paragraph thereunder), "TAX MATTERS", "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS", "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE" and "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance with Prior Undertakings," as to which no opinion will be expressed) and such firm is of the opinion that the information relating to the Bonds and the Order contained under such captions is a fair and accurate summary of the information purported to be shown and that the information and descriptions contained under such captions relating to the provisions of applicable state and federal laws 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

Certain Federal Income Tax Considerations

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

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

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

THIS SUMMARY IS INCLUDED HEREIN FOR GENERAL INFORMATION ONLY AND DOES NOT DISCUSS ALL ASPECTS OF THE U.S. FEDERAL INCOME TAXATION THAT MAY BE RELEVANT TO A PARTICULAR HOLDER OF BONDS IN LIGHT OF THE HOLDER'S PARTICULAR CIRCUMSTANCES AND INCOME TAX SITUATION. PROSPECTIVE HOLDERS OF THE BONDS SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE BONDS BEFORE DETERMINING WHETHER TO PURCHASE BONDS.

THIS SUMMARY IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY ANY TAXPAYER, TO AVOID PENALTIES THAT MIGHT BE IMPOSED ON THE TAXPAYER IN CONNECTION WITH THE MATTERS DISCUSSED THEREIN. INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE TAX IMPLICATIONS OF THE PURCHASE, OWNERSHIP OR DISPOSITION OF THE BONDS UNDER APPLICABLE STATE OR LOCAL LAWS, OR ANY OTHER TAX CONSEQUENCE.

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

Certain U.S. Federal Income Tax Consequences to U.S. Holders

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

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

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

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

Certain U.S. Federal Income Tax Consequences to Non-U.S. Holders

A Non-U.S. Holder that is not subject to U.S. federal income tax as a result of any direct or indirect connection to the U.S. in addition to its ownership of a Bond, will not be subject to U.S. federal income or withholding tax in respect of a Bond, provided that such Non-U.S. Holder complies, to the extent necessary, with identification requirements including delivery of a signed

statement under penalties of perjury, certifying that such Non-U.S. Holder is not a U.S. person and providing the name and address of such Non-U.S. Holder. Absent such exemption, payments of interest, including any amounts paid or accrued in respect of accrued original issue discount, may be subject to withholding taxes, subject to reduction under any applicable tax treaty. Non-U.S. Holders are urged to consult their own tax advisors regarding the ownership, sale or other disposition of a Bond.

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

Information Reporting and Backup Withholding

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

INVESTMENT POLICIES

Investments

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

Legal Investments

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

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

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

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

As a school district that qualifies as an "issuer" under Chapter 1371, as amended, Texas Government Code, the District is also authorized to purchase, sell, and invest its funds in corporate bonds. State law defines "corporate bonds" as senior secured debt obligations issued by a domestic business entity and rated not lower than "AA-" or the equivalent by a nationally recognized investment rating firm. The term does not include a bond that is convertible into stocks or shares in the entity issuing the bond (or an affiliate or subsidiary thereof) or any unsecured debt. Corporate bonds must finally mature not later than 3 years from their date of purchase by the school district. A school district may not (1) invest more than 15% of its monthly average fund balance (excluding bond proceeds, reserves, and other funds held for the payment of debt service) in corporate bonds; or (2) invest more than 25% of the funds invested in corporate bonds in any one domestic business entity (including subsidiaries and affiliates thereof). Corporate bonds held by a school district must be sold if they are at any time downgraded below "AA-" (or the equivalent thereof) or, with respect to a corporate bond rated "AA-" (or the equivalent thereof), such corporate bond is placed on negative credit watch. Corporate bonds are not an eligible investment for a public funds investment pool. To invest in corporate bonds, an eligible school district must first (i) amend its investment policy to authorize corporate bonds as an eligible investment, (ii) adopt procedures for monitoring rating changes in corporate bonds and liquidating an investment in corporate bonds, and (iii) identify funds eligible to be invested in corporate bonds. As of the date of this Official Statement, the District has not taken the steps necessary to allow for investing in corporate bonds but has not made any investments in that type of instrument.

Investment Policies

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

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

Additional Provisions

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

Current Investments

As of June 30, 2020, the District had \$16,667,148 invested in TexPool, \$2,222,188 invested in Lone Star Investment Pool and \$181,164 invested in LOGIC (government investment pools that generally have the characteristics of a money-market mutual fund). The market value of such investments (as determined by the District by reference to published quotations, dealer bids, and comparable information) is approximately 100% of the book value. No funds of the District are invested in derivative securities, i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

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

FINANCIAL ADVISOR

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

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State, the PFIA requires that the Bonds be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency. See "RATINGS" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. The 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 MSRB. The information provided to the MSRB will be available to the public free of charge via the EMMA system at www.emma.msrb.org. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" for a description of the TEA's continuing disclosure undertaking to provide certain updated financial information and operating data annually with respect to the Permanent School Fund and the State, as the case may be, and to provide timely notice of certain specified events related to the guarantee, to the MSRB.

Annual Reports

The District will provide certain updated financial information and operating data annually to the MSRB. The information to be updated includes 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 six months of the end of each fiscal year, in each case beginning with the fiscal year ending in and after 2021. 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 six months after any such fiscal year end, then the District shall file unaudited Financial Statements within such six-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 Rule 15c2-12.

The District's current fiscal year end is June 30. Accordingly, the Annual Operating Report must be provided by the last day of December in each year, and the Financial Statements must be provided by December 31 of 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 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". In the Order, the District adopted policies and procedures to ensure timely compliance with continuing disclosure undertakings. Neither the Bonds nor the Order make any provision for a bond trustee, debt service reserves, credit enhancement (except for the Permanent School Fund guarantee), liquidity enhancement or redemption of CABs prior to stated maturity. In addition, the Bonds are not obligation the interest on which is excluded for purposes of federal income taxation of the gross income of the holders thereof. The District will provide each notice described in this paragraph to the MSRB.

For these purposes, (a) any event described in clause (12) of the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District, and (b) the District intends the words used in the immediately preceding clauses (15) and (16) and in the definition of Financial Obligation above to have the meanings 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 made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB via the EMMA System at www.emma.msrb.org.

Limitations and Amendments

The District has agreed to update information and to provide notices of specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell 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 (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with Rule 15c2-12, taking into account any amendments or interpretations of Rule 15c2-12 to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount and maturity value 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 registered owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of Rule 15c2-12 are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

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

VERIFICATION OF 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

General

In the opinion of District officials, 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 or operations of the District.

At the time of the initial delivery of the Bonds, the District will provide the Underwriters with a certificate to the effect that except as disclosed in the Official Statement, 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.

SEC Investigation

On May 7, 2019, the SEC's Division of Enforcement issued a non-public letter to the District advising it of the SEC's investigation into certain matters relating to transactions and activities that occurred in FY 2017 and FY 2018 (the "SEC Investigation") to determine if there have been any violations of federal securities laws. Additionally, the SEC has issued subpoenas for certain documents and information relating to the SEC Investigation. The District has retained outside counsel to represent it in connection with the SEC Investigation. To date the District, has fully cooperated with the SEC and has provided the SEC with all requested documents and information. No assurances can be made with respect to the course of the SEC Investigation or its eventual outcome.

FORWARD LOOKING STATEMENTS

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

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

UNDERWRITING

The Underwriters have agreed, subject to certain customary conditions, to purchase the Bonds at a price equal to the initial offering prices to the public, as shown on the inside cover page hereof, less an Underwriters' discount of \$ _____. The Underwriter's obligations are subject to certain conditions precedent, and the Underwriters will be obligated to purchase all of the Bonds, if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

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

Citigroup Global Markets Inc., one of the Underwriters of the Bonds, has entered into a retail distribution agreement with Fidelity Capital Markets, a division of National Financial Services LLC (together with its affiliates, "Fidelity"). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors at the original issue price through Fidelity. As part of this arrangement, Citigroup Global Markets Inc. will compensate Fidelity for its selling efforts.

J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of Charles Schwab & Co., Inc. ("CS&Co.") and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase the Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the District for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the District.

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.

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, the Rule.

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.

The Order authorized the Pricing Officer to approve the form and content of this Official Statement and any addenda, supplement or amendment thereto and authorized its further use in the re-offering of the Bonds by the Underwriters. This Official Statement will be approved by the Pricing Officer of the District for distribution in accordance with the provisions of the Rule.

/s/

Pricing Officer

CROSBY INDEPENDENT SCHOOL DISTRICT

Schedule I - Schedule of Refunded Bonds*

Unlimited Tax School Building Bonds, Series 2013

<u>Maturities Being Redeemed</u>	<u>Original CUSIP</u>	<u>Principal Amount Outstanding</u>	<u>Interest Rate</u>	<u>Principal Amount Being Refunded</u>	<u>Call Date</u>	<u>Principal Amount Unrefunded</u>
2/15/2030	227381PK0	\$ 3,545,000.00	4.000%	\$ 3,545,000.00	August 15, 2023 @ Par	-
2/15/2031	227381PL8	3,690,000.00	4.000%	3,690,000.00	August 15, 2023 @ Par	-
2/15/2032	227381PM6	3,840,000.00	4.000%	3,840,000.00	August 15, 2023 @ Par	-
2/15/2033	227381PN4	3,995,000.00	4.125%	3,995,000.00	August 15, 2023 @ Par	
2/15/2034	227381PP9	4,165,000.00	4.125%	4,165,000.00	August 15, 2023 @ Par	
2/15/2035	227381PQ7	4,360,000.00	5.000%	4,360,000.00	August 15, 2023 @ Par	
2/15/2036	227381PR5	4,565,000.00	4.250%	4,565,000.00	August 15, 2023 @ Par	
2/15/2037	227381PS3	4,785,000.00	5.000%	4,785,000.00	August 15, 2023 @ Par	
2/15/2038	227381PT1	5,010,000.00	4.250%	5,010,000.00	August 15, 2023 @ Par	
2/15/2039	227381PU8	5,245,000.00	5.000%	5,245,000.00	August 15, 2023 @ Par	
2/15/2040	227381PV6	5,515,000.00	5.000%	5,515,000.00	August 15, 2023 @ Par	
2/15/2041		5,800,000.00	5.000%	5,800,000.00 ⁽¹⁾	August 15, 2023 @ Par	
2/15/2042		6,095,000.00	5.000%	6,095,000.00 ⁽¹⁾	August 15, 2023 @ Par	-
2/15/2043	227381PY0	6,410,000.00	5.000%	6,410,000.00 ⁽¹⁾	August 15, 2023 @ Par	-
		<u>\$ 67,020,000.00</u>		<u>\$ 67,020,000.00</u>		<u>\$ -</u>

(1) Represents a mandatory sinking fund redemption of the term bond outstanding in the principal amount of \$18,305,000 that matures February 15, 2043.

*Preliminary, subject to change.

CROSBY INDEPENDENT SCHOOL DISTRICT
Unlimited Tax Refunding Bonds, Taxable Series 2020

Schedule II - Schedule of Accreted Values of Premium Capital Appreciation Bonds ("CABs")
(Per \$5,000 Maturity Value)

CABs Delivery Date: December 17, 2020

Date	Accreted Value of 2/15/2024 Maturity @ _____ %	Accreted Value of 2/15/2025 Maturity @ _____ %	Accreted Value of 2/15/2026 Maturity @ _____ %	Accreted Value of 2/15/2027 Maturity @ _____ %	Accreted Value of 2/15/2028 Maturity @ _____ %	Accreted Value of 2/15/2029 Maturity @ _____ %	Accreted Value of 2/15/2030 Maturity @ _____ %
12/17/20	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
02/15/21							
08/15/21							
02/15/22							
08/15/22							
02/15/23							
08/15/23							
02/15/24							
08/15/24							
02/15/25							
08/15/25							
02/15/26							
08/15/26							
02/15/27							
08/15/27							
02/15/28							
08/15/28							
02/15/29							
08/15/29							
02/15/30							

APPENDIX A

FINANCIAL INFORMATION OF THE DISTRICT

CROSBY INDEPENDENT SCHOOL DISTRICT

Financial Information

ASSESSED VALUATION ⁽¹⁾

2019/20 Total Valuation.....		\$ 2,694,211,639
Less Exemptions & Deductions ⁽²⁾ :		
State Homestead Exemption	\$ 166,755,082	
State Mandated Over-65 Exemption	22,540,350	
100% Disabled Veterans Exemption Loss	15,344,313	
Local Optional Over-65 Exemption	28,582,713	
Partial Disabled Veterans Exemption Loss	1,829,712	
Surviving Spouse Exemption Loss	1,382,826	
Pollution Control Exemption Loss	17,842,266	
Productivity Loss	231,746,655	
Solar/Wind Power Exemption	92,559	
Prorations & Other Partial Exemptions	46,249	
Homestead Cap Loss	68,341,680	
	\$ 554,504,405	
2019/20 Net Taxable Valuation		\$ 2,139,707,234
2020/21 Net Taxable Valuation ⁽³⁾		\$ 2,329,532,863

⁽¹⁾ Source: Comptroller of Public Accounts - Property Tax Division. The passage of a Texas Constitutional Amendment on November 3, 2015 increased the homestead exemption from \$15,000 to \$25,000.

⁽²⁾ Excludes the values on which property taxes are frozen for persons 65 years of age or older and disabled taxpayers which totaled \$103,797,248 in 2019/20.

⁽³⁾ Source: Crosby ISD Truth in Taxation Worksheet as of September 28, 2020. Includes \$328,607,451 of taxable value of properties under protest and \$73,381,613 of taxable value not under protest or included on the certified appraisal roll.

VOTED GENERAL OBLIGATION DEBT

Unlimited Tax Bonds Outstanding ⁽¹⁾	\$ 133,510,000
Less: The Refunded Bonds ⁽²⁾	(67,020,000)
Plus: The Bonds ^{(2) (3)}	67,020,000
Total Unlimited Tax Bonds ^{(1) (2) (3)}	\$ 133,510,000
Less: Interest & Sinking Fund Balance (As of June 30, 2020) ⁽⁴⁾	(8,902,939)
Net General Obligation Debt	\$ 124,607,061

Ratio of Net G.O. Debt to Net Taxable Valuation ⁽⁵⁾ 5.35%

2020 Population Estimate ⁽⁶⁾	30,677
Per Capita Net Taxable Valuation	\$75,937
Per Capita Net G.O. Debt	\$4,062

⁽¹⁾ Includes \$1,355,000 of principal of the Series 2009 Refunding Bonds to be redeemed on February 15, 2021 and \$2,005,000 of principal of the Series 2013 Refunding Bonds to be defeased on February 15, 2021 with cash on hand and current year interest and sinking fund tax collections.

⁽²⁾ Preliminary, subject to change.

⁽³⁾ Excludes interest accreted on outstanding capital appreciation bonds.

⁽⁴⁾ Source: Crosby ISD Audited Financial Statements.

⁽⁵⁾ The ratio of Net G.O. Debt to Net Taxable Valuation above does not include the Maintenance Tax Notes which are payable solely from the limited maintenance and operations tax or other lawfully available funds of the District. The ratio also does not include a portion of the District's outstanding debt service that is payable from any debt subsidies that may be provided by the State of Texas. The District does not expect to receive state funding assistance for voted bond debt service for the 2020/21 fiscal year. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the body of the Official Statement, "DEBT SERVICE REQUIREMENTS" in this appendix and the "Audited Financial Report Fiscal Year Ended June 30, 2020" in Appendix D for more information relative to the District's outstanding obligations.

⁽⁶⁾ Source: Municipal Advisory Council of Texas.

PROPERTY TAX RATES AND COLLECTIONS

Fiscal Year	Net Taxable Valuation	Tax Rate	% Collections ⁽⁴⁾	
			Current ⁽⁵⁾	Total ⁽⁵⁾
2006/07	\$ 1,028,505,249 ⁽¹⁾	\$ 1.6711 ⁽⁶⁾	95.90%	100.97%
2007/08	1,120,885,141 ⁽¹⁾	1.3400 ⁽⁶⁾	95.95%	100.59%
2008/09	1,242,160,228 ⁽¹⁾	1.3400	95.63%	99.28%
2009/10	1,294,073,001 ⁽¹⁾	1.4400	95.99%	99.71%
2010/11	1,329,033,380 ⁽¹⁾	1.4400	96.26%	100.41%
2011/12	1,337,566,035 ⁽¹⁾	1.4400	96.67%	100.68%
2012/13	1,337,736,671 ⁽¹⁾	1.4400	97.00%	100.32%
2013/14	1,336,698,710 ⁽¹⁾	1.6700	96.76%	99.25%
2014/15	1,588,232,826 ⁽¹⁾	1.6700	97.13%	100.30%
2015/16	1,683,386,025 ⁽¹⁾⁽³⁾	1.6700	97.51%	100.50%
2016/17	1,794,104,260 ⁽¹⁾⁽³⁾	1.6700	96.69% ⁽⁷⁾	98.53% ⁽⁷⁾
2017/18	1,860,060,079 ⁽¹⁾⁽³⁾	1.6700	96.72%	100.02%
2018/19	1,935,952,975 ⁽¹⁾⁽³⁾	1.6500	96.76%	99.85%
2019/20	2,139,707,234 ⁽¹⁾⁽³⁾	1.5484 ⁽⁸⁾	96.04%	98.93%
2020/21	2,329,532,863 ⁽²⁾⁽³⁾	1.4783	(In process)	

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

⁽²⁾ Source: Crosby ISD Truth in Taxation Worksheet as of September 28, 2020. Includes \$328,607,451 of taxable value of properties under protest and \$73,381,613 of taxable value not under protest or included on the certified appraisal roll.

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

⁽⁴⁾ Source: Crosby ISD Audited Financial Statements.

⁽⁵⁾ Excludes penalties and interest.

⁽⁶⁾ The declines in the District's Maintenance & Operation Tax for the 2006/07 and 2007/08 fiscal years are a function of House Bill 1 adopted by the Texas Legislature in May 2006. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the body of the Official Statement.

⁽⁷⁾ For the Ten Months Ended June 30, 2017. The District changed its fiscal year end from August 31 to June 30 effective September 1, 2016.

⁽⁸⁾ 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 the body of the Official Statement.

TAX RATE DISTRIBUTION ⁽¹⁾

	2016/17	2017/18	2018/19	2019/20 ⁽²⁾	2020/21
Maintenance & Operations	\$1.1700	\$1.1700	\$1.1700	\$1.0684	\$0.9983
Debt Service	\$0.5000	\$0.5000	\$0.4800	\$0.4800	\$0.4800
Total Tax Rate	<u>\$1.6700</u>	<u>\$1.6700</u>	<u>\$1.6500</u>	<u>\$1.5484</u>	<u>\$1.4783</u>

(1) On December 12, 2009, the District successfully held a tax ratification election at which voters approved a maintenance and operations tax rate of \$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	\$1,028,505,249	\$ 64,866,692	6.31%
2007/08	1,120,885,141	62,732,265	5.60%
2008/09	1,242,160,228	60,620,779	4.88%
2009/10	1,294,073,001	58,511,175	4.52%
2010/11	1,329,033,380	56,417,230	4.24%
2011/12	1,337,566,035	54,327,568	4.06%
2012/13	1,337,736,671	117,825,717	8.81%
2013/14	1,336,698,710	115,764,263	8.66%
2014/15	1,588,232,826	132,106,468	8.32%
2015/16	1,683,386,025	127,855,610	7.60%
2016/17	1,794,104,260	124,259,986	6.93%
2017/18	1,860,060,079	139,484,986	7.50%
2018/19	1,935,952,975	136,920,000	7.07%
2019/20	2,139,707,234	133,510,000	6.24%
2020/21	2,329,532,863 ⁽³⁾	124,630,000 ⁽⁴⁾	5.35%

(1) At Fiscal Year End. Excludes interest accreted on outstanding capital appreciation bonds.

(2) See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the body of the Official Statement, "DEBT SERVICE REQUIREMENTS" in this Appendix and see the "Audited Financial Report Fiscal Year Ended June 30, 2020" in Appendix D for more information.

(3) Crosby ISD Truth in Taxation Worksheet as of September 28, 2020. Includes \$328,607,451 of taxable value of properties under protest and \$73,381,613 of taxable value not under protest or included on the certified appraisal roll.

(4) Includes the Bonds and excludes the Refunded Bonds; also includes \$1,355,000 of principal of the Series 2009 Refunding Bonds to be redeemed on February 15, 2021 and \$2,005,000 of principal of the Series 2013 Refunding Bonds to be defeased on February 15, 2021 with cash on hand and current year interest and sinking fund tax collections. Preliminary, subject to change.

ESTIMATED OVERLAPPING DEBT STATEMENT

Taxing Body	Amount	Percent Overlapping	Amount Overlapping
Crosby MUD	\$ 9,600,000	100.00%	\$ 9,600,000
Harris County	1,484,127,125	0.41%	6,084,921
Harris County Department of Education	6,320,000	0.41%	25,912
Harris County Flood Control District	334,270,000	0.41%	1,370,507
Harris Co FWSD #58	4,200,000	63.61%	2,671,620
Harris Co Hospital District	86,050,000	0.41%	352,805
Harris Co MUD #50	10,435,000	100.00%	10,435,000
Harris Co Toll Road	-	0.41%	-
Harris Co WC&ID #70	840,000	100.00%	840,000
City of Houston	3,552,544,525	0.02%	710,509
Newport MUD	27,230,000	100.00%	27,230,000
Port of Houston Authority	514,174,397	0.41%	2,108,115
Total Overlapping Debt ⁽¹⁾			\$ 61,429,389
Crosby Independent School District ^{(2) (3)}			124,607,061
Total Direct & Overlapping Debt			<u>\$186,036,450</u>
Ratio of Net Direct & Overlapping Debt to Net Taxable Valuation		7.99%	
Per Capita Direct & Overlapping Debt		\$6,064	

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

(2) Includes the Bonds and excludes the Refunded Bonds; also includes \$1,355,000 of principal of the Series 2009 Refunding Bonds to be redeemed on February 15, 2021 and \$2,005,000 of principal of the Series 2013 Refunding Bonds to be defeased on February 15, 2021 with cash on hand and current year interest and sinking fund tax collections. Preliminary, subject to change.

(3) Excludes interest accreted on 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**

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
CenterPoint Energy Inc.	Electric Utility	\$ 35,997,603	1.55%
Sooner Pipe	Wholesale Supplier	30,703,130	1.32%
Nabors Industries	Drilling Services/Equipment	30,563,898	1.31%
Lone Star NGL	Pipeline	19,114,803	0.82%
Marubeni-Itochu Tubulars America Inc.	Steel Service Center/Metal Wholesaler	17,252,977	0.74%
TransCanada Keystone Pipeline	Pipeline	17,250,440	0.74%
Wal Mart	Discount Retail	14,326,190	0.61%
Numerical Precision Inc.	Manufacturing	11,184,139	0.48%
HSC Pipeline Partnership LP	Natural Gas Pipeline	10,845,230	0.47%
Comcast of Houston LLC	Telecommunications	8,486,910	0.36%
		<u>\$ 195,725,320</u>	<u>8.40%</u> ⁽²⁾

2019/20 Top Ten Taxpayers

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Sooner Pipe	Wholesale Supplier	\$ 46,967,670	2.20%
CenterPoint Energy Inc.	Electric Utility	33,045,212	1.54%
Nabors Industries	Drilling Services/Equipment	27,126,804	1.27%
Lone Star NGL	Pipeline	18,860,729	0.88%
TransCanada Keystone Pipeline	Pipeline	18,439,098	0.86%
Wal Mart	Discount Retail	14,524,908	0.68%
Org Chemical Holdings LLC	Chemical Plant	12,624,393	0.59%
Numerical Precision Inc.	Manufacturing	12,578,931	0.59%
KMCO Inc.	Chemical Plant	12,356,553	0.58%
Infineum USA LP	Chemical Plant	10,700,958	0.50%
		<u>\$ 207,225,256</u>	<u>9.68%</u>

2018/19 Top Ten Taxpayers

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Sooner Pipe	Wholesale Supplier	\$ 54,574,743	2.82%
Nabors Industries	Drilling Services/Equipment	34,381,708	1.78%
CenterPoint Energy Inc.	Electric Utility	27,715,423	1.43%
TransCanada Keystone Pipeline	Pipeline	19,203,310	0.99%
DNOW LP	Distribution Center	17,886,042	0.92%
Lone Star NGL	Pipeline	17,119,820	0.88%
Wal Mart	Discount Retail	15,719,064	0.81%
KMCO Inc.	Chemical Plant	12,416,710	0.64%
Numerical Precision Inc.	Manufacturing	11,865,364	0.61%
Anadarko Petroleum Co	Oil & Gas	11,266,668	0.58%
		<u>\$ 222,148,852</u>	<u>11.47%</u>

(1) Source: Harris County Appraisal District.

(2) As shown in the table above, the top ten taxpayers in the District account for over 8% of the District's tax base. Adverse developments in economic conditions, especially in a particular industry in which any one of these large taxpayers participates, could adversely impact these businesses and, consequently, the tax values in the District, resulting in less local tax revenue. If any major taxpayer, or a combination of top taxpayers, were to default in the payment of taxes, the ability of the District to make timely payment of debt service on the Bonds may be dependent on its ability to enforce and liquidate its tax lien, which is a time consuming process that may only occur annually. See "REGISTERED OWNERS REMEDIES" and "AD VALOREM TAX PROCEDURES - District and Taxpayer Remedies" in this Official Statement.

CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY ⁽¹⁾

Category	2019/20	% of Total	2018/19	% of Total	2017/18	% of Total
Real, Residential, Single-Family	\$ 1,615,057,246	59.95%	\$ 1,383,474,980	57.48%	\$ 1,299,950,762	56.87%
Real, Residential, Multi-Family	18,522,343	0.69%	16,449,725	0.68%	15,322,444	0.67%
Real, Vacant Lots/Tracts	112,116,631	4.16%	82,440,523	3.43%	85,581,712	3.74%
Real, Qualified Land & Improvements	259,175,662	9.62%	220,942,646	9.18%	205,591,989	8.99%
Real, Non-Qualified Land & Improvements	34,279,920	1.27%	52,482,651	2.18%	14,937,982	0.65%
Real, Commercial & Industrial	256,600,979	9.52%	230,813,473	9.59%	214,033,155	9.36%
Oil & Gas	3,906,500	0.14%	1,137,390	0.05%	5,827,950	0.25%
Utilities	109,091,165	4.05%	103,176,324	4.29%	94,347,254	4.13%
Tangible Personal, Commercial & Industrial	248,229,145	9.21%	278,776,214	11.58%	315,916,090	13.82%
Tangible Personal, Mobile Homes & Other	23,449,445	0.87%	20,935,009	0.87%	21,175,823	0.93%
Tangible Personal, Residential Inventory	3,081,526	0.11%	4,804,649	0.20%	2,387,759	0.10%
Tangible Personal, Special Inventory	<u>10,701,077</u>	<u>0.40%</u>	<u>11,517,453</u>	<u>0.48%</u>	<u>10,773,917</u>	<u>0.47%</u>
Total Appraised Value	\$ 2,694,211,639	100.00%	\$ 2,406,951,037	100.00%	\$ 2,285,846,837	100.00%
Less:						
Homestead Cap Adjustment	\$ 68,341,680		\$ 14,199,292		\$ 20,458,919	
Productivity Loss	231,746,655		214,069,587		168,449,558	
Exemptions	<u>254,416,070</u> ⁽²⁾		<u>242,729,183</u> ⁽²⁾		<u>236,878,281</u> ⁽²⁾	
Total Exemptions/Deductions ⁽³⁾	<u>\$ 554,504,405</u>		<u>\$ 470,998,062</u>		<u>\$ 425,786,758</u>	
Net Taxable Assessed Valuation	\$ 2,139,707,234		\$ 1,935,952,975		\$ 1,860,060,079	

Category	2016/17	% of Total	2015/16	% of Total	2014/15	% of Total
Real, Residential, Single-Family	\$ 1,196,761,044	53.62%	\$ 1,112,938,970	52.97%	\$ 1,005,795,990	53.07%
Real, Residential, Multi-Family	14,053,569	0.63%	14,409,638	0.69%	10,311,349	0.54%
Real, Vacant Lots/Tracts	85,894,843	3.85%	64,187,377	3.05%	60,108,763	3.17%
Real, Qualified Land & Improvements	193,536,235	8.67%	162,301,200	7.72%	128,915,728	6.80%
Real, Non-Qualified Land & Improvements	23,641,193	1.06%	48,480,209	2.31%	51,564,442	2.72%
Real, Commercial & Industrial	196,834,974	8.82%	177,403,293	8.44%	164,523,610	8.68%
Oil & Gas	13,730,290	0.62%	12,744,850	0.61%	15,683,760	0.83%
Utilities	97,945,988	4.39%	96,389,892	4.59%	85,057,981	4.49%
Tangible Personal, Commercial & Industrial	381,450,051	17.09%	385,240,757	18.33%	345,822,670	18.25%
Tangible Personal, Mobile Homes & Other	19,171,468	0.86%	19,808,980	0.94%	18,104,025	0.96%
Tangible Personal, Residential Inventory	1,434,114	0.06%	440,000	0.02%	2,216,941	0.12%
Tangible Personal, Special Inventory	<u>7,390,619</u>	<u>0.33%</u>	<u>6,831,914</u>	<u>0.33%</u>	<u>7,183,193</u>	<u>0.38%</u>
Total Appraised Value	\$ 2,231,844,388	100.00%	\$ 2,101,177,080	100.00%	\$ 1,895,288,452	100.00%
Less:						
Homestead Cap Adjustment	\$ 26,080,814		\$ 32,925,142		\$ 16,391,972	
Productivity Loss	174,857,986		155,052,276		123,953,614	
Exemptions	<u>236,801,328</u> ⁽²⁾		<u>229,813,637</u> ⁽²⁾		<u>166,710,040</u>	
Total Exemptions/Deductions ⁽³⁾	<u>\$ 437,740,128</u>		<u>\$ 417,791,055</u>		<u>\$ 307,055,626</u>	
Net Taxable Assessed Valuation	\$ 1,794,104,260		\$ 1,683,386,025		\$ 1,588,232,826	

Note: 2020/2021 Net Taxable Valuation totals \$2,329,532,863.

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

PRINCIPAL REPAYMENT SCHEDULE ⁽¹⁾

Fiscal Year	Outstanding	Less:	Plus:	Less:	Plus:		Bonds	Percent of
Ending 8/31	Bonds	Bonds to be	Bonds Redeemed	Refunded	The	Total ^{(2) (3) (4)}	Unpaid	Principal
		Called ⁽²⁾	& Defeased ⁽²⁾	Bonds ⁽³⁾	Bonds ^{(3) (4)}		At Year End	Retired
2021	\$ 3,550,000.00	\$ -	\$ 3,360,000.00	\$ -	\$ 1,970,000.00	\$ 8,880,000.00	\$ 124,630,000.00	6.65%
2022	3,695,000.00	435,000.00		-	1,575,000.00	4,835,000.00	119,795,000.00	10.27%
2023	3,845,000.00	450,000.00		-	1,585,000.00	4,980,000.00	114,815,000.00	14.00%
2024	3,990,000.00	470,000.00		-	310,000.00	3,830,000.00	110,985,000.00	16.87%
2025	4,105,000.00	-		-	130,000.00	4,235,000.00	106,750,000.00	20.04%
2026	4,215,000.00	-		-	80,000.00	4,295,000.00	102,455,000.00	23.26%
2027	4,345,000.00	-		-	45,000.00	4,390,000.00	98,065,000.00	26.55%
2028	4,480,000.00	540,000.00		-	40,000.00	3,980,000.00	94,085,000.00	29.53%
2029	4,620,000.00	1,465,000.00		-	25,000.00	3,180,000.00	90,905,000.00	31.91%
2030	4,505,000.00			3,545,000.00	40,000.00	1,000,000.00	89,905,000.00	32.66%
2031	4,685,000.00			3,690,000.00	4,085,000.00	5,080,000.00	84,825,000.00	36.47%
2032	4,875,000.00			3,840,000.00	4,170,000.00	5,205,000.00	79,620,000.00	40.36%
2033	5,075,000.00			3,995,000.00	4,250,000.00	5,330,000.00	74,290,000.00	44.36%
2034	5,290,000.00			4,165,000.00	4,345,000.00	5,470,000.00	68,820,000.00	48.45%
2035	5,530,000.00			4,360,000.00	4,450,000.00	5,620,000.00	63,200,000.00	52.66%
2036	5,780,000.00			4,565,000.00	4,555,000.00	5,770,000.00	57,430,000.00	56.98%
2037	6,045,000.00			4,785,000.00	4,670,000.00	5,930,000.00	51,500,000.00	61.43%
2038	6,320,000.00			5,010,000.00	4,790,000.00	6,100,000.00	45,400,000.00	66.00%
2039	6,610,000.00			5,245,000.00	4,910,000.00	6,275,000.00	39,125,000.00	70.70%
2040	6,940,000.00			5,515,000.00	5,040,000.00	6,465,000.00	32,660,000.00	75.54%
2041	7,285,000.00			5,800,000.00	5,180,000.00	6,665,000.00	25,995,000.00	80.53%
2042	7,650,000.00			6,095,000.00	5,315,000.00	6,870,000.00	19,125,000.00	85.68%
2043	8,030,000.00			6,410,000.00	5,460,000.00	7,080,000.00	12,045,000.00	90.98%
2044	2,175,000.00					2,175,000.00	9,870,000.00	92.61%
2045	2,285,000.00					2,285,000.00	7,585,000.00	94.32%
2046	2,405,000.00					2,405,000.00	5,180,000.00	96.12%
2047	2,525,000.00					2,525,000.00	2,655,000.00	98.01%
2048	2,655,000.00					2,655,000.00	-	100.00%
Total	<u>\$ 133,510,000.00</u>	<u>\$ 3,360,000.00</u>	<u>\$ 3,360,000.00</u>	<u>\$ 67,020,000.00</u>	<u>\$ 67,020,000.00</u>	<u>\$ 133,510,000.00</u>		

(1) The Bonds are illustrated on the State of Texas fiscal year end of August 31st, although the District's fiscal year ends June 30th.

(2) Reflects the total anticipated cost of effectuating the early redemption of the Series 2009 Refunding Bonds in the principal amount of \$1,355,000 and the defeasance of a portion of the Series 2013 Refunding Bonds in the principal amount of \$2,005,000 on February 15, 2021 pursuant to the adoption of a Resolution by the Board of Trustees on October 19, 2020.

(3) Preliminary, subject to change.

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

OTHER OBLIGATIONS - MAINTENANCE TAX NOTES ⁽¹⁾

Fiscal Year			Total		Net
Ending 8/31	Principal ⁽²⁾	Interest	General Fund Debt Service	Less: Federal Subsidy ⁽³⁾	General Fund Debt Service
2021	\$ 1,240,000	\$ 724,614	\$ 1,964,614	\$ 392,982	\$ 1,571,632
2022	1,255,000	707,589	1,962,589	392,982	1,569,607
2023	1,275,000	690,039	1,965,039	392,982	1,572,057
2024	1,290,000	671,964	1,961,964	392,982	1,568,982
2025	1,310,000	438,123	1,748,123	196,491	1,551,631
2026	645,000	204,906	849,906		849,906
2027	665,000	187,581	852,581		852,581
2028	685,000	169,106	854,106		854,106
2029	700,000	149,550	849,550		849,550
2030	725,000	128,794	853,794		853,794
2031	745,000	106,744	851,744		851,744
2032	770,000	84,019	854,019		854,019
2033	560,000	64,069	624,069		624,069
2034	575,000	47,044	622,044		622,044
2035	595,000	29,122	624,122		624,122
2036	<u>610,000</u>	<u>9,913</u>	<u>619,913</u>		<u>619,913</u>
Total	<u>\$ 13,645,000</u>	<u>\$ 4,413,175</u>	<u>\$ 18,058,175</u>	<u>\$ 1,768,419</u>	<u>\$ 16,289,755</u>

(1) Includes the Series 2010 QSC Maintenance Tax Notes, the Series 2016 Maintenance Tax Notes and the Series 2017 Maintenance Tax Notes.

(2) Includes principal and sinking fund payments on the outstanding Qualified School Construction Maintenance Tax Notes.

(3) The QSCB Direct Pay Subsidy has been reduced to 94.3% of the expected receipts for 2020/21. 2021/22 and beyond assume the District receives 94.3% of the expected receipts due to sequestration.

DEBT SERVICE REQUIREMENTS ⁽¹⁾

Fiscal Year Ending 8/31	Outstanding Debt Service	Less:	Plus:	Less:	Plus:			Combined Total ^{(2) (3) (4) (5)}
		Bonds to be Called ⁽²⁾	Bonds Redeemed & Defeased ⁽²⁾	Refunded Bonds ⁽³⁾	The Bonds ^{(3) (4)}			
					Principal	Interest	Total	
2021	\$ 9,106,085.01	\$ 95,821.25	\$ 3,494,950.00	\$ 3,097,037.50	\$ 1,970,000.00	\$ 1,122,166.62	\$ 3,092,166.62	\$ 12,500,342.88
2022	9,107,372.51	550,141.25		3,097,037.50	1,575,000.00	1,511,844.81	3,086,844.81	8,547,038.57
2023	9,107,671.26	546,665.00		3,097,037.50	1,585,000.00	1,500,031.23	3,085,031.23	8,548,999.99
2024	9,105,051.26	547,345.00		3,097,037.50	310,000.00	2,778,619.90	3,088,619.90	8,549,288.66
2025	9,104,931.26	67,475.00		3,097,037.50	130,000.00	2,478,619.90	2,608,619.90	8,549,038.66
2026	9,106,831.26	67,475.00		3,097,037.50	80,000.00	2,523,619.90	2,603,619.90	8,545,938.66
2027	9,106,456.26	67,475.00		3,097,037.50	45,000.00	2,558,619.90	2,603,619.90	8,545,563.66
2028	9,107,031.26	599,375.00		3,097,037.50	40,000.00	3,053,619.90	3,093,619.90	8,504,238.66
2029	9,104,743.76	1,490,637.50		3,097,037.50	25,000.00	3,068,619.90	3,093,619.90	7,610,688.66
2030	8,826,331.26			6,571,137.50	40,000.00	5,498,619.90	5,538,619.90	7,793,813.66
2031	8,824,006.26			6,571,437.50	4,085,000.00	1,453,468.17	5,538,468.17	7,791,036.93
2032	8,824,306.26			6,570,837.50	4,170,000.00	1,370,581.76	5,540,581.76	7,794,050.52
2033	8,824,159.39			6,566,640.63	4,250,000.00	1,281,793.02	5,531,793.02	7,789,311.78
2034	8,827,978.14			6,568,340.63	4,345,000.00	1,186,100.05	5,531,100.05	7,790,737.56
2035	8,828,431.26			6,568,437.50	4,450,000.00	1,084,118.01	5,534,118.01	7,794,111.77
2036	8,825,909.38			6,567,431.25	4,555,000.00	976,656.54	5,531,656.54	7,790,134.67
2037	8,827,500.00			6,570,800.00	4,670,000.00	863,449.23	5,533,449.23	7,790,149.23
2038	8,827,765.63			6,569,712.50	4,790,000.00	744,968.83	5,534,968.83	7,793,021.96
2039	8,825,271.88			6,567,125.00	4,910,000.00	621,842.94	5,531,842.94	7,789,989.82
2040	8,826,387.50			6,568,125.00	5,040,000.00	493,008.88	5,533,008.88	7,791,271.38
2041	8,826,006.25			6,570,250.00	5,180,000.00	358,296.95	5,538,296.95	7,794,053.20
2042	8,828,278.13			6,567,875.00	5,315,000.00	218,589.85	5,533,589.85	7,793,992.98
2043	8,827,353.13			6,570,250.00	5,460,000.00	73,747.54	5,533,747.54	7,790,850.67
2044	2,722,875.00							2,722,875.00
2045	2,721,375.00							2,721,375.00
2046	2,724,125.00							2,724,125.00
2047	2,720,875.00							2,720,875.00
2048	2,721,375.00							2,721,375.00
	<u>\$ 219,136,483.31</u>	<u>\$ 4,032,410.00</u>	<u>\$ 3,494,950.00</u>	<u>\$ 119,841,737.51</u>	<u>\$ 67,020,000.00</u>	<u>\$ 36,821,003.73</u>	<u>\$ 103,841,003.73</u>	<u>\$ 202,598,289.53</u>

(1) The Bonds are illustrated on the State of Texas fiscal year end of August 31st, although the District's fiscal year ends June 30th.

(2) Reflects the total anticipated cost of effectuating the early redemption of the Series 2009 Refunding Bonds in the principal amount of \$1,355,000 and the defeasance of a portion of the Series 2013 Refunding Bonds in the principal amount of \$2,005,000 on February 15, 2021 pursuant to the adoption of a Resolution by the Board of Trustees on October 19, 2020.

(3) Preliminary, subject to change.

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

(5) Based on its wealth per student, the District does not expect to receive Instructional Facilities Allotment nor Existing Debt Allotment 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. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the body of Official Statement.

TAX ADEQUACY WITH RESPECT TO THE DISTRICT'S BONDS

Projected Maximum Debt Service Requirement ⁽¹⁾	\$ 12,500,342.88
Projected State Financial Assistance for Debt Service in 2020/21 ⁽²⁾	-
Projected Net Debt Service Requirement ^{(1) (2)}	\$ 12,500,342.88
 \$0.54756 Tax Rate @ 98% Collections Produces ⁽³⁾	 \$ 12,500,478.34
 2020/21 Net Taxable Assessed Valuation	 \$ 2,329,532,863

(1) Includes the Bonds and the redemption and defeasance of certain bonds and excludes the Refunded Bonds. Preliminary, subject to change.

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

(3) As refunding bonds, the Bonds may be issued without showing compliance with the \$0.50 test established by Section 45.0031, Texas Education Code. Bonds issued for new construction purposes are subject to the test, and if the District uses State tier one funds to pass the test, under current law it must credit State assistance payments (including any tier one State funding used to demonstrate the District's ability to pass the \$0.50 bond issuance test) to the District's interest and sinking fund each year in an amount equal to the amount used by the District to demonstrate its ability to comply with the \$0.50 test, and the District may not adopt its annual interest and sinking fund tax rate until such amount of State funding has been credited to the District's interest and sinking fund. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - State Funding for Local School Districts," "DEBT LIMITATIONS" and "TAX RATE LIMITATIONS."

AUTHORIZED BUT UNISSUED BONDS

The District has \$86,500,000 of authorized but unissued unlimited ad valorem tax bonds from the November 7, 2017 election. The District anticipates issuing authorized bonds in the next twelve months. The exact amount of bonds to be issued and the exact timing of that issuance is to be determined. Additionally, 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				
	2016	2017 ⁽²⁾	2018	2019	2020
Beginning Fund Balance	\$ 7,854,544	\$ 10,556,634	\$ 5,351,165	\$ 1,968,034	\$ 8,453,867
Revenues:					
Local and Intermediate Sources	\$ 19,822,168	\$ 20,343,247	\$ 21,551,460	\$ 22,556,206	\$ 22,420,706
State Program Revenues	27,363,108	27,329,754	31,223,606	31,745,800	37,807,791
Federal Sources & Other	1,640,832	521,326	1,782,269	1,908,619	1,224,907
Total Revenues	\$ 48,826,108	\$ 48,194,327	\$ 54,557,335	\$ 56,210,625	\$ 61,453,404
Expenditures:					
Instruction	\$ 33,413,236	\$ 28,982,418	\$ 34,582,496	\$ 29,888,775	\$ 33,091,364
Instructional Resources & Media Services	484,952	611,170	486,147	234,282	150,419
Curriculum & Instructional Staff Development	797,717	734,373	1,070,225	797,322	809,329
Instructional Leadership	736,642	545,959	648,750	753,056	606,167
School Leadership	2,707,151	2,498,346	3,234,836	3,035,493	3,362,398
Guidance, Counseling & Evaluation Services	1,520,341	1,477,738	1,903,909	1,493,502	1,660,693
Health Services	402,632	391,839	534,210	559,290	655,548
Student (Pupil) Transportation	2,692,606	2,447,935	2,996,469	2,535,700	2,941,235
Cocurricular/Extracurricular Activities	3,142,648	1,691,334	1,811,071	1,270,273	1,235,959
General Administration	1,785,047	1,580,704	2,185,355	1,855,753	2,402,819
Plant Maintenance and Operations	5,077,830	5,012,771	6,208,801	4,132,194	4,649,108
Security and Monitoring Services	336,635	438,725	554,130	467,151	471,376
Data Processing Services	1,565,447	1,094,048	1,270,805	720,602	325,177
Community Services	8,039	10,854	68,443	58,001	5,037
Debt Service - Principal on Long Term Debt	-	225,000	535,000	600,000	620,000
Debt Service - Interest on Long Term Debt	430,483	480,494	862,613	776,614	786,947
Debt Service - Issuance Costs and Fees	199,255	124,331	1,400	134,402	1,650
Facilities Acquisition and Construction	-	7,159,738	-	-	-
Payments to Juvenile Justice Alternative Programs	75,000	395,895	19,800	-	-
Payments to Fiscal Agent/Member Districts of SSA	120,790	71,400	66,000	77,000	62,500
Other Intergovernmental Charges	326,172	216,402	276,524	222,822	230,055
Total Expenditures	\$ 55,822,623	\$ 56,191,474	\$ 59,316,984	\$ 49,612,232	\$ 54,067,781
Excess (Deficiency) of Revenues					
over Expenditures	\$ (6,996,515)	\$ (7,997,147)	\$ (4,759,649)	\$ 6,598,393	\$ 7,385,623
Other Resources and (Uses):					
Sale of Real and Personal Property	\$ -	\$ -	\$ 31,719	\$ -	\$ 24,161
Loan Proceeds	9,255,000	2,970,000	-	-	-
Premium or Discount on Issuance of Bonds	443,605	114,930	-	-	-
Issuance of Capital-Related Bonds	-	-	5,980,023	-	-
Operating Transfers In	-	-	7,063,618	-	-
Operating Transfers Out	-	(293,252)	-	-	-
Other Uses	-	-	-	(112,560)	-
Total Other Resources (Uses)	\$ 9,698,605	\$ 2,791,678	\$ 13,075,360	\$ (112,560)	\$ 24,161
Excess (Deficiency) of					
Revenues and Other Sources					
over Expenditures and Other Uses	\$ 2,702,090	\$ (5,205,469)	\$ 8,315,711	\$ 6,485,833	\$ 7,409,784
Prior Period Adjustment	\$ -	\$ -	\$ (11,698,842) ⁽³⁾	\$ -	\$ -
Ending Fund Balance	\$ 10,556,634	\$ 5,351,165 ⁽³⁾	\$ 1,968,034	\$ 8,453,867	\$ 15,863,651

(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 2020/21 budget and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Possible Effects of Wealth Transfer Provisions on the District's Financial Condition" in the body of Official Statement.

(2) For the Ten Months Ended June 30, 2017. The District changed its fiscal year end from August 31 to June 30 effective September 1, 2016.

(3) See "2016 - 2017 FISCAL YEAR DEFICIT" in the Series 2018 Official Statement for a discussion regarding the cause of the decrease in the 2016/17 General Fund ending balance.

CHANGE IN NET ASSETS ⁽¹⁾

	Fiscal Year Ended				
	2016	2017 ⁽²⁾	2018	2019	2020
Revenues:					
Program Revenues:					
Charges for Services	\$ 2,457,283	\$ 1,799,317	\$ 1,585,319	\$ 1,488,888	\$ 1,180,688
Operating Grants and Contributions	7,708,786	6,903,249	(3,243,400)	13,237,378	13,311,175
Capital Grants and Contributions	-	-	-	-	1,033,200
General Revenues:					
Property Taxes Levied for General Purposes	19,267,562	19,900,853	20,885,546	22,018,813	21,984,216
Property Taxes Levied for Debt Service	8,177,503	8,506,931	8,902,381	8,989,127	9,855,992
Investment Earnings	192,125	84,257	186,701	355,490	352,655
Grants and Contributions Not Restricted	27,556,999	26,996,076	30,490,968	29,411,966	34,072,564
Miscellaneous	301,950	399,711	292,316	199,392	375,125
Gain on Sale of Capital Assets	-	336,000	31,719	-	-
Total Revenue	<u>\$ 65,662,208</u>	<u>\$ 64,926,394</u>	<u>\$ 59,131,550</u>	<u>\$ 75,701,054</u>	<u>\$ 82,165,615</u>
Expenses:					
Instruction	\$ 38,688,169	\$ 33,157,042	\$ 28,619,797	\$ 39,758,611	\$ 43,278,150
Instruction Resources & Media Services	550,701	680,959	413,742	319,828	192,758
Curriculum & Staff Development	856,833	841,052	846,980	920,954	902,438
Instructional Leadership	759,723	576,489	426,264	841,385	741,098
School Leadership	2,988,262	2,670,805	2,315,848	3,412,986	3,715,977
Guidance, Counseling & Evaluation Services	1,911,754	1,873,408	1,495,130	2,551,933	2,711,851
Health Services	421,959	414,638	353,908	620,567	707,375
Student Transportation	3,085,954	2,624,581	2,693,076	3,085,383	2,915,801
Food Service	2,741,957	2,507,878	2,148,454	3,067,612	2,987,157
Cocurricular/Extracurricular Activities	2,732,954	1,995,874	2,224,101	2,206,766	2,006,622
General Administration	1,858,709	1,697,090	1,570,528	2,045,946	2,612,105
Plant Maintenance & Operations	5,536,927	4,864,920	5,709,710	4,415,421	4,862,226
Security and Monitoring Services	325,276	441,642	547,208	528,430	544,667
Data Processing Services	1,283,718	1,093,692	1,066,875	802,104	352,947
Community Services	40,821	34,011	104,932	143,061	130,954
Interest on Long-term Debt	5,945,241	4,589,234	5,873,650	6,150,870	6,029,804
Current Debt Fees	258,706	136,371	240,025	147,905	11,650
Facilities Repair and Maintenance	2,002	-	-	-	-
Payments to Fiscal Agent/Member Districts of SSA	75,000	137,400	66,000	77,000	62,500
Payments Juvenile Justice Alternative Ed. Programs	120,790	395,895	19,800	-	-
Other Intergovernmental Charges	326,172	216,402	276,524	222,822	230,055
Total Expenditures	<u>\$ 70,511,628</u>	<u>\$ 60,949,383</u>	<u>\$ 57,012,552</u>	<u>\$ 71,319,584</u>	<u>\$ 74,996,135</u>
Change in Net Assets	\$ (4,849,420)	\$ 3,977,011	\$ 2,118,998	\$ 4,381,470	\$ 7,169,480
Beginning Net Assets	\$ 26,436,071	\$ 21,586,651	\$ 25,563,662	\$ (11,234,191)	\$ (6,852,721)
Prior Period Adjustment	\$ -	\$ -	\$ (38,916,851) ⁽³⁾	\$ -	\$ -
Ending Net Assets	<u>\$ 21,586,651</u>	<u>\$ 25,563,662</u>	<u>\$ (11,234,191)</u>	<u>\$ (6,852,721)</u>	<u>\$ 316,759</u>

(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) For the Ten Months Ended June 30, 2017. The District changed its fiscal year end from August 31 to June 30 effective September 1, 2016.

(3) In Fiscal year 2018, the District implemented Governmental Accounting Standards Board statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions - which supersedes GASB Statement No. 45.

APPENDIX B

GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY

CROSBY INDEPENDENT SCHOOL DISTRICT
General and Economic Information

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

Crosby Independent School District is a semi-rural area with growing emphasis on residential and commercial development that includes the City of Crosby, Texas. The District is located approximately 30 miles northeast of the City of Houston, Texas. The District's current estimated population is approximately 32,837.

Harris County is a southeast Texas county and a major component of the Houston Primary Metropolitan Statistical Area. The economy is based on petrochemicals, tourism, shipping, refining, chemicals, space exploration, manufacturing, and education. The county seat is Houston.

Source: *Texas Municipal Report for Crosby ISD and Harris County.*

Enrollment Statistics

<u>School Year Ending</u>	<u>Enrollment</u>
2010	5,034
2011	5,119
2012	5,049
2013	5,121
2014	5,216
2015	5,434
2016	5,685
2017	6,014
2018	6,114
2019	6,253
2020	6,397
Current	6,296

District Staff

Teachers	399
Auxiliary Personnel	163
Administrators	19
Teachers' Aides & Secretaries	95
Other (Counselors)	90
	<hr/> 766

Facilities

<u>Campus</u>	<u>Grades</u>	<u>Current Enrollment</u>	<u>Capacity</u>	<u>Year Built</u>	<u>Year of Addition/ Renovation</u>
Crosby Kindergarten Center	PK-K	638	700	1999	N/A
Barrett Elementary School	1-5	468	700	1990	2005
Crosby Elementary School	1-5	660	700	1975	2016
Drew Elementary School	1-5	506	700	1990	2003
Newport Elementary School	1-5	647	700	1990	2005
Crosby Middle School	6-8	1,522	1,500	1975	2003
Crosby High School	9-12	1,855	1,800	2016	N/A

Principal Employers within the District

<u>Name of Company</u>	<u>Type of Business</u>	<u>Number of Employees</u>
Crosby ISD	Education	766
Wal-Mart Stores, Inc.	Retail Store	100
Arkema	Chemical Plant	57

Unemployment Rates

	<u>September 2018</u>	<u>September 2019</u>	<u>September 2020</u>
Harris County	4.2%	3.7%	10.0%
State of Texas	3.7%	3.4%	8.3%

Source: *Texas Workforce Commission.*

APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

December 17, 2020

**CROSBY INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX REFUNDING BONDS, TAXABLE SERIES 2020
DATED AS OF DECEMBER 1, 2020
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$ _____**

AS BOND COUNSEL FOR THE CROSBY INDEPENDENT SCHOOL DISTRICT (the *District*) in connection with the issuance of the bonds described above (the *Bonds*), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds until maturity or prior redemption at the rates and are payable on the dates as stated in the text of the Bonds, all in accordance with the terms and conditions stated in the text of the Bonds.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and general laws of the State of Texas and a transcript of certified proceedings of the District, and other pertinent instruments authorizing and relating to the issuance of the Bonds including (i) the order authorizing the issuance of the Bonds (the *Order*), (ii) the Escrow and Trust Agreement, dated as of October 19, 2020, between the District and BOKF, NA, Dallas, Texas, as Escrow Agent (the *Escrow Agreement*), (iii) the verification report of Public Finance Partners LLC with respect to the adequacy of certain escrowed funds and securities to accomplish the refunding purposes of the Bonds (the *Report*), and (iv) each of the executed Initial Bonds (as defined in the Order), numbered TR-1 and PCAB-1, respectively.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Bonds have been authorized, issued and delivered in accordance with law; that the Bonds constitute valid and legally binding general obligations of the District in accordance with their terms except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally; that the District has the legal authority to issue the Bonds and to repay the Bonds; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of the Bonds, as such interest comes due, and as such principal matures, have been levied and ordered to be levied against all taxable property in the District, and have been pledged for such payment, without limit as to rate or amount.

IT IS FURTHER OUR OPINION that the Escrow Agreement has been duly authorized, executed and delivered by the District and constitutes a binding and enforceable agreement in accordance with its terms and that the "Refunded Obligations" (as defined in the Order) being refunded by the Bonds are outstanding under the order authorizing their issuance only for the purpose of receiving the funds provided by, and are secured solely by and payable solely from, the Escrow Agreement and the cash and investments, including the income therefrom, held by the Escrow Agent pursuant to the Escrow Agreement. In rendering this opinion, we have relied upon the verifications contained in the Report as to the sufficiency of the cash and investments deposited pursuant to the Escrow Agreement for the purpose of paying the principal of, redemption premium, if any, and interest on the Refunded Obligations.



IT IS FURTHER OUR OPINION that the Bonds are not obligations described in Section 103(a) of the Internal Revenue Code of 1986, as amended.

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

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; rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions.

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

Respectfully,

APPENDIX D

**AUDITED FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2020**

CROSBY INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
JUNE 30, 2020

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CROSBY INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2020

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CERTIFICATE OF BOARD

Crosby Independent School District
Name of School District

Harris
County

101-906
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 June 30, 2020, at a meeting of the Board of Trustees of such school district on the 19th day of October 2020.



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)

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees of
Crosby Independent School District
Crosby, Texas

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 Crosby Independent School District, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Crosby Independent School 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 Crosby Independent School District, as of June 30, 2020, 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.

OFFICE LOCATIONS

TEXAS | Waco | Temple | Hillsboro | Houston
NEW MEXICO | Albuquerque

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Crosby Independent School District's basic financial statements. The combining statements, required TEA schedules and the Schedule of Expenditures of Federal and State Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the State of Texas *Uniform Grant Management Standards* ("UGMS"), are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining statements, required TEA schedules and the Schedule of Expenditures of Federal and State 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 statements, required TEA schedules and the Schedule of Expenditures of Federal and State Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The Schedule of Required Responses to Selected School FIRST Indicators has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2020 on our consideration of Crosby Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Crosby Independent School District 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 Crosby Independent School District's internal control over financial reporting and compliance.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
October 19, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Crosby Independent School District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2020.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$316,759 (*net position*). Of this amount, a deficit of \$27,526,701 (unrestricted net position) exists, which includes recognition of the District's pension and OPEB liabilities and net related deferred outflows/inflows of \$41,781,288.
- The District's total net position increased by \$7,169,480, from current fiscal year operations.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$29,020,009, an increase of \$6,300,517 from current operations.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$11,881,110, an increase of \$6,738,671 in comparison with the prior year.

The District's financial condition continued to improve significantly during the 2019-2020 fiscal year as noted by the trend information provided below:

- The District had a negative unassigned fund balance in the general fund of (\$2,516,449) at June 30, 2018, a positive unassigned fund balance of \$5,142,439 at June 30, 2019, and a positive unassigned fund balance of \$11,881,110 at June 30, 2020, an increase of \$6,738,671 from the prior year and an increase of \$14,397,559 from June 30, 2018.
- The District had a total fund balance in the general fund of \$1,968,034 at June 30, 2018, \$8,453,867 at June 30, 2019, and \$15,863,651 at June 30, 2020, an increase of \$7,409,784 from the prior year and an increase of \$13,895,617 from June 30, 2018.
- After a three-year trend of a deficiency of revenues under expenditures of (\$6,996,515), (\$7,997,147), and (\$4,759,649), the District had an excess of revenues over expenditures of \$6,598,393 for the year ended June 30, 2019 and an excess of revenues over expenditures of \$7,385,623 for the year ended June 30, 2020.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information and supplementary in addition to the basic financial statements themselves.

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the District's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal period. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and incurred but unpaid workers' compensation benefits).

The governmental activities of the District include instruction, instructional resources and media services, curriculum and instructional staff development, instructional leadership, school leadership, guidance, counseling, and evaluation services, health services, student transportation, food service, extracurricular activities, general administration, plant maintenance and operations, security and monitoring services, data processing services, community services, interest on long-term debt, bond issuance costs and fees, payments to shared services arrangements, and other governmental charges.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains 28 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and capital projects fund, which are considered to be major funds. Data from the other 25 governmental funds are combined into a single, aggregated presentation titled *other governmental*.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of students. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the District's own programs.

The basic fiduciary fund financial statements can be found as noted in the table of contents of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found as noted in the table of contents of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information and supplementary information, which includes schedules required by the Texas Education Agency. Such information can be found as noted in the table of contents of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a District's financial position. In the case of the District, the District's net position increased \$7,169,480 this year from operations. Unrestricted net position – the part of net position that can be used for financing day-to-day operations without constraints by debt covenants, enabling legislation, or other legal requirements – was a deficit \$27,526,701 on June 30, 2020 compared to \$31,410,896 deficit on June 30, 2019.

TABLE 1
CROSBY INDEPENDENT SCHOOL DISTRICT
NET POSITION

	Governmental Activities		Increase/ (Decrease)
	2020	2019	
Current and other assets	\$ 38,437,276	\$ 33,375,394	\$ 5,061,882
Capital assets	<u>170,707,214</u>	<u>172,232,845</u>	(1,525,631)
Total assets	<u>209,144,490</u>	<u>205,608,239</u>	<u>3,536,251</u>
Total deferred outflows of resources	<u>15,734,105</u>	<u>18,751,587</u>	(3,017,482)
Long-term liabilities	198,574,275	211,499,702	(12,925,427)
Other liabilities	<u>8,898,698</u>	<u>10,495,783</u>	(1,597,085)
Total liabilities	<u>207,472,973</u>	<u>221,995,485</u>	(14,522,512)
Total deferred inflows of resources	<u>17,088,863</u>	<u>9,217,062</u>	<u>7,871,801</u>
Net position:			
Net investment in capital assets	16,014,794	15,355,757	659,037
Restricted	11,828,666	9,202,418	2,626,248
Unrestricted	(27,526,701)	(31,410,896)	3,884,195
Total net position	<u>\$ 316,759</u>	<u>\$ (6,852,721)</u>	<u>\$ 7,169,480</u>

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, construction in progress, buildings and improvements, and furniture and equipment); less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Net position that is restricted for debt service and grants total \$11,828,666.

The unrestricted net position \$27,526,701 reported a deficit in the current fiscal period. The deficit is caused by an excess of non-capital debt and liabilities/deferred inflows over non-capital assets/deferred outflows. The pension and OPEB liabilities, and related net deferred outflows/inflows, are the largest components, lowering the District's net position by \$41,781,288.

Governmental Activities. Governmental activities increased the District's net position by \$7,169,480 from current operations. The elements giving rise to this change may be determined from the table below.

TABLE 2
CROSBY INDEPENDENT SCHOOL DISTRICT
CHANGES IN NET POSITION

	Governmental Activities		Increase/ (Decrease)
	2020	2019	
REVENUES			
Program revenues:			
Charges for services	\$ 1,180,688	\$ 1,488,888	\$ (308,200)
Operating grants and contributions	13,311,175	13,237,378	73,797
Capital grants and contributions	1,033,200	-	1,033,200
General revenues:			
Property taxes, levied for general purposes	21,984,216	22,018,813	(34,597)
Property taxes, levied for debt service	9,855,992	8,989,127	866,865
Grants and contributions not restricted	34,072,564	29,411,966	4,660,598
Investment earnings	352,655	355,490	(2,835)
Miscellaneous	<u>375,125</u>	<u>199,392</u>	<u>175,733</u>
Total revenues	<u>82,165,615</u>	<u>75,701,054</u>	<u>6,464,561</u>
EXPENSES			
Instruction	43,278,150	39,758,611	3,519,539
Instructional resources and media services	192,758	319,828	(127,070)
Curriculum and staff development	902,438	920,954	(18,516)
Instructional leadership	741,098	841,385	(100,287)
School leadership	3,715,977	3,412,986	302,991
Guidance, counseling and evaluation services	2,711,851	2,551,933	159,918
Health services	707,375	620,567	86,808
Student transportation	2,915,801	3,085,383	(169,582)
Food service	2,987,157	3,067,612	(80,455)
Extracurricular activities	2,006,622	2,206,766	(200,144)
General administration	2,612,105	2,045,946	566,159
Plant maintenance and operations	4,862,226	4,415,421	446,805
Security and monitoring services	544,667	528,430	16,237
Data processing services	352,947	802,104	(449,157)
Community services	130,954	143,061	(12,107)
Interest on long-term debt	6,029,804	6,150,870	(121,066)
Bond issuance cost and fees	11,650	147,905	(136,255)
Payments to shared services arrangements	62,500	77,000	(14,500)
Other governmental charges	<u>230,055</u>	<u>222,822</u>	<u>7,233</u>
Total expenses	<u>74,996,135</u>	<u>71,319,584</u>	<u>3,676,551</u>
CHANGE IN NET POSITION	<u>7,169,480</u>	<u>4,381,470</u>	<u>2,788,010</u>
NET POSITION, BEGINNING	<u>(6,852,721)</u>	<u>(11,234,191)</u>	<u>4,381,470</u>
NET POSITION, ENDING	<u>\$ 316,759</u>	<u>\$ (6,852,721)</u>	<u>\$ 7,169,480</u>

The District's total revenues increased \$6,464,561, or 9%, over the previous year. This is largely due to an increase in foundation funding related to House Bill 3 of approximately \$4.5 million, as well as a one-time grant for buses in the amount of \$1 million. House Bill (HB 3) 3, a sweeping and historic school finance bill was passed by the 86th Texas Legislature in 2019 and signed by Gov. Greg Abbott. The bill provides more money for Texas classrooms, increases teacher compensation and cuts local property taxes for Texas taxpayers. HB 3 is one of the most transformative Texas education bills in recent history.

The District's total expenses increased \$3,676,551, or 5%, over the previous year. This is largely due to an increase in salaries which was mandated by the state in HB 3.

FINANCIAL ANALYSIS DISTRICT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

As of the end of the current fiscal period, the District's governmental funds reported combined ending fund balances of \$29,020,009, an increase of \$6,300,517 in comparison with the prior year, from current operations. This increase represents combined revenues in excess of expenditures of \$6,250,382, coupled with proceeds from the sale of capital assets of \$50,135.

The general fund is the chief operating fund of the District. At the end of the current fiscal period, unassigned fund balance of the general fund had a balance of \$11,881,110 while total fund balance reached \$15,863,651. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 22% of total general fund expenditures. Total fund balance represents 29% of total general fund expenditures.

The fund balance of the District's general fund increased by \$7,409,784 from current operations. The increase is largely attributed to an increase in state revenue from student growth and HB3, and the austerity measures taken by the District to reduce operating expenditures. Current period revenues exceeded expenditures by \$7,385,623.

The debt service fund has a total fund balance of \$8,902,939, all of which is restricted for the payment of debt service. The net increase in fund balance during the current year in the debt service fund was \$1,360,720 from current operations and was primarily due to an increase in property tax values which resulted in additional property tax revenues.

The capital projects fund has a total fund balance of \$3,072,690, all of which is restricted for capital acquisitions and contractual obligations. The capital projects fund balance decreased by \$2,307,059 during the fiscal period, primarily due to on-going projects which are mentioned in the capital asset section below.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District adopted an original 2019-2020 general fund budget under old law with revenues at \$56,359,801 and expenditures at \$51,115,656 resulting in a budget surplus of \$5,244,145. The budget was initially amended to account for House Bill 3 legislation with revenues at \$61,098,957 and expenditures at \$57,266,977 resulting in a budget surplus of \$3,831,980.

The original expenditure budget was amended during the fiscal year to increase appropriations by \$6,663,317, with \$6,151,321 of the increase due primarily to House Bill 3 legislation as noted above which provided additional revenues and required an increase in compensation. Actual expenditures were less than budget by \$3,701,192 in total, with the variance due primarily to austerity measures still in place and budgeted expenses not utilized during the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The District's investment in capital assets for its governmental type activities as of June 30, 2020, amounts to \$170,707,214 (net of accumulated depreciation). This investment in capital assets includes land and improvements, construction in progress, buildings and improvements, and furniture and equipment. Significant additions to capital assets in the current year total approximately \$4 million and include the following:

- Construction of High School addition - \$650 thousand
- New 6th grade renovations - \$925 thousand
- Buses and other vehicles - \$2,275 million

Construction in progress of \$2.5 million reflects the purchase of land and ongoing projects for the new 6th grade, new elementary and high school additions. Additional information about the District's capital assets can be found in the notes to the financial statements as indicated in the table of contents of this report.

Additional information on the District's capital assets can be found in the notes to the financial statements as indicated in the table of contents of this report.

Long-term Liabilities. The District's bonded debt and tax notes decreased by \$4,574,659 during the current fiscal period, due to scheduled debt payments being made. Additional information on the District's long-term liabilities can be found in the notes to the financial statements as indicated in the table of contents of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the fiscal year 2021 budget and tax rates. These factors included, but were not limited to, the state foundation school program formula, property values, student growth and anticipated District needs. The state legislature made many funding changes with HB 3 which was passed in June 2019. Some of the effects of the changes from HB 3 are still an ongoing process with TEA and the District.

The District also considered the effects of the ongoing COVID-19 pandemic. Although the pandemic has resulted in an economic downturn and presents significant future uncertainty, the District's property tax revenues were not significantly affected, as those tax revenues were due in January before the pandemic began. Although the pandemic could negatively affect next year's property tax collections or demand for services, statewide foundation revenue is expected to cover possible shortfalls in local revenue.

- Current enrollment totals 6,323 students, which is a 2.03 percent decrease from the prior year.
- District staff totals 780 employees, which includes 403 teachers and 115 teachers' aides and secretaries.
- The District maintains 7 campuses for instruction.
- The unemployment rate for the County is currently 10.0 percent, which is an increase from a rate of 3.9 percent a year ago. This compares to the state's average unemployment rate of 8.4 percent, which increased from a rate of 3.4 percent.
- Property values of the District are projected to increase by 10.05 percent.
- A maintenance and operations tax rate of \$0.9983 and a debt service tax rate of \$0.48 for a total tax rate of \$1.4783 will be proposed for 2020-2021. Preceding year rates were \$1.06835, \$0.48, and \$1.54835, respectively.

The District adopted an original 2020-2021 general fund budget with revenues at \$61,705,790 and expenditures at \$60,052,590 resulting in a budget surplus of \$1,653,200.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is intended to provide a general overview of the District's finances for all those with an interest in this information. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Crosby Independent School District, P.O. Box 2009, Crosby, Texas, 77532-2009.

BASIC FINANCIAL STATEMENTS

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CROSBY INDEPENDENT SCHOOL DISTRICT

EXHIBIT A-1

STATEMENT OF NET POSITION

JUNE 30, 2020

1

Data Control Codes		Primary Government Governmental Activities
ASSETS		
1110	Cash and cash equivalents	\$ 2,056,479
1120	Current investments	19,004,401
1220	Property taxes receivables	3,006,474
1230	Allowance for uncollectible taxes	(90,194)
1240	Due from other governments	10,387,412
1250	Accrued interest	32
1290	Other receivables	13,036
1300	Inventories	82,913
1410	Prepaid items	132,405
1800	Restricted cash and cash equivalents	3,844,318
	Capital assets:	
1510	Land and improvements	4,195,527
1520	Buildings and improvements, net	158,114,535
1530	Furniture and equipment, net	5,858,239
1580	Construction in progress	2,538,913
1000	Total assets	<u>209,144,490</u>
DEFERRED OUTFLOWS OF RESOURCES		
1701	Deferred charge on bond refunding	694,107
1705	Deferred outflow related to pensions	10,291,472
1706	Deferred outflow related to other post-employment benefit	4,748,526
1700	Total deferred outflows of resources	<u>15,734,105</u>
LIABILITIES		
2110	Accounts payable	1,120,976
2140	Interest payable	2,373,161
2150	Payroll deductions and withholdings	707,630
2160	Accrued wages	4,110,344
2180	Due to other governments	434,821
2300	Unearned revenue	151,766
	Noncurrent liabilities:	
2501	Due within one year	4,179,558
2502	Due in more than one year	154,662,294
2540	Net pension liability	18,719,667
2545	Net other post-employment benefit liability	21,012,756
2000	Total liabilities	<u>207,472,973</u>
DEFERRED INFLOWS OF RESOURCES		
2605	Deferred inflow related to pensions	4,603,829
2606	Deferred inflow related to other post-employment benefit	12,485,034
2600	Total deferred inflows of resources	<u>17,088,863</u>
NET POSITION		
3200	Net investment in capital assets	16,014,794
3820	Restricted for grants	654,277
3850	Restricted for debt service	11,174,389
3900	Unrestricted	(27,526,701)
3000	Total net position	<u>\$ 316,759</u>

The accompanying notes are an integral part of this financial statement.

CROSBY INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2020

Data Control Codes	1	Program Revenues 3
Functions/Programs	Expenses	Charges for Services
Primary government:		
Governmental activities:		
11 Instruction	\$ 43,278,150	\$ 2,400
12 Instructional resources and media services	192,758	-
13 Curriculum and staff development	902,438	-
21 Instructional leadership	741,098	-
23 School leadership	3,715,977	-
31 Guidance, counseling, and evaluation services	2,711,851	-
33 Health services	707,375	-
34 Student transportation	2,915,801	-
35 Food service	2,987,157	666,317
36 Extracurricular activities	2,006,622	455,174
41 General administration	2,612,105	-
51 Facilities maintenance and operations	4,862,226	56,797
52 Security and monitoring services	544,667	-
53 Data processing services	352,947	-
61 Community services	130,954	-
72 Interest on long-term debt	6,029,804	-
73 Bond issuance costs and fees	11,650	-
93 Payments to shared services arrangements	62,500	-
99 Other governmental changes	230,055	-
TG Total governmental activities	<u>\$ 74,996,135</u>	<u>\$ 1,180,688</u>
General revenues:		
MT Property taxes, levied for general purposes		
DT Property taxes, levied for debt service		
GC Grants and contributions not restricted to specific programs		
IE Investment earnings		
MI Miscellaneous		
TR Total general revenues		
CN Change in net position		
NB Net position - beginning		
NE Net position - ending		

The accompanying notes are an integral part of this financial statement.

EXHIBIT B-1

Program Revenues		Revenue and Changes in Net Position
4	5	6
Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
\$ 6,462,416	\$ -	\$(36,813,334)
15,456	-	(177,302)
96,501	-	(805,937)
143,149	-	(597,949)
375,030	-	(3,340,947)
1,062,045	-	(1,649,806)
85,253	-	(622,122)
1,379,198	1,033,200	(503,403)
1,903,217	-	(417,623)
75,287	-	(1,476,161)
203,020	-	(2,409,085)
232,228	-	(4,573,201)
67,896	-	(476,771)
55,655	-	(297,292)
81,570	-	(49,384)
1,068,076	-	(4,961,728)
-	-	(11,650)
5,178	-	(57,322)
-	-	(230,055)
<u>\$ 13,311,175</u>	<u>\$ 1,033,200</u>	<u>(59,471,072)</u>
		21,984,216
		9,855,992
		34,072,564
		352,655
		<u>375,125</u>
		<u>66,640,552</u>
		7,169,480
		<u>(6,852,721)</u>
		<u>\$ 316,759</u>

CROSBY INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2020

Data Control Codes		199	599
		<u>General</u>	<u>Debt Service</u>
ASSETS			
1110	Cash and cash equivalents	\$ 851,335	\$ 517
1120	Current investments	6,394,478	9,105,158
1220	Property taxes receivable	2,181,430	825,044
1230	Allowance for uncollectible taxes	(65,443)	(24,751)
1240	Due from other governments	8,552,536	232,012
1250	Accrued interest	32	-
1260	Due from other funds	1,391,969	-
1290	Other receivables	7,269	-
1300	Inventories	5,818	-
1410	Prepaid items	132,405	-
1800	Restricted cash and cash equivalents	<u>3,844,318</u>	<u>-</u>
1000	Total assets	<u>23,296,147</u>	<u>10,137,980</u>
LIABILITIES			
2110	Accounts payable	856,575	-
2150	Payroll deductions and withholdings	670,348	-
2160	Accrued wages payable	3,789,586	-
2170	Due to other funds	-	-
2180	Due to other governments	-	434,748
2300	Unearned revenue	<u>-</u>	<u>-</u>
2000	Total liabilities	<u>5,316,509</u>	<u>434,748</u>
DEFERRED INFLOWS OF RESOURCES			
2610	Unavailable revenue - property taxes	<u>2,115,987</u>	<u>800,293</u>
2600	Total deferred inflows of resources	<u>2,115,987</u>	<u>800,293</u>
FUND BALANCES			
3410	Nonspendable - inventories	5,818	-
3430	Nonspendable - prepaid items	132,405	-
3450	Restricted - grant funds	-	-
3470	Restricted - capital projects	-	-
3480	Restricted - debt service	3,844,318	8,902,939
3545	Committed - campus activity	-	-
3600	Unassigned	<u>11,881,110</u>	<u>-</u>
3000	Total fund balances	<u>15,863,651</u>	<u>8,902,939</u>
4000	Total liabilities, deferred inflows of	\$ <u>23,296,147</u>	\$ <u>10,137,980</u>

The accompanying notes are an integral part of this financial statement.

699		98
Capital Projects	Other Governmental	Total Governmental Funds
\$ 4,008	\$ 989,862	\$ 1,845,722
3,068,682	436,083	19,004,401
-	-	3,006,474
-	-	(90,194)
-	1,602,864	10,387,412
-	-	32
-	-	1,391,969
-	5,767	13,036
-	77,095	82,913
-	-	132,405
-	-	3,844,318
<u>3,072,690</u>	<u>3,111,671</u>	<u>39,618,488</u>
-	29,094	885,669
-	37,282	707,630
-	320,758	4,110,344
-	1,391,969	1,391,969
-	73	434,821
-	151,766	151,766
<u>-</u>	<u>1,930,942</u>	<u>7,682,199</u>
<u>-</u>	<u>-</u>	<u>2,916,280</u>
<u>-</u>	<u>-</u>	<u>2,916,280</u>
-	77,095	82,913
-	-	132,405
-	654,277	654,277
3,072,690	-	3,072,690
-	-	12,747,257
-	449,357	449,357
-	-	11,881,110
<u>3,072,690</u>	<u>1,180,729</u>	<u>29,020,009</u>
\$ <u>3,072,690</u>	\$ <u>3,111,671</u>	\$ <u>39,618,488</u>

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CROSBY INDEPENDENT SCHOOL DISTRICT**EXHIBIT C-2****RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION**

JUNE 30, 2020

Total fund balances - governmental funds	\$ 29,020,009
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	170,707,214
Uncollected property taxes are reported as unavailable resources in the governmental funds balance sheet, but are recognized as a revenue in the statement of activities.	2,916,280
Long-term liabilities, including bonds and tax notes payable, workers compensation, and compensated absences, are not due and payable in the current period and therefore are not reported in the funds. Also, the loss on refunding bonds and the premium on issuance of bonds and tax notes payable payable are not reported in the funds. Liabilities at year-end related to such items consist of:	
Bonds and tax notes payable	(150,990,000)
Issuance premium	(7,469,217)
Deferred charge on refunding	694,107
Compensated absences	(382,635)
Interest payable is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(2,373,161)
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 pensions included a deferred resource outflow in the amount of \$10,291,472, a deferred resource inflow in the amount of \$4,603,829, and a net pension liability in the amount of \$18,719,667. This resulted in a decrease in net position.	(13,032,024)
Included in the items related to debt is the recognition of the District's proportionate share of the net other post-employment benefit (OPEB) liability required by GASB 75. The net position related to the OPEB included a deferred resource outflow in the amount of \$4,748,526, a deferred resource inflow in the amount of \$12,485,034, and a net OPEB liability in the amount of \$21,012,756.	(28,749,264)
The internal service funds are used by management to charge the costs of fleet management and risk management to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.	(24,550)
Net position of governmental activities	\$ <u>316,759</u>

CROSBY INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2020

Data Control Codes		199	599
		<u>General</u>	<u>Debt Service</u>
	REVENUES		
5700	Local and intermediate sources	\$ 22,420,706	\$ 9,864,855
5800	State program revenues	37,807,791	678,011
5900	Federal program revenues	<u>1,224,907</u>	<u>-</u>
5020	Total revenues	<u>61,453,404</u>	<u>10,542,866</u>
	EXPENDITURES		
	Current:		
0011	Instruction	33,091,364	-
0012	Instructional resources and media services	150,419	-
0013	Curriculum and instructional staff development	809,329	-
0021	Instructional leadership	606,167	-
0023	School leadership	3,362,398	-
0031	Guidance, counseling, and evaluation services	1,660,693	-
0033	Health services	655,548	-
0034	Student transportation	2,941,235	-
0035	Food service	-	-
0036	Extracurricular activities	1,235,959	-
0041	General administration	2,402,819	-
0051	Plant maintenance and operations	4,649,108	-
0052	Security and monitoring services	471,376	-
0053	Data processing services	325,177	-
0061	Community services	5,037	-
	Debt service:		
0071	Principal on long-term debt	620,000	3,410,000
0072	Interest on long-term debt	786,947	5,762,146
0073	Issuance costs and fees	1,650	10,000
0081	Capital outlay	-	-
	Intergovernmental:		
0093	Payments to shared services arrangements	62,500	-
0099	Other intergovernmental charges	<u>230,055</u>	<u>-</u>
6030	Total expenditures	<u>54,067,781</u>	<u>9,182,146</u>
1100	EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>7,385,623</u>	<u>1,360,720</u>
	OTHER FINANCING SOURCES (USES)		
7912	Proceeds from sale of capital assets	<u>24,161</u>	<u>-</u>
7080	Total other financing sources (uses)	<u>24,161</u>	<u>-</u>
1200	NET CHANGE IN FUND BALANCES	<u>7,409,784</u>	<u>1,360,720</u>
0100	FUND BALANCES, BEGINNING	<u>8,453,867</u>	<u>7,542,219</u>
3000	FUND BALANCES, ENDING	\$ <u>15,863,651</u>	\$ <u>8,902,939</u>

The accompanying notes are an integral
part of this financial statement.

699		98
Capital Projects	Other Governmental	Total Governmental Funds
\$ 62,762	\$ 1,095,551	\$ 33,443,874
-	2,125,141	40,610,943
-	4,335,918	5,560,825
<u>62,762</u>	<u>7,556,610</u>	<u>79,615,642</u>
-	2,661,920	35,753,284
-	32,796	183,215
-	21,745	831,074
-	70,089	676,256
-	51,976	3,414,374
-	801,478	2,462,171
-	331	655,879
693,383	1,054,066	4,688,684
-	2,742,887	2,742,887
-	119,120	1,355,079
-	360	2,403,179
-	41,675	4,690,783
-	67,943	539,319
-	-	325,177
-	79,126	84,163
-	-	4,030,000
-	-	6,549,093
-	-	11,650
1,676,438	-	1,676,438
-	-	62,500
-	-	230,055
<u>2,369,821</u>	<u>7,745,512</u>	<u>73,365,260</u>
(2,307,059)	(188,902)	6,250,382
-	25,974	50,135
-	25,974	50,135
(2,307,059)	(162,928)	6,300,517
<u>5,379,749</u>	<u>1,343,657</u>	<u>22,719,492</u>
\$ <u>3,072,690</u>	\$ <u>1,180,729</u>	\$ <u>29,020,009</u>

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CROSBY INDEPENDENT SCHOOL DISTRICT**EXHIBIT C-4****RECONCILIATION OF THE GOVERNMENTAL FUDNS
BALANCE SHEET TO THE STATEMENT OF NET POSITION****FOR THE YEAR ENDED JUNE 30, 2020**

Net change in fund balances - total governmental funds	\$ 6,300,517
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(1,525,631)
Property tax revenues that do not provide current financial resources are not reported as revenues in the funds.	325,438
Bond and tax note proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond and tax note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which proceeds exceeded repayments.	4,030,000
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	853,420
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 \$1,225,333. Contributions made before the measurement date and during the previous fiscal year were expended and recorded as a reduction in net pension liability. This caused a decrease in net position totaling \$1,059,829. 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 \$2,817,603. The net result is a decrease in the change in net position.	(2,652,099)
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 \$279,608. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net OPEB liability. This caused a decrease in net position totaling \$264,051. 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 \$153,172. The net result is a decrease in the change in net position.	(137,615)
Internal Services Funds are used by management to charge the costs of certain activities, such as workers' compensation to individual funds. The net revenue (expense) of the Internal Service Funds is reported with governmental activities.	(24,550)
Change in net position of governmental activities	\$ <u>7,169,480</u>

CROSBY INDEPENDENT SCHOOL DISTRICT**EXHIBIT D-1**STATEMENT OF NET POSITION
PROPRIETARY FUNDS

JUNE 30, 2020

	<u>Governmental Activities Internal Service Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ <u>210,757</u>
Total current assets	<u>210,757</u>
 Total assets	 <u>210,757</u>
LIABILITIES	
Current liabilities:	
Accounts payable	226
Accrued liabilities	<u>235,081</u>
Total current liabilities	<u>235,307</u>
 Total liabilities	
NET POSITION	
Unrestricted net position	(<u>24,550</u>)
 Total net position	 \$(<u><u>24,550</u></u>)

CROSBY INDEPENDENT SCHOOL DISTRICT**EXHIBIT D-2**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2020

	Governmental Activities <u>Internal Service Fund</u>
OPERATING REVENUES	
Local and intermediate sources	\$ <u>363,940</u>
Total operating revenues	<u>363,940</u>
OPERATING EXPENSES	
Workers' compensation claims and premiums	<u>388,494</u>
Total operating expenses	<u>388,494</u>
OPERATING LOSS	(24,554)
NONOPERATING REVENUES	
Earnings from temporary deposits and investments	<u>4</u>
Total nonoperating revenues	<u>4</u>
CHANGE IN NET POSITION	(24,550)
NET POSITION, BEGINNING	<u>-</u>
NET POSITION, ENDING	<u>\$(24,550)</u>

CROSBY INDEPENDENT SCHOOL DISTRICT**EXHIBIT D-3**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2020

	<u>Governmental Activities Internal Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received for workers comp premiums	\$ 363,940
Cash payments for insurance claims	(153,187)
Net cash provided by operating activities	<u>210,753</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Cash received for interest and dividends	<u>4</u>
Net cash flows from investing activities	<u>4</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 <u>210,757</u>
 CASH, BEGINNING	 <u>-</u>
 CASH, ENDING	 \$ <u>210,757</u>
 RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	\$(24,554)
Effects of increases and decreases in current assets and liabilities:	
Increase (decrease) in accounts payable	226
Increase (decrease) in accrued liabilities	<u>235,081</u>
Net cash provided by operating activities	\$ <u>210,753</u>

CROSBY INDEPENDENT SCHOOL DISTRICT**EXHIBIT E-1**STATEMENT OF ASSETS AND LIABILITIES
FIDUCIARY FUND

JUNE 30, 2020

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	\$ 46,815
Current investments	<u>66,100</u>
Total assets	\$ <u>112,915</u>
LIABILITIES	
Due to student groups	\$ <u>112,915</u>
Total liabilities	\$ <u>112,915</u>

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CROSBY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Crosby Independent School District (the District) is governed by a seven-member board of trustees (the Board), which has governance responsibilities over all activities related to public elementary and secondary education within the District. Members of the Board are elected by the public, have authority to make decisions, appoint management and significantly influence operations, and have primary accountability for fiscal matters; the District is not included in any other governmental reporting entity. The accompanying financial statements present the District.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government (the District). All fiduciary activities are reported only in the fund financial statements. Governmental activities normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions.

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

The District reports the following major governmental funds:

The **General Fund** is the District's primary operating fund. It accounts for all financial resources of the District, except those accounted for in another fund.

The **Debt Service Fund** is used to account for the accumulation of resources that are restricted, committed, or assigned for the payment of principal and interest on long-term obligations of governmental funds.

The **Capital Projects Fund** accounts for the acquisition and construction of the District's major capital facilities.

Additionally, the District reports the following fund types:

The **Nonmajor Special Revenue Funds** are used to account for the proceeds of specific revenue sources (other than those identified as a major fund) that are restricted or committed to expenditures for specific purposes.

The **Internal Service Fund** is used to account for workers' compensation risk management services provided throughout the District on a cost-reimbursement basis.

The **Agency Fund** accounts for assets held by the District for student organizations. The fund is custodial in nature (assets equal liabilities) and does not involve measurement or results of operations.

During the course of operations, the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds are eliminated in governmental activities.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using 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 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.

The governmental fund financial statements are reported using the *current financial resources* measurement focus and the *modified accrual basis* of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as required under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Interest associated with the current fiscal period is considered to be susceptible to accrual and has been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end).

The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Fund Balance

1. *Cash and Cash Equivalents*

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

2. Investments

Investments for the District, except for certain investment pools, are reported at fair value. The District's investments in pools are reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method.

TexPool, Lone Star and LOGIC have a redemption notice period of one day and may redeem daily. The investment pool's authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium or national state of emergency that affects the pool's liquidity.

3. Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". All interfund transactions are eliminated on the government-wide financial statements.

All property taxes receivable are shown net of any allowance for uncollectible. The property tax receivable allowance is equal to 3% of outstanding property taxes at June 30, 2020.

4. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

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. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

5. Capital Assets

Capital assets, which include land and improvements, construction in progress, buildings and improvements, and furniture and equipment, are reported in the applicable governmental activities column in the government-wide financial statements. The District's infrastructure includes parking lots and sidewalks associated with various buildings. The cost of the infrastructure was initially capitalized with the building cost and is being depreciated over the same useful life as the building. 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.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities), the District chose to include all such items regardless of their acquisition date or amount. The District was able to estimate the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the District constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

Land and improvements and construction in progress are not depreciated. The buildings and improvements and furniture and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

Capital Asset Class	Years
Buildings and improvements	5-50
Furniture and equipment	5-20

6. *Deferred Outflows/Inflows of Resources*

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditures) until then. The District has two items that qualify for reporting in this category. They are deferred charge on bond refunding and deferred outflows related to TRS reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The item related to TRS represents the District's share of the unrecognized plan deferred outflow of resources which TRS uses in calculating the ending net pension and other post-employment benefit (OPEB) liabilities.

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The District has two items that qualify for this reporting category. The first item, unavailable revenue from property taxes, is reported only in the governmental funds balance sheet. Under the modified accrual basis of accounting, these amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The item related to TRS represents the District's share of the unrecognized TRS plan deferred inflows of resources which TRS uses in calculating the ending net pension and other post-employment benefit (OPEB) liabilities.

7. *Compensated Absences*

It is the District's policy to permit employees to accumulate earned but unused leave benefits. The term leave includes state personal days and state sick leave days. Payment for unused leave days accumulated will be made upon retirement (in accordance with guidelines established by the Teacher Retirement System of Texas) for all eligible employees. All sick pay is accrued when incurred for employees who are eligible for retirement and meet the District's eligibility guidelines in the government-wide financial statements.

The District does not have a liability for unpaid vacation at year-end due to the District's policy does not allow a carryover of vacation days not taken by June 30.

8. *Net Position Flow Assumption*

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

It is the District's policy to consider restricted - net position to have been depleted before unrestricted net position is applied.

9. Net Position

Net position represents the difference between assets, deferred outflows (inflows) of resources and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

10. Fund Balance Flow Assumption

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

11. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The board of trustees (the Board) is the highest level of decision-making authority for the District that can, by board action or adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by board action or resolution remains in place until a similar action is taken (the board action or adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The Board has, by policy, authorized the superintendent or his designee to assign fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

In the general fund, the District intends to maintain a minimum fund balance of 12.5% of the District's general fund annual operating expenditures. If a fund balance drops below 5%, the District plans to recover at a rate of 1% minimally, each year.

12. Pension

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.

13. 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.

E. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property Taxes

Property taxes for the current calendar year are levied on approximately October 1 of each year and are payable by January 31 of the following year. Property tax receivables are recorded as of the date levied. Unpaid taxes become delinquent on February 1 and a tax lien on real property is created as of July 1 of each year.

F. Use of Estimates

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

G. Data Control Codes

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

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Deficit Net Position

At year-end, the District's internal service fund has a deficit net position of \$24,550. The internal service fund's revenue is generated through charges to other funds and departments within the District which are assessed by the District during the budget process. The District had more worker's compensation expenses than anticipated in the current year which resulted in a negative net position. This negative net position will be funded with charges to other funds and departments in future years.

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES

A. Deposits and Investments

Cash Deposits

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Texas School Depository Act. The depository bank pledges securities which comply with state law and these securities are held for safekeeping and trust with the District's and the depository banks' agent bank. The pledged securities shall be in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

Cash deposits of the District include all amounts deposited at the District's depository bank, including demand deposits and certificates of deposit. The District's cash deposits at June 30, 2020, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

Investments

The District's investment policy is in accordance with the Public Funds Investment Act, the Public Funds Collateral Act, and federal and state laws. State law and District policy limits credit risk by allowing investing in 1) Obligations of the United States or its agencies which are backed by the full faith and credit of the United States, obligations of the State of Texas or its agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized statistical rating organization (NRSRO) not less than A or its equivalent; 2) Certificates of deposit issued by a broker or depository located in Texas which is insured by the FDIC or purchased through a broker who has an office located in Texas; 3) Fully collateralized repurchase agreements secured by obligations of the United States or its agencies not to exceed 90 days to maturity from the date of purchase; 4) Securities lending program as permitted by Government Code 2256.0115; 5) Bankers acceptances with a stated maturity of 270 days or fewer which are eligible for collateral for borrowing from a Federal Reserve Bank; 6) Commercial paper if it has a stated maturity of 270 days or fewer from the date of its issuance and is rated not less than A-1 or P-1 or an equivalent rating by at least two nationally recognized credit rating agencies or one nationally recognized agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state; 7) No-load money market mutual funds which shall be registered with the Securities and Exchange Commission and have an dollar-weighted average stated maturity of 90 days or fewer; 8) No-load mutual funds which shall be registered with the Securities and Exchange Commission, have an average weighted maturity of less than two years, include investments that comply with the Public Funds Investment Act and are continuously rated not less than AAA by at least one NRSRO; 9) A guaranteed investment contract (for bond proceeds only) which meets the criteria and eligibility requirements established by the Public Funds Investment Act; 10) Public funds investment pools which meet the requirements of the Public Funds Investment Act.

The District's investment measurements and balances, weighted average maturity and credit risks of such investments are as follows:

Investment Type	Net Asset Value	Weighted Average Maturity (Days)	Standard & Poor's Rating
TexPool Prime	\$ 16,667,148	51	AAAm
Lone Star Corporate Overnight Plus	2,222,188	50	AAAf/S1+
LOGIC	181,164	43	AAAm
Total	<u>\$ 19,070,500</u>		
Portfolio weighted average maturity		51	

Credit Risk

For fiscal year 2020, the District invested in TexPool, Lone Star and LOGIC. TexPool is duly chartered and administered by the State Comptroller's Office. Lone Star Investment Pool is duly chartered by the State of Texas Interlocal Cooperation Act and is administered by First Public, LLC, formerly the Texas Association of School Boards Financial Services. LOGIC is administered by First Southwest, a division of Hilltop Securities, and J.P. Morgan Investment Inc. The credit rating for these investment pools are noted in the preceding table.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates may adversely affect the value of the investments. The District monitors interest rate risk utilizing weighted average maturity analysis and specific identification. In accordance with its investment policy, the District reduces its exposure to declines in fair values by limiting the weighted average maturity of any internally created pool to no more than 180 days, and any individual investment not to exceed one year, unless specifically authorized by the Board of Trustees.

Concentration of Credit Risk

The District's investment policy does not limit an investment in any one issuer. The investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting from over-concentration of assets in a specific class of investments, specific maturity, or specific issuer.

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. District policy requires investments to be in the District's name or held by the District's agent in the District's name. The District is not exposed to custodial risk due to the investments are insured or registered, or securities held by the District or its agent in the District's name.

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.

Restricted Cash and Cash Equivalents

The District has restricted cash and cash equivalents in the amount of \$3,844,318 as of June 30, 2020 which are restricted for the purpose of future debt requirements of the Qualified School Construction Maintenance Tax Notes.

B. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon 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 revenue is considered available (1) when it becomes due or past due and receivable within the current period and (2) when it is expected to be collected during a 60-day period after the close of the school fiscal year.

Allowances for uncollectible tax receivables within the General Fund 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.

C. Due from Other Governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the state through the School Foundation and Per Capital Programs. Amounts due from local, federal, and state governments as of June 30, 2020, are summarized below.

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental</u>	<u>Total</u>
State Entitlements	\$ 8,031,747	\$ -	\$ -	\$ 8,031,747
Federal/State Grants	-	-	1,602,864	1,602,864
Local	<u>520,789</u>	<u>232,012</u>	<u>-</u>	<u>752,801</u>
Totals	<u>\$ 8,552,536</u>	<u>\$ 232,012</u>	<u>\$ 1,602,864</u>	<u>\$ 10,387,412</u>

D. Interfund Balances

Receivables/Payables

The composition of interfund receivable/payable balances as of June 30, 2020, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Other governmental funds	\$ 1,391,969

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

E. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2020, was as follows:

	Beginning Balance	Additions	Retirements, Transfers, and Adjustments	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land and improvements	\$ 4,195,527	\$ -	\$ -	\$ 4,195,527
Construction in progress	862,475	1,676,438	-	2,538,913
Total capital assets, not being depreciated	5,058,002	1,676,438	-	6,734,440
Capital assets, being depreciated:				
Buildings and improvements	218,412,209	-	-	218,412,209
Furniture and equipment	13,251,291	2,344,005	(1,608,707)	13,986,589
Total capital assets, being depreciated	231,663,500	2,344,005	(1,608,707)	232,398,798
Less accumulated depreciation for:				
Buildings and improvements	(55,763,212)	(4,534,462)	-	(60,297,674)
Furniture and equipment	(8,725,445)	(1,006,526)	1,603,621	(8,128,350)
Total accumulated depreciation	(64,488,657)	(5,540,988)	1,603,621	(68,426,024)
Total capital assets, being depreciated, net	167,174,843	(3,196,983)	(5,086)	163,972,774
Total capital assets, net	\$ 172,232,845	\$ (1,520,545)	\$ (5,086)	\$ 170,707,214

Depreciation expense was charged to functions of the District as follows:

Governmental activities:	
Instruction	\$ 4,363,391
Student pupil transportation	333,819
Food services	88,127
Co-curricular/extracurricular	582,249
General administration	39,562
Plant maintenance and operations	72,690
Security and monitoring services	3,637
Data processing services	17,303
Community services	40,210
Total depreciation expense - governmental activities	\$ 5,540,988

F. Short-term Liabilities

During fiscal year 2019, the District entered into a loan agreement to provide funds for maintenance and operations in the general fund. This agreement was amended in February 2020. The taxable loan agreement was secured by the proceeds of a continuing annual ad valorem tax levied for maintenance and anticipated state aid from the Texas Education Agency (TEA). The period in which funds up to \$4,000,000 can be utilized by the District ends March 15, 2022. The District is obligated to pay down the principal amount of the loan to zero by March 15 of each year of the agreement and to maintain a zero balance for a period of at least 30 consecutive days thereafter. In fiscal year 2019 the District borrowed \$2,000,000 and this principal amount was paid during fiscal year 2020. The interest rate stated in the loan agreement is 6%. Interest payment dates are each October 15, November 15, December 15, January 15, February 15, and March 15. As of the year ended June 30, 2020, the outstanding balance is zero.

G. Long-term Liabilities

Changes in Long-term Liabilities

Changes in the District's long-term liabilities for the year ended June 30, 2020 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 136,920,000	\$ -	\$ (3,410,000)	\$ 133,510,000	\$ 3,550,000
Issuance premium (discount)	<u>7,560,747</u>	<u>-</u>	<u>(510,986)</u>	<u>7,049,761</u>	<u>-</u>
Total bonds payable, net	144,480,747	-	(3,920,986)	140,559,761	3,550,000
Limited maintenance tax notes:					
Tax notes	18,100,000	-	(620,000)	17,480,000	560,000
Issuance premium	<u>453,129</u>	<u>-</u>	<u>(33,673)</u>	<u>419,456</u>	<u>-</u>
Total limited maintenance tax notes, net	18,553,129	-	(653,673)	17,899,456	560,000
Compensated absences	<u>404,160</u>	<u>32,325</u>	<u>(53,850)</u>	<u>382,635</u>	<u>69,558</u>
Totals	<u>\$ 163,438,036</u>	<u>\$ 32,325</u>	<u>\$ (4,628,509)</u>	<u>\$ 158,841,852</u>	<u>\$ 4,179,558</u>

The current requirements for general obligation bonds principal and interest expenditures are accounted for in the debt service fund. The current requirements for tax notes principal and interest expenditures are accounted for in the general fund. Compensated absences liabilities are generally paid from the general fund and appropriate special revenue funds.

The District's outstanding bonds payable contain a provision that in an event of default, outstanding amounts will be paid from the corpus of the Texas Permanent School Fund. The District's outstanding tax notes contain a provision that in an event of default, outstanding amounts become immediately due.

General Obligation Bonds

The District issues general obligation bonds to provide funds for the construction and equipment of school buildings (BLDG), school buses and to refund general obligation bonds (REF).

General obligation bonds are direct obligations and pledge the full faith and credit of the District. These bonds are issued as current interest bonds (CIB) with various amounts of principal maturing each year. Rates may be fixed or variable. The following is a summary of changes in the general obligation bonds for the fiscal year ended June 30, 2020:

Series	Interest Rate	Original Issue	Maturity Date	Beginning Balance	Additions	Reductions	Ending Balance
Bonds:							
2009 REF	2.50-4.20%	4,385,000	2024	\$ 2,170,000	\$ -	\$ (400,000)	\$ 1,770,000
2012 REF	2.00-3.00%	9,275,000	2029	9,095,000	-	-	9,095,000
2013 REF	1.00-4.00%	25,025,000	2029	18,060,000	-	(1,375,000)	16,685,000
2013 BLDG	4.00-5.00%	67,020,000	2043	67,020,000	-	-	67,020,000
2014 BLDG	3.50-4.00%	8,985,000	2043	8,985,000	-	-	8,985,000
2015 BLDG	3.00-3.625%	9,400,000	2043	4,520,000	-	(175,000)	4,345,000
2015 REF	3.00-4.00%	7,450,000	2024	7,315,000	-	(1,440,000)	5,875,000
2018 BLDG	4.00-5.00%	20,010,000	2048	<u>19,755,000</u>	<u>-</u>	<u>(20,000)</u>	<u>19,735,000</u>
Totals				<u>\$ 136,920,000</u>	<u>\$ -</u>	<u>\$ (3,410,000)</u>	<u>\$ 133,510,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30,	Principal	Interest	Total Requirements
2021	\$ 3,550,000	\$ 5,626,496	\$ 9,176,496
2022	3,695,000	5,485,674	9,180,674
2023	3,845,000	5,339,071	9,184,071
2024	3,990,000	5,186,271	9,176,271
2025	4,105,000	5,043,831	9,148,831
2026-2030	22,165,000	23,448,430	45,613,430
2031-2035	25,455,000	19,206,524	44,661,524
2036-2040	31,695,000	13,162,214	44,857,214
2041-2045	27,425,000	5,170,219	32,595,219
2046-2049	7,585,000	771,000	8,356,000
Totals	<u>\$ 133,510,000</u>	<u>\$ 88,439,730</u>	<u>\$ 221,949,730</u>

As of June 30, 2020, the District had \$86,500,000 of authorized but unissued bonds.

In previous years, the District defeased certain outstanding bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts and the liability for the defeased bonds are not included in the District's financial statements. As of June 30, 2020, there were no outstanding defeased bonds.

Tax Notes

The District issued maintenance tax notes to provide funds for capital improvements and equipping facilities. The maintenance tax notes are secured by the proceeds of a continuing direct annual ad valorem tax levied for maintenance. The notes are issued as current interest notes.

The following is a summary of changes in the tax notes for the fiscal year ended June 30, 2020:

Description	Interest Rate	Original Issue	Maturity Date	Beginning Balance	Additions	Reductions	Ending Balance
Limited maintenance tax notes:							
2010 Qualified school construction maintenance tax notes (QSCMT)	5.95%	\$ 7,235,000	2025	\$ 7,235,000	\$ -	\$ -	\$ 7,235,000
2016 Maintenance tax notes	2.5-3.25%	9,255,000	2036	8,300,000	-	(385,000)	7,915,000
2017 Maintenance tax notes	3.00%	2,970,000	2032	2,565,000	-	(235,000)	2,330,000
Totals				<u>\$ 18,100,000</u>	<u>\$ -</u>	<u>\$ (620,000)</u>	<u>\$ 17,480,000</u>

Annual debt service requirements to maturity for the notes payable are as follows:

Year Ending June 30,	Principal	Interest	Total Requirements
2021	\$ 560,000	\$ 733,014	\$ 1,293,014
2022	575,000	716,214	1,291,214
2023	595,000	698,964	1,293,964
2024	610,000	681,114	1,291,114
2025	7,865,000	662,814	8,527,814
2026-2030	3,420,000	887,693	4,307,693
2031-2035	3,245,000	380,045	3,625,045
2036	610,000	19,825	629,825
Totals	<u>\$ 17,480,000</u>	<u>\$ 4,779,683</u>	<u>\$ 22,259,683</u>

H. Risk Management

Property/Liability

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, and natural disasters. During fiscal 2020, the District purchased commercial insurance to cover these general liabilities. There were no significant reductions in coverage in the current fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

Health Insurance

During the fiscal year ended June 30, 2020, employees of the District were covered by TRS-Active Care (the Plan), a statewide health coverage program for Texas public education employees implemented by the Teacher Retirement System of Texas (TRS). The District's contribution of \$150 per month is combined with the state contribution of \$75 per month per participating employee to be used for healthcare coverage premiums. Employees, at their option, authorized payroll deductions to pay remaining premium amounts. All premiums were paid to the TRS.

Workers' Compensation

The District established a new limited risk management program for workers' compensation in 2016, replacing the previously established program, by participating as a self-funded member of the Texas Public Schools Workers' Compensation Project (Pool). The Pool was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and Chapter 504, Texas Labor Code. As a self-funded member of the Pool, the District is solely responsible for all claim's costs, both reported and unreported. A third-party administrator provides administrative services to its self-funded members including claims administration and customer service. Premiums are paid into an internal service fund by the other funds and are available to pay claims, claim reserves, and administrative costs of the program.

Liabilities of the fund are reported when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. Liabilities also include an estimated amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from stop-loss or subrogation, are another component of the claims liability estimate. The Texas Public Schools Workers' Compensation Project limits the Pool's liability to \$350,000 per occurrence with a maximum aggregate exposure of \$5,000,000. Settlements have not exceeded coverages for each of the past three fiscal years and there were no significant reductions in insurance coverage from the prior year. Changes in the balances of claims liabilities during the past two fiscal periods are as follows:

	Year Ended <u>6/30/2019</u>	Year Ended <u>6/30/2020</u>
Unpaid claims, beginning of fiscal year	\$ 303,422	\$ 330,953
Incurred claims	131,560	94,768
Claim payments	(104,029)	(190,640)
Unpaid claims, end of fiscal year	\$ <u>330,953</u>	\$ <u>235,081</u>

I. Litigation and Contingencies

The District participates in a number of federal and state financial assistance programs. Although the District's grant programs have been audited in accordance with the provisions of the Single Audit Act through June 30, 2020, these programs are subject to financial and compliance audits by the grantor agencies. The District is also subject to audit by the TEA of the attendance data upon which payments from the agency are based. These audits could result in questioned costs or refunds to be paid back to the granting agencies.

The District is a defendant in an inquiry. Although the outcome of the inquiry is not presently determinable, in the opinion of the District's legal counsel, the resolution of this matter will not have a material adverse effect on the financial condition of the District.

J. Defined Benefit Pension Plan

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

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard 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 TRS website at www.trs.state.tx.us; 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 is 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.

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.

In May 2019, the 86th Texas Legislature approved the TRS Pension Reform Bill (Senate Bill 12) that provides for gradual contribution increases from the state, participating employers, and active employees to make the pension fund actuarially sound. This action causing the pension fund to be actuarially sound, allowed the legislature to approve funding for a 13th check in September 2019. All eligible members retired as of December 31, 2018 received an extra annuity check in either the matching amount of their monthly annuity or \$2,000, whichever was less.

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.

Employee contribution rates are set in state statute, Texas Government Code 825.402. The TRS Pension Reform Bill (Senate Bill 12) of the 86th Texas Legislature amended Texas Government Code 825.402 for member contributions and increased employee and employer contribution rates for fiscal years 2020 thru 2025.

	Contribution Rates	
	2019	2020
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	7.5%
Employers	6.8%	7.5%
Current fiscal year employer contributions		\$ 1,425,866
Current fiscal year member contributions		3,090,696
2019 measurement year NECE on-behalf contributions		1,708,062

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

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

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.
- When the employing district is a public or charter school, the employer shall contribute 1.5% of covered payroll to the pension fund beginning in fiscal year 2020. This contribution rate called the Public Education Employer Contribution will replace the Non (OASDI) surcharge that was in effect in fiscal year 2019.

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

- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district or charter school does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees. This surcharge was in effect through fiscal year 2019 and was replaced with the Public Education Employer Contribution explained above.

Actuarial Assumptions. The total pension liability in the August 31, 2018 actuarial valuation was rolled forward to August 31, 2019, and was determined using the following actuarial assumptions:

Valuation Date	August 31, 2018 rolled forward to August 31, 2019
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Market Value
Single Discount Rate	7.25%
Long-term expected Investment Rate of Return	7.25%
Inflation	2.30%
Salary Increases Including Inflation	3.05% to 9.05%
Payroll Growth Rate	3.00%
Ad Hoc Post-Employment Benefit Changes	None

The actuarial methods and assumptions are used in the determination of the total pension liability are the same assumptions used in the actuarial valuation as of August 31, 2018. For a full description of these assumptions please see the actuarial valuation report dated November 9, 2018.

Discount Rate. A single discount rate of 7.25 percent was used to measure the total pension liability. The single discount rate was based on the expected rate of return on plan investments of 7.25 percent. The projection of cash flows used to determine this single discount rate assumed that contributions from active members, employers and the non-employer contributing entity will be made at the rates set by the legislature during the 2019 session. It is assumed that future employer and state contributions will be 8.50 percent of payroll in fiscal year 2020 gradually increasing to 9.55 percent of payroll over the next several years. This includes all employer and state contributions for active and rehired retirees.

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term rate of return on pension plan investments is 7.25%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2019 are summarized below:

Asset Class	Target Allocation ¹	Long-Term New Target Allocation ²	Long-Term Expected Geometric Real Rate of Return ³
Global Equity			
U.S.	18.00%	18.00%	6.40%
Non-U.S. Developed	13.00%	13.00%	6.30%
Emerging Markets	9.00%	9.00%	7.30%
Directional Hedge Funds	4.00%	-	-
Private Equity	13.00%	14.00%	8.40%
Stable Value			
U.S. Treasuries ⁴	11.00%	16.00%	3.10%
Stable Value Hedge Funds	4.00%	5.00%	4.50%
Real Return			
Global Inflation Linked Bonds ⁴	3.00%	-	-
Real Estate	14.00%	15.00%	8.50%
Energy and Natural Resources	5.00%	6.00%	7.30%
Risk Parity			
Risk Parity	5.00%	8.00%	5.8%/6.5% ⁵
Leverage			
Cash	1.00%	2.00%	2.50%
Asset Allocation Leverage	-	-6.00%	2.70%
Total	100.00%	100.00%	7.23%

¹ Target allocations are based on the Strategic Asset Allocation as of FY2019.

² New allocations are based on the Strategic Asset Allocation to be implemented FY 2020.

³ 10-Year annualized geometric nominal returns include the real rate of return and inflation of 2.1%

⁴ New Target Allocation groups Government Bonds within the stable value allocation. This includes global sovereign nominal and inflation-linked bonds

⁵ 5.8% (6.5%) return expectation corresponds to Risk Parity with a 10% (12%) target volatility

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 (7.25%) in measuring the net pension liability.

	1% Decrease in Discount Rate (6.25%)	Discount Rate (7.25%)	1% Increase in Discount Rate (8.25%)
District's proportionate share of the net pension liability	\$ 28,774,848	\$ 18,719,667	\$ 10,573,030

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2020, the District reported a liability of \$18,719,667 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$	18,719,667
State's proportionate share that is associated with the District		<u>25,368,891</u>
Total	\$	<u><u>44,088,558</u></u>

The net pension liability was measured as of August 31, 2018 and rolled forward to August 31, 2019 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, 2018 thru August 31, 2019.

At August 31, 2019 the employer's proportion of the collective net pension liability was 0.0360110457% which was a decrease of 0.0048680704% from its proportion measured as of August 31, 2018.

The net pension liability is liquidated from the general fund and appropriate special revenues funds.

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

- The single discount rate as of August 31, 2018 was a blended rate of 6.907 percent and that has changed to the long-term rate of return of 7.25 percent as of August 31, 2019.
- With the enactment of SB 3 by the 2019 Texas Legislature, an assumption has been made about how this would impact future salaries. It is assumed that eligible active members will each receive a \$2,700 increase in fiscal year 2020. This is in addition to the salary increase expected in the actuarial assumptions.
- The Texas legislature approved funding for a 13th check. All eligible members retired as of December 31, 2018 will receive an extra annuity check in September 2019 in either the matching amount of their monthly annuity payment or \$2,000, whichever is less.

For the year ended June 30, 2020, the District recognized pension expense of \$7,862,527 and revenue of \$3,985,095 for support provided by the State.

At June 30, 2020, the District's proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 78,639	\$ 649,977
Changes in actuarial assumptions	5,807,760	2,400,041
Differences between projected and actual investment earnings	187,967	-
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	2,991,773	1,553,811
Contributions paid to TRS subsequent to the measurement date	<u>1,225,333</u>	<u>-</u>
Totals	<u><u>\$ 10,291,472</u></u>	<u><u>\$ 4,603,829</u></u>

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

For the Year Ended June 30,	Pension Expense
2021	\$ 1,318,362
2022	1,093,171
2023	1,197,149
2024	993,185
2025	137,832
Thereafter	(277,389)

K. **Defined Other Post-Employment Benefit Plans**

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

OPEB Plan Fiduciary Net Position. Detail information about the TRS-Care's fiduciary net position is available in the separately issued TRS Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the TRS website at www.trs.state.tx.us; 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 retirees are reflected in the following table.

	TRS-Care Monthly Premium Rates	
	Medicare	Non-Medicare
Retiree or Surviving Spouse	\$ 135	\$ 200
Retiree and Spouse	529	689
Retiree or Surviving Spouse and Children	468	408
Retiree and Family	1,020	999

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

Texas Insurance Code, section 1575.202 establishes the state's contribution rate which is 1.25% of the employee's salary. Section 1575.203 establishes the active employee's rate which is .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.

	Contribution Rates	
	2019	2020
Active employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/Private Funding Remitted by Employers	1.25%	1.25%
Current fiscal year employer contributions		\$ 330,887
Current fiscal year member contributions		260,905
2019 measurement year NECE on-behalf contributions		419,003

In addition, the State of Texas contributed \$174,123, \$136,671 and \$125,103 in 2020, 2019, and 2018, respectively, for on-behalf payments for Medicare Part D.

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 \$73.6 million in fiscal year 2019.

Actuarial Assumptions. The total OPEB liability in the August 31, 2018 was rolled forward to August 31, 2019. 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, 2018 TRS pension actuarial valuation that was rolled forward to August 31, 2019:

Rates of Mortality	General Inflation
Rates of Retirement	Wage Inflation
Rates of Termination	Expected Payroll Growth
Rates of Disability Incidence	
Additional Actuarial Methods and Assumptions	
Valuation Date	August 31, 2018, rolled forward to August 31, 2019
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Discount Rate	2.63% as of August 31, 2019
Aging Factors	Based on plan specific experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Expected Payroll Growth	3.00%
Projected Salary Increases	3.05% to 9.05%
Healthcare Trend Rates	4.50% to 10.25%
Election Rates	Normal Retirement: 65% participation prior to age 65 and 50% after age 65. 25% of pre-65 retirees are assumed to discontinue coverage at age 65.
Ad hoc post-employment benefit changes	None

Discount Rate. A single discount rate of 2.63% was used to measure the total OPEB liability. There was a decrease of 1.06 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 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. 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 the discount rate that was used (2.63%) in measuring the net OPEB liability.

	1% Decrease in Discount Rate (1.63%)	Discount Rate (2.63%)	1% Increase in Discount Rate (3.63%)
District's proportionate share of net OPEB liability	\$ 25,369,139	\$ 21,012,756	\$ 17,604,754

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

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District's proportionate share of net OPEB liability	\$ 17,141,470	\$ 21,012,756	\$ 26,198,503

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs. At June 30, 2020, the District reported a liability of \$21,012,756 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	\$ 21,012,756
State's proportionate share that is associated with the District	<u>27,921,253</u>
Total	<u>\$ 48,934,009</u>

The net OPEB liability was measured as of August 31, 2018 and rolled forward to August 31, 2019 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 OPEB relative to the contributions of all employers to the plan for the period September 1, 2018 thru August 31, 2019.

At August 31, 2019 the employer’s proportion of the collective net OPEB liability was 0.0444326752% which was a decrease of 0.0061335966% from its proportion measured as of August 31, 2018.

The net OPEB liability is liquidated from the general fund and appropriate special revenues funds.

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:

- The discount rate changed from 3.69 percent as of August 31, 2018 to 2.63 percent as of August 31, 2019. 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.
- The participation rate for pre-65 retirees was lowered from 70 percent to 65 percent. The participation rate for post-65 retirees was lowered from 75 percent to 50 percent. 25 percent of pre-65 retirees are assumed to discontinue their coverage at age 65. There was no lapse assumption in the prior valuation. These changes decreased the total OPEB liability.
- The percentage of retirees who are assumed to have two-person coverage was lowered from 20 percent to 15 percent. In addition, the participation assumption for the surviving spouses of employees that die while actively employed was lowered from 20 percent to 10 percent. These changes decreased the total OPEB liability.
- There were no changes in benefit terms since the prior measurement date.

The impact of the Cadillac Tax that is returning in fiscal year 2023 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 2.30 percent.
- Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.
- There were no special adjustments to the dollar limit other than those permissible for non-Medicare retirees over 55.

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

For the year ended June 30, 2019, the District recognized OPEB expense of \$1,153,113 and revenue of \$735,890 for support provided by the State.

At June 30, 2020, 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 actuarial experiences	\$ 1,030,854	\$ 3,438,515
Changes in actuarial assumptions	1,167,095	5,651,916
Differences between projected and actual investment earnings	2,267	-
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	2,268,702	3,394,603
Contributions paid to TRS subsequent to the measurement date	<u>279,608</u>	<u>-</u>
Totals	<u>\$ 4,748,526</u>	<u>\$ 12,485,034</u>

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

For the Year Ended June 30,	OPEB Expense
2021	\$(1,259,585)
2022	(1,259,585)
2023	(1,260,318)
2024	(1,260,738)
2025	(1,260,623)
Thereafter	(1,715,267)

L. New Accounting Standards

Significant new accounting standards issued by the Governmental Accounting Standards Board (GASB) not yet implemented by the District include the following:

Statement No. 84, *Fiduciary Activities* – This Statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The focus is generally on whether a government is controlling the assets of the fiduciary activity and on the beneficiaries with whom a fiduciary relationship exists. This Statement will become effective for the District in fiscal year 2021.

Statement No. 87, *Leases* – This Statement will improve the accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities previously classifies as operating leases. It establishes a single model for lease accounting based on the principle that leases are financing the right to use an underlying asset. Under the Statement a lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resource, enhancing the relevance and consistency of information about leasing activities. This Statement will become effective for the District in fiscal year 2022.

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REQUIRED SUPPLEMENTARY INFORMATION

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CROSBY INDEPENDENT SCHOOL DISTRICT

EXHIBIT G-1

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2020

Data Control Codes		Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
		Original	Final		
REVENUES					
5700	Local and intermediate sources	\$ 23,837,475	\$ 21,829,608	\$ 22,420,706	\$ 591,098
5800	State programs	31,328,951	38,086,275	37,807,791	(278,484)
5900	Federal program	1,193,375	1,195,232	1,224,907	29,675
5020	Total revenues	56,359,801	61,111,115	61,453,404	342,289
EXPENDITURES					
Current:					
0011	Instruction	30,814,629	34,426,474	33,091,364	1,335,110
0012	Instructional resources and media sources	136,129	170,301	150,419	19,882
0013	Curriculum and staff development	618,560	889,650	809,329	80,321
0021	Instructional leadership	731,605	642,415	606,167	36,248
0023	School leadership	2,983,640	3,411,253	3,362,398	48,855
0031	Guidance, counseling, and evaluation services	1,400,503	1,744,770	1,660,693	84,077
0033	Health services	530,579	688,822	655,548	33,274
0034	Student transportation	3,183,576	3,472,309	2,941,235	531,074
0036	Extracurricular activities	1,359,323	1,547,563	1,235,959	311,604
0041	General administration	1,893,124	2,787,900	2,402,819	385,081
0051	Facilities maintenance and operations	4,577,087	5,248,115	4,649,108	599,007
0052	Security and monitoring services	463,243	528,862	471,376	57,486
0053	Data processing services	584,389	431,154	325,177	105,977
0061	Community services	58,855	8,971	5,037	3,934
Debt service:					
0071	Principal on long-term debt	620,000	620,000	620,000	-
0072	Interest on long-term debt	811,614	811,614	786,947	24,667
0073	Bond issuance costs and fees	5,000	5,000	1,650	3,350
Intergovernmental:					
0093	Payments to shared services arrangements	77,000	77,000	62,500	14,500
	Payments to juvenile justice alternative education programs	19,800	19,800	-	19,800
0095	Other governmental charges	237,000	237,000	230,055	6,945
6030	Total expenditures	51,105,656	57,768,973	54,067,781	3,701,192
1100	EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	5,254,145	3,342,142	7,385,623	4,043,481
OTHER FINANCING SOURCES (USES)					
7912	Proceeds from sale of capital assets	-	20,000	24,161	4,161
8949	Transfers out	(10,000)	(10,000)	-	10,000
7080	Total other financing sources (uses)	(10,000)	10,000	24,161	14,161
1200	NET CHANGE IN FUND BALANCES	5,244,145	3,352,142	7,409,784	4,057,642
0100	FUND BALANCES, BEGINNING	8,453,867	8,453,867	8,453,867	-
3000	FUND BALANCES, ENDING	\$ 13,698,012	\$ 11,806,009	\$ 15,863,651	\$ 4,057,642

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CROSBY INDEPENDENT SCHOOL DISTRICT

NOTES TO BUDGETARY INFORMATION

JUNE 30, 2020

Budgetary Information

Each school district in Texas is required by law to prepare annually a budget of anticipated revenues and expenditures for the general fund, debt service fund, and the National School Breakfast and Lunch Program special revenue fund. The Texas Education Code requires the budget to be prepared not later than June 19 and adopted by June 30 of each year. The budgets are prepared on a basis of accounting that is used for reporting in accordance with generally accepted accounting principles.

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

1. Prior to June 19 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
3. Prior to July 1, the budget is formally approved and adopted by the Board.

The appropriated budget is prepared by fund and function. The District's campus/department heads may make transfers of appropriations within a campus or department. Transfers of appropriations between campuses or departments require the approval of the District's management. Increasing any one of the functional spending categories, or revenues object accounts and other resources require the approval of the Board. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the function level within a fund. All annual appropriations lapse at fiscal year-end.

Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as restricted, committed, or assigned fund balances as appropriate. The encumbrances do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

CROSBY INDEPENDENT SCHOOL DISTRICT**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM**

FOR THE YEAR ENDED JUNE 30, 2020

Measurement period ended August 31,	<u>2014</u>	<u>2015</u>
District's proportion of the net pension liability (asset)	0.0188607%	0.0323325%
District's proportionate share of the net pension liability (asset)	\$ 5,037,954	\$ 11,429,108
State's proportionate share of the net pension liability (asset) associated with the District	<u>16,313,927</u>	<u>19,600,726</u>
Total	\$ <u>21,351,881</u>	\$ <u>31,029,834</u>
District's covered payroll	\$ 29,518,270	\$ 32,541,661
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	17.07%	35.12%
Plan fiduciary net position as a percentage of the total pension liability	83.25%	78.43%

Note: The information for all periods for this 10-year schedule is not available.

<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
0.0335771%	0.0373845%	0.0408791%	0.0360110%
\$ 12,688,305	\$ 11,953,552	\$ 22,500,858	\$ 18,719,667
<u>21,022,958</u>	<u>19,031,719</u>	<u>32,105,118</u>	<u>25,368,891</u>
\$ <u>33,711,263</u>	\$ <u>30,985,271</u>	\$ <u>54,605,976</u>	\$ <u>44,088,558</u>
\$ 35,355,165	\$ 39,985,219	\$ 42,652,914	\$ 38,155,802
35.89%	29.89%	52.75%	49.06%
78.00%	82.17%	73.74%	75.24%

CROSBY INDEPENDENT SCHOOL DISTRICT**SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM****FOR THE YEAR ENDED JUNE 30, 2020**

	<u>Fiscal Year Ended August 31,</u>	
	<u>2015</u>	<u>2016</u>
Contractually required contribution	\$ 957,378	\$ 1,065,900
Contributions in relation to the contractually required contribution	(957,378)	(1,065,900)
Contribution deficiency (excess)	\$ -	\$ -
District's covered payroll	\$ 32,541,661	\$ 35,355,165
Contribution as a percentage of covered payroll	2.94%	3.01%

Note: The information for all periods for this 10-year schedule is not available.

⁽¹⁾ Fiscal Year 2017 presents ten months of data - September 1, 2016 - June 30, 2017, due to the District changing its fiscal year-end to June 30 from August 31.

Fiscal Year Ended June 30,			
2017 ⁽¹⁾	2018	2019	2020
\$ 994,987	\$ 1,368,942	\$ 1,294,013	\$ 1,425,866
(994,987)	(1,368,942)	(1,294,013)	(1,425,866)
\$ -	\$ -	\$ -	\$ -
\$ 33,078,371	\$ 42,528,472	\$ 39,010,561	\$ 40,138,908
3.01%	3.22%	3.32%	3.55%

CROSBY INDEPENDENT SCHOOL DISTRICT**EXHIBIT G-4**

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY
TEACHER RETIREMENT SYSTEM

FOR THE YEAR ENDED JUNE 30, 2020

Measurement period ended August 31,	<u>2017</u>	<u>2018</u>	<u>2019</u>
District's proportion of the net OPEB liability (asset)	0.0458408%	0.0505663%	0.0444327%
District's proportionate share of the net OPEB liability (asset)	\$ 19,934,458	\$ 25,248,202	\$ 21,012,756
State's proportionate share of the net OPEB liability (asset) associated with the District	<u>31,736,731</u>	<u>36,564,861</u>	<u>27,921,253</u>
Total	\$ <u>51,671,189</u>	\$ <u>61,813,063</u>	\$ <u>48,934,009</u>
District's covered-employee payroll	\$ 39,985,219	\$ 42,652,914	\$ 38,155,802
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	49.85%	59.19%	55.07%
Plan fiduciary net position as a percentage of the total OPEB liability	0.91%	1.57%	2.66%

Note: The information for all periods for this 10-year schedule is not available.

CROSBY INDEPENDENT SCHOOL DISTRICT**EXHIBIT G-5****SCHEDULE OF DISTRICT OPEB CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM**

FOR THE YEAR ENDED JUNE 30, 2020

Fiscal year ended June 30,	<u>2018</u>	<u>2019</u>	<u>2020</u>
Contractually required contribution	\$ 324,330	\$ 322,924	\$ 330,887
Contributions in relation to the contractually required contribution	(324,330)	(322,924)	(330,887)
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
District's covered-employee payroll	\$ 42,528,472	\$ 39,010,561	\$ 40,138,908
Contribution as a percentage of covered-employee payroll	0.76%	0.83%	0.82%

Note: The information for all periods for this 10-year schedule is not available.

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COMBINING SCHEDULES

CROSBY INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2020

	Special Revenue Funds			
	206	211	224	225
	Texas Education for Homeless Children & Youth	Title I, Part A- Improving Basic Programs	IDEA-B Formula	IDEA-B Preschool
ASSETS				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
Current investments	-	-	-	-
Due from other governments	-	197,602	224,585	5,136
Other receivables	-	-	-	-
Inventories	-	-	-	-
Total assets	<u>-</u>	<u>197,602</u>	<u>224,585</u>	<u>5,136</u>
LIABILITIES				
Accounts payable	-	-	2,725	-
Payroll deductions and withholdings	-	12,674	11,309	276
Accrued wages	-	96,029	86,110	2,798
Due to other funds	-	88,899	124,441	2,062
Due to other governments	-	-	-	-
Unearned revenue	-	-	-	-
Total liabilities	<u>-</u>	<u>197,602</u>	<u>224,585</u>	<u>5,136</u>
FUND BALANCES				
Nonspendable - inventories	-	-	-	-
Restricted - grant funds	-	-	-	-
Committed - campus activity funds	-	-	-	-
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	\$ <u>-</u>	\$ <u>197,602</u>	\$ <u>224,585</u>	\$ <u>5,136</u>

Special Revenue Funds						
226	226	240	244	255	263	289
IDEA-B High Cost	IDEA-B Evaluation Capacity	National School Breakfast and Lunch Program	Carl D. Perkins Career & Technical Basic Grant	Title II, Part A- Supporting Effective Instruction	Title III, Part A- ELA	Restart Hurricane Recovery
\$ -	\$ -	\$ 433,687	\$ -	\$ -	\$ -	\$ -
-	-	436,083	-	-	-	-
59,685	-	-	7,765	41,693	10,264	-
-	-	-	-	-	-	-
-	-	77,095	-	-	-	-
<u>59,685</u>	<u>-</u>	<u>946,865</u>	<u>7,765</u>	<u>41,693</u>	<u>10,264</u>	<u>-</u>
-	-	1,631	-	-	1,075	-
-	-	9,354	534	2,410	159	-
-	-	108,247	-	23,474	3,780	-
59,685	-	40,679	7,231	15,809	5,250	-
-	-	-	-	-	-	-
-	-	55,582	-	-	-	-
<u>59,685</u>	<u>-</u>	<u>215,493</u>	<u>7,765</u>	<u>41,693</u>	<u>10,264</u>	<u>-</u>
-	-	77,095	-	-	-	-
-	-	654,277	-	-	-	-
-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>731,372</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
\$ <u>59,685</u>	\$ <u>-</u>	\$ <u>946,865</u>	\$ <u>7,765</u>	\$ <u>41,693</u>	\$ <u>10,264</u>	\$ <u>-</u>

CROSBY INDEPENDENT SCHOOL DISTRICTCOMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2020

	Special Revenue Funds			
	289	289	410	424
	LEP Summer School	Title IV, Part A, Subpart I	State Textbook Fund	Career and Technical Education
ASSETS				
Cash and cash equivalents	\$ 483	\$ -	\$ 4,245	\$ -
Current investments	-	-	-	-
Due from other governments	-	6,012	-	16,922
Other receivables	-	-	-	-
Inventories	-	-	-	-
Total assets	<u>483</u>	<u>6,012</u>	<u>4,245</u>	<u>16,922</u>
LIABILITIES				
Accounts payable	-	-	1,437	13,404
Payroll deductions and withholdings	483	-	-	-
Accrued wages	-	-	-	-
Due to other funds	-	6,012	-	3,518
Due to other governments	-	-	-	-
Unearned revenue	-	-	2,808	-
Total liabilities	<u>483</u>	<u>6,012</u>	<u>4,245</u>	<u>16,922</u>
FUND BALANCES				
Nonspendable - inventories	-	-	-	-
Restricted - grant funds	-	-	-	-
Committed - campus activity funds	-	-	-	-
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	\$ <u>483</u>	\$ <u>6,012</u>	\$ <u>4,245</u>	\$ <u>16,922</u>

Special Revenue Funds						
426 Special Education Fiscal Support	427 TCEQ VW Environmental Program	428 Read to Succeed License Plate Program	429 Literacy and Math Academies	461 Campus Activity Funds	494 Target Grant	495 Class of '77
\$ 100,554	\$ -	\$ -	\$ -	\$ 450,612	\$ -	\$ 197
-	-	-	-	-	-	-
-	1,033,200	-	-	-	-	-
-	-	-	-	181	-	-
-	-	-	-	-	-	-
<u>100,554</u>	<u>1,033,200</u>	<u>-</u>	<u>-</u>	<u>450,793</u>	<u>-</u>	<u>197</u>
7,262	-	-	-	1,363	-	197
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	1,033,200	-	-	-	-	-
-	-	-	-	73	-	-
<u>93,292</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>100,554</u>	<u>1,033,200</u>	<u>-</u>	<u>-</u>	<u>1,436</u>	<u>-</u>	<u>197</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	449,357	-	-
-	-	-	-	<u>449,357</u>	<u>-</u>	<u>-</u>
\$ <u>100,554</u>	\$ <u>1,033,200</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>450,793</u>	\$ <u>-</u>	\$ <u>197</u>

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CROSBY INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2020

	Special Revenue Funds			
	497	498	499	
	Code Red	Crosby Education Foundation	Region IV School Support Grant	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ -	\$ -	\$ 84	\$ 989,862
Current investments	-	-	-	436,083
Due from other governments	-	-	-	1,602,864
Other receivables	-	5,586	-	5,767
Inventories	-	-	-	77,095
Total assets	<u>-</u>	<u>5,586</u>	<u>84</u>	<u>3,111,671</u>
LIABILITIES				
Accounts payable	-	-	-	29,094
Payroll deductions and withholdings	-	83	-	37,282
Accrued wages	-	320	-	320,758
Due to other funds	-	5,183	-	1,391,969
Due to other governments	-	-	-	73
Unearned revenue	-	-	84	151,766
Total liabilities	<u>-</u>	<u>5,586</u>	<u>84</u>	<u>1,930,942</u>
FUND BALANCES				
Nonspendable - inventories	-	-	-	77,095
Restricted - grant funds	-	-	-	654,277
Committed - campus activity funds	-	-	-	449,357
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,180,729</u>
 Total liabilities and fund balances	 \$ -	 \$ 5,586	 \$ 84	 \$ 3,111,671

CROSBY INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2020

	Special Revenue Funds			
	206	211	224	225
	Texas Education for Homeless Children & Youth	Title I, Part A- Improving Basic Programs	IDEA-B Formula	IDEA-B Preschool
REVENUES				
Local and intermediate sources	\$ -	\$ -	\$ -	\$ -
State programs	-	-	-	-
Federal programs	3,460	961,943	1,108,233	24,429
Total revenues	<u>3,460</u>	<u>961,943</u>	<u>1,108,233</u>	<u>24,429</u>
EXPENDITURES				
Current:				
Instruction	3,100	948,757	324,279	24,429
Instructional resources and media services	-	-	-	-
Curriculum and instructional staff development	-	472	7,239	-
Instructional leadership	-	-	6,336	-
School leadership	-	-	3,927	-
Guidance, counseling, and evaluating services	-	-	765,079	-
Health services	-	-	-	-
Student transportation	-	-	1,373	-
Food services	-	-	-	-
Extracurricular activities	-	-	-	-
General administration	360	-	-	-
Facility maintenance and operations	-	-	-	-
Security and monitoring services	-	-	-	-
Community services	-	12,714	-	-
Total expenditures	<u>3,460</u>	<u>961,943</u>	<u>1,108,233</u>	<u>24,429</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	-	-	-
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	-	-	-	-
Total other financing sources (uses)	-	-	-	-
NET CHANGE IN FUND BALANCES	-	-	-	-
FUND BALANCES, BEGINNING	-	-	-	-
FUND BALANCES, ENDING	\$ -	\$ -	\$ -	\$ -

Special Revenue Funds						
226	226	240	244	255	263	289
IDEA-B High Cost	IDEA-B Evaluation Capacity	National School Breakfast and Lunch Program	Carl D. Perkins Career & Technical Basic Grant	Title II, Part A- Supporting Effective Instruction	Title III, Part A- ELA	Restart Hurricane Recovery
\$ -	\$ -	\$ 674,197	\$ -	\$ -	\$ -	\$ -
-	-	74,802	-	-	-	-
59,685	-	1,780,630	70,715	179,428	67,134	8,308
59,685	-	2,529,629	70,715	179,428	67,134	8,308
48,500	-	-	-	179,428	55,381	-
-	-	-	-	-	-	-
-	-	-	-	-	5,752	-
-	-	-	63,213	-	-	-
-	-	-	-	-	-	-
-	-	-	7,502	-	5,970	-
-	-	-	-	-	-	-
11,185	-	-	-	-	-	8,308
-	-	2,742,887	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	41,108	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	31	-
59,685	-	2,783,995	70,715	179,428	67,134	8,308
-	-	(254,366)	-	-	-	-
-	-	25,974	-	-	-	-
-	-	25,974	-	-	-	-
-	-	(228,392)	-	-	-	-
-	-	959,764	-	-	-	-
\$ -	\$ -	\$ 731,372	\$ -	\$ -	\$ -	\$ -

CROSBY INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2020

	Special Revenue Funds			
	289	289	410	424
	LEP Summer School	Title IV, Part A, Subpart I	State Textbook Fund	Career and Technical Education
REVENUES				
Local and intermediate sources	\$ -	\$ -	\$ -	\$ -
State programs	-	-	974,602	16,279
Federal programs	5,343	66,610	-	-
Total revenues	<u>5,343</u>	<u>66,610</u>	<u>974,602</u>	<u>16,279</u>
EXPENDITURES				
Current:				
Instruction	5,343	1,831	974,602	16,279
Instructional resources and media services	-	-	-	-
Curriculum and instructional staff development	-	-	-	-
Instructional leadership	-	-	-	-
School leadership	-	-	-	-
Guidance, counseling, and evaluating services	-	-	-	-
Health services	-	-	-	-
Student transportation	-	-	-	-
Food services	-	-	-	-
Extracurricular activities	-	-	-	-
General administration	-	-	-	-
Facility maintenance and operations	-	-	-	-
Security and monitoring services	-	64,779	-	-
Community services	-	-	-	-
Total expenditures	<u>5,343</u>	<u>66,610</u>	<u>974,602</u>	<u>16,279</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	-	-	-
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	-	-	-	-
Total other financing sources (uses)	-	-	-	-
NET CHANGE IN FUND BALANCES	-	-	-	-
FUND BALANCES, BEGINNING	-	-	-	-
FUND BALANCES, ENDING	\$ -	\$ -	\$ -	\$ -

Special Revenue Funds						
426 Special Education Fiscal Support	427 TCEQ VW Environmental Program	428 Read to Succeed License Plate Program	429 Literacy and Math Academies	461 Campus Activity Funds	494 Target Grant	495 Class of '77
\$ - 21,733 -	\$ - 1,033,200 -	\$ - 100 -	\$ - 370 -	\$ 320,672 - -	\$ 1,000 - -	\$ 558 - -
<u>21,733</u>	<u>1,033,200</u>	<u>100</u>	<u>370</u>	<u>320,672</u>	<u>1,000</u>	<u>558</u>
-	-	-	370	48,476	1,000	-
-	-	100	-	32,696	-	-
-	-	-	-	2,034	-	-
-	-	-	-	-	-	-
-	-	-	-	47,999	-	-
21,733	-	-	-	884	-	-
-	-	-	-	331	-	-
-	1,033,200	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	119,120	-	-
-	-	-	-	-	-	-
-	-	-	-	9	-	558
-	-	-	-	3,164	-	-
-	-	-	-	495	-	-
<u>21,733</u>	<u>1,033,200</u>	<u>100</u>	<u>370</u>	<u>255,208</u>	<u>1,000</u>	<u>558</u>
-	-	-	-	65,464	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	65,464	-	-
-	-	-	-	383,893	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 449,357</u>	<u>\$ -</u>	<u>\$ -</u>

CROSBY INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2020

	Special Revenue Funds			Total Nonmajor Governmental
	497	498	499	
	Code Red	Crosby Education Foundation	Region IV School Support Grant	
REVENUES				
Local and intermediate sources	\$ 125	\$ 91,851	\$ 7,148	\$ 1,095,551
State programs	-	4,055	-	2,125,141
Federal programs	-	-	-	4,335,918
Total revenues	<u>125</u>	<u>95,906</u>	<u>7,148</u>	<u>7,556,610</u>
EXPENDITURES				
Current:				
Instruction	-	30,145	-	2,661,920
Instructional resources and media services	-	-	-	32,796
Curriculum and instructional staff development	-	-	6,248	21,745
Instructional leadership	-	-	540	70,089
School leadership	-	-	50	51,976
Guidance, counseling, and evaluating services	-	-	310	801,478
Health services	-	-	-	331
Student transportation	-	-	-	1,054,066
Food services	-	-	-	2,742,887
Extracurricular activities	-	-	-	119,120
General administration	-	-	-	360
Facility maintenance and operations	-	-	-	41,675
Security and monitoring services	-	-	-	67,943
Community services	<u>125</u>	<u>65,761</u>	<u>-</u>	<u>79,126</u>
Total expenditures	<u>125</u>	<u>95,906</u>	<u>7,148</u>	<u>7,745,512</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	-	-	(188,902)
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,974</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,974</u>
NET CHANGE IN FUND BALANCES	-	-	-	(162,928)
FUND BALANCES, BEGINNING	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,343,657</u>
FUND BALANCES, ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,180,729</u>

REQUIRED TEA SCHEDULES

CROSBY INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DELINQUENT TAXES RECEIVABLE

FOR THE YEAR ENDED JUNE 30, 2020

Last Ten Years Ended June 30,	1	2	3
	Tax Rates		Net Assessed/ Appraised Value for School Tax Purpose
	Maintenance	Debt Service	
2011 and prior years	various	various	various
2012	1.170000	0.270000	1,282,400,903
2013	1.170000	0.270000	1,287,574,028
2014	1.170000	0.500000	1,323,928,443
2015	1.170000	0.500000	1,510,967,066
2016	1.170000	0.500000	1,606,094,132
2017	1.170000	0.500000	1,671,335,749
2018	1.170000	0.500000	1,760,500,180
2019	1.170000	0.480000	1,843,055,758
2020 (School year under audit)	1.068350	0.480000	2,029,405,109
1000 Totals			

EXHIBIT J-1

10	20	31	32	40	50
Beginning Balance 07/01/19	Current Year's Total Levy	Maintenance Total Collections	Debt Service Total Collections	Entire Year's Adjustments	Ending Balance 06/30/20
\$ 604,687	\$ -	\$ 15,756	\$ 3,636	\$ (12,553)	\$ 572,742
118,597	-	3,170	732	36	114,731
82,443	-	5,192	1,198	(1,563)	74,490
102,421	-	9,825	4,199	2,142	90,539
119,263	-	17,102	7,309	9,140	103,992
130,952	-	29,093	12,433	18,716	108,142
181,556	-	39,088	16,704	13,817	139,581
344,662	-	92,012	39,321	(10,083)	203,246
986,389	-	376,260	154,356	(100,301)	355,472
-	31,422,294	20,823,117	9,355,638	-	1,243,539
<u>\$ 2,670,970</u>	<u>\$ 31,422,294</u>	<u>\$ 21,410,615</u>	<u>\$ 9,595,526</u>	<u>\$ (80,649)</u>	<u>\$ 3,006,474</u>

CROSBY INDEPENDENT SCHOOL DISTRICT**EXHIBIT J-4**

SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALNCE
BUDGET AND ACTUAL -
NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM
FOR THE YEAR ENDED JUNE 30, 2020

		Budgeted Amounts		Actual	Variance with
		Original	Final	Amounts	Positive (Negative)
REVENUES					
5700	Local and intermediate sources	\$ 984,619	\$ 694,619	\$ 674,197	\$(20,422)
5800	State programs	57,000	82,000	74,802	(7,198)
5900	Federal programs	<u>2,397,170</u>	<u>1,797,170</u>	<u>1,780,630</u>	<u>(16,540)</u>
5020	Total revenues	<u>3,438,789</u>	<u>2,573,789</u>	<u>2,529,629</u>	<u>(44,160)</u>
EXPENDITURES					
Current:					
0035	Food service	3,378,789	2,978,789	2,742,887	235,902
0051	Facilities maintenance and operations	<u>60,000</u>	<u>60,000</u>	<u>41,108</u>	<u>18,892</u>
6030	Total expenditures	<u>3,438,789</u>	<u>3,038,789</u>	<u>2,783,995</u>	<u>254,794</u>
1100	EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>(465,000)</u>	<u>(254,366)</u>	<u>210,634</u>
OTHER FINANCING SOURCES (USES)					
7912	Proceeds from sale of capital assets	<u>-</u>	<u>25,000</u>	<u>25,974</u>	<u>(974)</u>
7080	Total other financing sources (uses)	<u>-</u>	<u>25,000</u>	<u>25,974</u>	<u>(974)</u>
1200	NET CHANGE IN FUND BALANCES	<u>-</u>	<u>(440,000)</u>	<u>(228,392)</u>	<u>211,608</u>
0100	FUND BALANCES, BEGINNING	<u>959,764</u>	<u>959,764</u>	<u>959,764</u>	<u>-</u>
3000	FUND BALANCES, ENDING	<u>\$ 959,764</u>	<u>\$ 519,764</u>	<u>\$ 731,372</u>	<u>\$ 211,608</u>

CROSBY INDEPENDENT SCHOOL DISTRICT

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICES FUND**

FOR THE YEAR ENDED JUNE 30, 2020

		Budgeted Amounts		Actual	Variance with
		Original	Final	Amounts	Positive
					(Negative)
REVENUES					
5700	Local and intermediate sources	\$ 8,637,232	\$ 9,620,451	\$ 9,864,855	\$ 244,404
5800	State programs	730,418	597,920	678,011	80,091
5020	Total revenues	9,367,650	10,218,371	10,542,866	324,495
EXPENDITURES					
Debt service:					
0071	Principal on long-term debt	3,410,000	3,410,000	3,410,000	-
0072	Interest on long-term debt	5,762,147	5,762,147	5,762,146	1
0073	Bond issuance costs and fees	25,000	25,000	10,000	15,000
6030	Total expenditures	9,197,147	9,197,147	9,182,146	15,001
1200	NET CHANGE IN FUND BALANCES	170,503	1,021,224	1,360,720	339,496
0100	FUND BALANCES, BEGINNING	7,542,219	7,542,219	7,542,219	-
3000	FUND BALANCES, ENDING	\$ 7,712,722	\$ 8,563,443	\$ 8,902,939	\$ 339,496

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COMPLIANCE SECTION

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees of
Crosby Independent School District
Crosby, Texas

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 Crosby Independent School District, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Crosby Independent School District's basic financial statements, and have issued our report thereon dated October 19, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Crosby Independent School District's internal control over financial reporting (internal control) as a basis for designing 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 Crosby Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Crosby Independent School District's internal control.

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

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

OFFICE LOCATIONS

TEXAS | Waco | Temple | Hillsboro | Houston
NEW MEXICO | Albuquerque

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Crosby Independent School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
October 19, 2020

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE AND
THE STATE OF TEXAS UNIFORM GRANT MANAGEMENT STANDARDS**

Board of Trustees of
Crosby Independent School District
Crosby, Texas

Report on Compliance for Each Major Federal and State Program

We have audited Crosby Independent School District's compliance with the types of compliance requirements described in the *Office of Management and Budget (OMB) Compliance Supplement* and the State of Texas *Uniform Grant Management Standards* ("UGMS"), issued by the Governor's Office of Budget and Planning, that could have a direct and material effect on each of Crosby Independent School District's major federal and state programs for the year ended June 30, 2020. Crosby Independent School District's major federal and state 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 and state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Crosby Independent School District's major federal and state 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* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and UGMS. Those standards, the Uniform Guidance and UGMS 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 and state program occurred. An audit includes examining, on a test basis, evidence about Crosby 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 and state program. However, our audit does not provide a legal determination of Crosby Independent School District's compliance.

Opinion on Each Major Federal and State Program

In our opinion, Crosby 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 and state programs for the year ended June 30, 2020.

Report on Internal Control over Compliance

Management of Crosby 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 Crosby Independent School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and state 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 and state program and to test and report on internal control over compliance in accordance with the Uniform Guidance and UGMS, 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 Crosby Independent School District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal and state 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 and state 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 and state 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
October 19, 2020

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CROSBY INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED JUNE 30, 2020

(1) Federal Grantor/ Pass-through Grantor/ Program Title	(2) Federal CFDA Number	(2A) Pass-through Entity Identifying Number	(3) Federal Expenditures
FEDERAL AWARDS:			
U. S. DEPARTMENT OF AGRICULTURE			
Passed through the Texas Education Agency:			
School Breakfast Program (SBP)	10.553	71401801	\$ 401,991
National School Lunch Program (NSLP)	10.555	71301801	<u>1,171,244</u>
Total Passed through the Texas Education Agency			<u>1,573,235</u>
Passed through the Texas Department of Agriculture:			
NSLP - Commodities - Noncash Assistance	10.555	00516	<u>207,395</u>
Total Passed through the Texas Department of Agriculture			<u>207,395</u>
Total Child Nutrition Cluster			<u>1,780,630</u>
TOTAL U. S. DEPARTMENT OF AGRICULTURE			<u>1,780,630</u>
U. S. DEPARTMENT OF EDUCATION			
Passed through the Texas Education Agency:			
Title I, Part A-Improving Basic Programs	84.010A	19610101101906	51,025
Title I, Part A-Improving Basic Programs	84.010A	20610101101906	<u>948,905</u>
Total Title I, Part A			<u>999,930</u>
IDEA B Formula	84.027A	196600011019066000	187,628
IDEA B Formula	84.027A	206600011019066000	964,378
IDEA B High Cost Risk Pool	84.027A	66002006	59,685
IDEA B Preschool	84.173A	196610011019066000	3,193
IDEA B Preschool	84.173A	206610011019066000	<u>22,202</u>
Total Special Education Cluster (IDEA)			<u>1,237,086</u>
Career and Technical-Basic Grant	84.048A	19420006101906	7,798
Career and Technical-Basic Grant	84.048A	20420006101906	<u>65,709</u>
Total Career and Technical-Basic Grant			<u>73,507</u>
Texas Education For Homeless Children and Youth	84.196A	194600057110018	438
Texas Education For Homeless Children and Youth	84.196A	204600057110018	<u>3,160</u>
Total Texas Education For Homeless Children and Youth			<u>3,598</u>
Title III, Part A-English Language Acquisition and Language Enhancement	84.365A	19671001101906	10,094
Title III, Part A-English Language Acquisition and Language Enhancement	84.365A	20671001101906	<u>59,691</u>
Total Title III, Part A			<u>69,785</u>
Title II, Part A-Teacher and Principal Training and Recruiting	84.367A	19694501101906	15,591
Title II, Part A-Teacher and Principal Training and Recruiting	84.367A	20694501101906	<u>170,923</u>
Total Title II, Part A			<u>186,514</u>

(1) Federal Grantor/ Pass-through Grantor/ Program Title	(2) Federal CFDA Number	(2A) Pass-through Entity Identifying Number	(3) Federal Expenditures
U. S. DEPARTMENT OF EDUCATION (continued)			
Summer School, LEP	84.369A	69551702	\$ 5,343
Title IV, Part A, Subpart 1	84.424A	19680101101906	983
Title IV, Part A, Subpart 1	84.424A	20680101101906	65,627
Total Title IV, Part A, Subpart 1			<u>66,610</u>
Restart Hurricane Recovery	84.938A	18511701101906	<u>8,308</u>
Total Passed through the Texas Education Agency			<u>2,650,681</u>
TOTAL U. S. DEPARTMENT OF EDUCATION			<u>2,650,681</u>
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through the Texas Department of Health and Human Services:			
Medical Assistance Program	93.778	529-14-0042-00005	<u>27,688</u>
Total Medicaid Cluster			<u>27,688</u>
Total Passed through the Texas Department of Health & Human Services			<u>27,688</u>
TOTAL U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>27,688</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ <u>4,458,999</u>

CROSBY INDEPENDENT SCHOOL DISTRICT**EXHIBIT K-1**

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED JUNE 30, 2020

<u>(1)</u> <u>State Grantor/Program Title</u>	<u>(2A)</u> <u>Grant Number</u>	<u>(3)</u> <u>Expenditures</u>
STATE AWARDS:		
TEXAS COMMISSION ON ENVIRONMENTAL QUALITY		
Texas Volkswagen Environmental Mitigation Program (TxVEMP)	582-19-97502-VW	\$ <u>1,033,200</u>
TOTAL TEXAS COMMISSION ON ENVIRONMENTAL QUALITY		<u>1,033,200</u>
TOTAL EXPENDITURES OF STATE AWARDS		\$ <u>1,033,200</u>

CROSBY INDEPENDENT SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED JUNE 30, 2020

BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of Crosby Independent School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the *Uniform Grant Management Standards*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements. National School Lunch Program noncash commodities are recorded at their estimated market value at the time of donation. The District has elected not to use 10% de minimis indirect cost rate as allowed under Uniform Guidance, and none of the federal awards expended by the District were provided to subrecipients. Presented below is a reconciliation of federal revenues:

Total expenditures of federal awards per Exhibit K-1	\$ 4,458,999
Additional federal revenues reported in general fund:	
SHARS	623,771
Interest subsidy on qualified school construction bonds	391,523
E-Rate	21,000
ROTC	<u>65,532</u>
Total federal revenues per exhibit C-3	\$ <u><u>5,560,825</u></u>

CROSBY INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2020

Summary of Auditor's Results

Financial Statements

Type of report on financial statements	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified, that were not considered a material weakness?	None reported
Material noncompliance to the financial statements noted?	No

Federal and State Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified, that were not considered a material weakness?	None reported

Type of auditor's report on compliance for major programs	Unmodified
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Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) or <i>Uniform Grant Management Standards</i> ?	None
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Identification of major programs:	
CFDA Numbers:	Name of Federal/State Programs or Cluster:
84.010A	Title I, Part A-Improving Basic Programs
84.027A and 84.173A	Special Education Cluster (IDEA)
10.553 and 10.555	Child Nutrition Cluster
State	Texas Volkswagen Environmental Mitigation Program (TxVEMP)

Dollar threshold used to distinguish between Type A and Type B federal programs	\$750,000
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Dollar threshold used to distinguish between Type A and Type B state programs	\$300,000
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Auditee qualified as low-risk auditee?	No
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Findings Relating to the Financial Statements Which are Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

None

Findings and Questioned Costs for Federal and State Awards

None

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2020

Item 2019-001: Employee Time Entry – Significant Deficiency

Criteria

Management is responsible for the accuracy and completeness of all financial records and related information and for establishing and maintaining effective internal control over financial reporting.

Condition

The District's payroll procedures for non-exempt employees requires a supervisor, or designated individual, to approve each non-exempt employee's time worked and/or leave taken for each pay period. During fiscal year 2019, instances were identified showing the District paying non-exempt employees without appropriate supervisor approval over time worked and/or leave taken.

Cause

Current payroll processing procedures include the review and reconciliation of time worked and/or leave taken by a designated campus/department individual who then provides the information required for payroll processing to the district payroll department. Payroll has been processed upon receipt of this information without verification that the appropriate supervisor level of approval has occurred.

Effect or Potential Effect

Material misstatements of the District's financial statements may not be prevented, or detected and corrected, by the District's system of internal control. Failure to establish effective monitoring procedures over recording employee time worked and leave taken will allow possible irregularities to exist and continue without notice.

Recommendation

We recommend that the District review its internal control procedures over recording employee time worked and leave taken to ensure controls are in place to identify and record all transactions in the correct period.

Status

Completed.

Item 2019-002: Suspension & Debarment - Material Weakness

U.S. Department of Education passed through the Texas Education Agency
Program Name: Special Education Cluster (IDEA)
CFDA #s: 84.027A and 84.173A

Criteria

As a condition of receiving Federal awards, non-Federal entities agree to comply with laws, regulations, and the provisions of grant agreements and contracts, and to maintain internal control to provide reasonable assurance of compliance with these requirements.

The Department of Education established a "suspension & debarment" compliance requirement applicable to the Special Education Cluster (IDEA) which stipulates that a local education agency (LEA) is prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a non-procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other criteria specified in 2 CFR section 180.220.

When a non-Federal entity enters into a covered transaction with an entity at a lower tier, the non-Federal entity must verify that the entity, as defined in 2 CFR section 180.995 and agency adopting regulations, is not suspended or debarred or otherwise excluded from participating in the transaction.

Condition

During the fiscal year ending June 30, 2019, the District could not determine whether its suspension and debarment policy over covered transactions was being implemented.

Cause

The District's Federal Programs Specialist was part of the reduction in force, and therefore, was terminated in December 2018. Management has been unable to locate the confirmation of verification to verify that a vendor was not debarred or suspended at the time of contract.

Effect or Potential Effect

Noncompliance with the suspension & debarment requirement could occur and not be prevented, or detected and corrected, by the District's management, leading to potential loss of Federal award funding. Procedures were performed on selected transactions to verify that an entity the District entered into a covered transaction with was not suspended and debarred, and no suspended and debarred vendors were identified.

Recommendation:

We recommend that the District review its internal control procedures over compliance to ensure controls are suitably designed and are in place to prevent, or detect and correct, noncompliance with applicable compliance requirements.

Status

Completed.

Item 2019-003: Allowable Costs - Material Weakness

U.S. Department of Education passed through the Texas Education Agency
Program Name: Title I, Part A
CFDA #: 84.010A

Criteria

As a condition of receiving Federal awards, non-Federal entities agree to comply with laws, regulations, and the provisions of grant agreements and contracts, and to maintain internal control to provide reasonable assurance of compliance with these requirements.

The Department of Education established an "allowable costs" compliance requirement applicable to Elementary and Secondary Education Act (ESEA) programs which stipulates that if an employee who works, in whole or in part, on a Federal program or cost objective must document time and effort dedicated to the Federal program or cost objective.

Condition

During the fiscal year ending June 30, 2019, the District did not have effective internal controls over compliance with the allowable cost requirement described above. Instances of missing time and effort forms were identified during the audit.

Cause

District's management overlooked sending time and effort forms for private school tutors funded by Title I and Title III funds for eligible activities. Further, the District did not have adequately designed controls in place to ensure compliance with the allowable cost requirement.

Effect or Potential Effect

Noncompliance with the allowable cost requirement could occur and not be prevented, or detected and corrected, by the District's management, leading to potential loss of Federal award funding. Procedures were performed on selected transactions to verify cost allocated to Title I, Part A are allowable, and no unallowable cost were identified.

Recommendation

We recommend that the District review its internal control procedures over compliance to ensure controls are suitably designed and are in place to prevent, or detect and correct, noncompliance with applicable compliance requirements.

Status

Completed.

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OTHER INFORMATION

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CROSBY INDEPENDENT SCHOOL DISTRICT**EXHIBIT L-1****SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
(UNAUDITED)****JUNE 30, 2020**

SF1	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year-end?	No
SF3	Did the school district make timely payments to the Teacher Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies? (If the school district was issued a warrant hold and the warrant hold was not cleared within 30 days from the date the warrant hold was issued, the school district is considered to not have made timely payments.) Payments to the TRS and TWC are considered timely if a warrant hold that was issued in connection to the untimely payment was cleared within 30 days from the date the warrant hold was issued. Payments to the IRS are considered timely if a penalty or delinquent payment notice was cleared within 30 days from the date the notice was issued.	Yes
SF4	Was the school district issued a warrant hold? Even if the issue surrounding the initial warrant hold was resolved and cleared within 30 days, the school district is considered to have been issued a warrant hold.	No
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the school district post the required financial information on its website in accordance with Government Code, Local Government Code, Texas Education Code, Texas Administrative Code and other statutes, laws and rules that were in effect at the school district's fiscal year end?	Yes
SF8	Did the school board members discuss the school district's property values at a board meeting within 120 days before the school district adopted its budget?	Yes
SF9	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end	\$ -

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Financial Advisory Services
Provided By:

